

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
ARTISTS' CANVAS FROM CHINA) Investigation No.:
) 731-TA-1091
) (Preliminary)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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) (Preliminary)

Friday,
April 22, 2005

Room 101
U. S. International
Trade Commission
500 E St., SW
Washington, D.C.

The conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, Presiding.

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On behalf of the International Trade Commission:

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 MR. CARPENTER: Good morning and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 antidumping investigation No. 731-TA-1091 concerning
7 imports of artists' canvas from China. My name is
8 Robert Carpenter, I am the Commission's Director of
9 Investigations and I will preside at this conference.
10 Among those present from the Commission staff are from
11 my far right:

12 Diane Mazur, the supervisory investigator;
13 Megan Spellacy, the investigator; on my left Mark
14 Rees, the attorney advisor; Nancy Bryan, the
15 economist; Justin Jee, the auditor; and Kim Freund,
16 the industry analyst.

17 I understand that parties are aware of the
18 time allocations. I would remind speakers not to
19 refer in your remarks to business proprietary
20 information and to speak directly into the
21 microphones. We also ask that you state your name and
22 affiliation for the record before beginning your
23 presentation.

24 Are there any questions? If not, welcome
25 Mr. Thompson. Please proceed with your opening

1 statement.

2 MR. THOMPSON: Good morning Mr. Carpenter,
3 other members of the staff. My name is George
4 Thompson with the law firm of Neville Peterson,
5 appearing on behalf of Petitioner Tara Materials,
6 Incorporated.

7 As in any preliminary antidumping
8 investigation, this case requires the Commission to
9 apply the statutory requirements concerning domestic
10 like product, domestic industry, and whether there is
11 a reasonable indication of material injury or threat
12 thereof from the subject imports to the domestic
13 industry.

14 The petition covers artists' canvas in its
15 various forms -- stretched canvas, pads, panels, floor
16 coverings, print canvas, and rolls. Whatever its
17 form, all artist' canvas constitutes a single domestic
18 like product under the Commission's traditional five-
19 factor analysis. The domestic industry is composed of
20 all domestic producers of the like product.

21 As the Commission knows, Tara also has a
22 facility in Mexico in which it converts canvas in
23 rolls into stretched canvas products. This conversion
24 process is extensive enough to constitute Mexican
25 production so that the facility should be excluded

1 from the definition of the domestic industry.

2 Having defined the domestic industry, the
3 Commission must determine whether there is a
4 reasonable indication that the subject imports are
5 causing or threatening to cause material injury to the
6 industry. Here again the statute identifies the
7 factors for the Commission to consider and they all
8 point in favor of an affirmative determination.

9 To begin with, the statute requires the
10 Commission to evaluate the volume of imports,
11 specifically whether the volume or any increase is
12 significant. The available data demonstrates that
13 import volume increased nearly 12 times from 2002 to
14 2004, and nearly six times from 2003 to 2004. Data
15 for January 2005 show that the trend continued.

16 This massive increase in volume was
17 accompanied by a significant increase in the subject
18 import share of the domestic market.

19 Next the statute requires consideration of
20 the subject imports' price effects. The imports have
21 consistently and significantly undersold the domestic
22 like product. They have forced Tara to reduce its
23 prices and have prevented Tara from instituting price
24 increases need to cover its own rising raw material
25 costs.

1 The combination of massive import volume
2 over a short time and significant underselling has
3 been devastating for Tara. Tara's sales, shipments
4 and market share in stretch canvas, pads and panels,
5 previously the highest margin part of the artists'
6 canvas industry, have fallen substantially. Tara has
7 moved a large portion of its U.S. production to Mexico
8 to lower its cost as a direct consequence of the
9 lower-priced merchandise imported from China. There
10 has been a simultaneously harmful impact on Tara's
11 profitability.

12 The omens are that the domestic industry is
13 threatened with ever-worsening injury in the future.
14 The Chinese industry is large and export driven.
15 Imports from China have shown a significant rate of
16 increase and there is every reason to believe that the
17 increase will only worsen in the near future.

18 Import prices have already had both a
19 depressing and a suppressing effect on domestic
20 prices, and given that price is by far the most
21 important factor in purchasing decisions the low
22 prices are certain to increase demand for further
23 imports. In short, there is more than adequate
24 evidence in this investigation to warrant the entry of
25 an affirmative determination, and we ask the

1 Commission to do so.

2 Thank you.

3 MR. CARPENTER: Thank you, Mr. Thompson.

4 Mr. Gallas?

5 MR. GALLAS: Good morning Mr. Carpenter and
6 staff. It's a pleasure to be here this morning.

7 I'm Phil Gallas, a partner with Sonnenschein
8 Nath & Rosenthal. I am here today representing ten of
9 the largest importers and retailers in the United
10 States and three Chinese producers.

11 Many of their representative are here today
12 during the busiest time of the year for this industry.
13 In fact the Petitioners purposely timed the filing of
14 this petition to coincide with NAMTA, the most
15 important annual arts materials trade show, knowing
16 that most importers and retailers would have to send
17 their executives to NAMTA, leaving them little time to
18 complete the questionnaires and prepare for this
19 morning's conference.

20 You will hear today two diametrically
21 opposed views of the market for artists' canvas in the
22 United States. From the Petitioner, Tara Materials,
23 who is by far the most dominant producer of artists'
24 canvas in this country, you will hear that all
25 artists' canvas are commercially interchangeable, used

1 for the same purposes and applications, and that the
2 only determining factor in customer purchases is
3 price. Tara will attempt to portray all of its
4 financial woes as stemming from increased subject
5 imports from China.

6 The record evidence demonstrates, however,
7 quite the opposite. The purchasers of artists'
8 canvas, the people in this room who buy this product,
9 evaluate it and market it to meet their customers'
10 needs will contradict Tara's claims. Our witnesses
11 will testify that the availability of artists' canvas
12 from China with improved quality, innovative
13 marketing, and maintained price points has increased
14 overall U.S. demand for artists' canvas.

15 You will also hear how Tara's dominant
16 market position has left their longstanding customers
17 feeling taken for granted over the last several years,
18 and that their concerns and goals have been virtually
19 ignored by Tara. Frustrated with pervasive quality
20 and service problems, you will hear how former Tara
21 customers have had no choice but to take their
22 business elsewhere after Tara failed to address their
23 repeated concerns.

24 Other long-time major purchases were simply
25 fired by Tara on short notice. At that point these

1 purchasers were forced to look to other sources of
2 supply including other domestic and Chinese producers.

3 You will also learn that Tara has been
4 importing artists' canvas from Mexico since well
5 before 2002, thereby displacing U.S. production for
6 which they now blame Chinese imports.

7 On our panel today we have several importers
8 and retailers providing testimony. Many more wanted
9 to appear here today but could not due to time
10 limitations allotted for testimony.

11 All of their accounts confirm that the
12 market for artists' canvas is highly differentiated
13 and there are market niches and price points that must
14 be met by purchasers that are dictated by their
15 downstream retail customers. Imports from China
16 occupy a niche in this highly differentiated market
17 and oftentimes sell side by side with U.S.-produced
18 canvas.

19 The statements of these importers and
20 retailers, my witnesses, provide the most credible
21 evidence of the state of this market and the nature of
22 the competition. Accordingly, their testimony and
23 written responses will show that there is no
24 reasonable indication of injury or threat of material
25 injury to the domestic artists' canvas industry.

1 Thank you very much.

2 MR. CARPENTER: Thank you, Mr. Gallas.

3 Would the petitioning panel please come
4 forward at this time?

5 MR. THOMPSON: Good morning. Before I
6 introduce the panel, I'd like to make a brief comment
7 on the timing of the petition. We heard a statement
8 before that it was due to the current dependency of
9 the NAMTA show. That's completely inaccurate. The
10 timing of the petition was dictated because of several
11 health issues I had this spring, which delayed the
12 filing of it by at least a month.

13 So, if there is any thought that the timing
14 was deliberate to coincide with the trade show, that
15 is absolutely inaccurate. Now I would like to turn
16 the presentation over to the witnesses from Tara and
17 the first is Pete Delin who is the Vice President of
18 marketing for Tara. Pete?

19 MR. CARPENTER: Could you turn on your
20 microphone?

21 MR. DELIN: Thank you. My name is Pete
22 Delin. I have been Vice President of marketing for
23 Tara Materials for over eight years. I had previous
24 experience in the Arts supply industry from 1975 to
25 1988. Prior to Tara, I have successfully competed

1 against several powerful and successful consumer
2 brands such as Gillette, Papermate, and Bic, but never
3 before have I witnessed a competitor emerge quite so
4 quickly and with such a significant price advantage as
5 is the case with Chinese manufacturers of Artists'
6 Canvas.

7 We are not opposed to competition at Tara.
8 We recognize that markets change and we must change
9 with them. And in response to the emerging threat, we
10 have implemented significant cost cutting initiatives,
11 automated processes, moved some manufacturing to
12 Mexico, and attempted to source cheaper components on
13 the world market.

14 But in the course of studying this issue and
15 evaluating ways to reduce cost of Artists' Canvas
16 production, we came upon a realization. It is not
17 possible to produce Artists Canvas profitably or even
18 close to profitability at the prices that Chinese
19 companies are currently offering in the U.S. market
20 place.

21 We believe that these products are being
22 offered at below market prices in a effort to
23 penetrate the U.S. market and to drive Tara and other
24 domestic manufacturers out of business. Based upon
25 this belief, we have filed this petition before the

1 ITC and Commerce to investigate the underlying facts
2 and if proven accurate, provide relief.

3 This hearing as we understand it is the
4 first to establish that injury has occurred. Such a
5 case is easy to establish. In the petition submitted
6 to Commerce, Tara presented an exhibit which shows
7 major volume losses to Chinese canvas. In almost
8 every case, often documented in writing from the
9 customer, we were told that we lost the business due
10 to price.

11 In some cases we even agreed to lower our
12 prices. Sometimes the cost are below our cost and we
13 still lost the business often by significant margins.
14 Some of this loss volume was across our full customer
15 base, and it's hard to track, but most of it was
16 significant losses, with major customers, where we had
17 the business and then we didn't have the business, and
18 lost it to Chinese made Canvas.

19 These losses range from hundreds of
20 thousands of dollars to millions of dollars and some
21 volume losses were over \$2 million. The erosion
22 happened very very quickly and their are no signs that
23 it will stop and may even be accelerating.

24 Recently, for example, the combination of
25 two additional losses amounted to over \$1 million. In

1 both cases, the reason was clearly stated, once again,
2 as price. One was documented in writing.

3 During recent customer trips, we made a stop
4 to a retail art supply store of one of our largest
5 customers. Except for our new innovated patented
6 Frederick's watercolor canvas, there wasn't a
7 Frederick's canvas to be found. As a matter of fact,
8 there wasn't an American made canvas that we could
9 recall in that store other than the Frederick's
10 watercolor canvas.

11 All of the Frederick's products and U.S.
12 competition had been removed from the store and the
13 remaining inventory was product made in China. We
14 asked the owner of this large and prestigious art
15 materials company, doesn't Frederick's, still the
16 leading brand, carry enough weight with your customers
17 to warrant some shelf presence in your store.

18 He admitted that Frederick's still had brand
19 power, but he also noted that if prices of forty
20 percent of retail lower than Frederick's, there was
21 increasing demand for the cheaper Chinese products.
22 Plus, he could sell for less and make a better margin
23 percent on the Chinese canvas. Conclusion, even a
24 true power brand will lose some of its appeal, if the
25 price gets low enough.

1 In addition to vigorous efforts to reduce
2 our cost, Tara has also focused on new product
3 offerings as well as enhancing existing product lines.
4 Through hard work and innovation, we have been able to
5 replace portions of the business loss to our Chinese
6 competition. Even with this new business, however,
7 downward pricing pressure has prevented us from
8 getting price increases for existing products to
9 compensate for substantial cost and raw materials.

10 And, in fact, as noted, we have had to lower
11 some of our prices to prevent further erosion. The
12 net affect of these factors, the loss of business and
13 the downward pricing pressure has had devastating
14 effect on our company and our bottom line.

15 China has also experienced inflation we're
16 told. Even greater than in the U.S., but we have yet
17 to see it reflected in prices. In our recent travels,
18 at the NAMTA show a week ago, it was gratifying to
19 hear customer after customer congratulate Tara on our
20 bold move. They read the papers like I do. They
21 listen to CNN's Lou Dobbs and they see articles nearly
22 every single day, referring to lost of American jobs
23 and manufacturing expertise to China.

24 The day before I left, there was this
25 article in the Atlanta Journal Constitution, the

1 headline reads, "make China play fair", and that could
2 be our theme today. Asian power currency manipulation
3 contributes to America's unhealthy addiction to
4 foreign goods. The prices are attractive in part
5 because China rigs its currencies to gain an advantage
6 against global competitors, making its goods
7 artificially cheaper by as much as forty percent.

8 U.S. Senator, Charles Schumer said when an
9 additional and artificial fifteen to forty percent
10 price advantage for Chinese goods is created because
11 of China's currency shenanigans, it is simply
12 impossible for American companies to compete.

13 Our customers also said that they know that
14 Frederick's and other domestic producers provide a
15 wide range of products, services, innovations, support
16 and new products not provided by China and that these
17 capabilities could not be easily replicated if the
18 U.S. industry does not have the money to invest in
19 more innovation or is forced to downsize, or doesn't
20 survive.

21 Many of our customers express to us that
22 they don't believe that cheap imported canvas has been
23 good for the industry. And many commented that
24 although units may be up substantially, their overall
25 dollars and profits are not. If this sentiment exist,

1 why might you ask is their such a strong coalition of
2 industry leaders standing in opposition to this
3 petition.

4 The art materials market place, like many
5 retail markets, is a very very competitive place. The
6 availability of product at these prices allows very
7 little room to stand on principle. Lower costs
8 translate to lower prices and higher margins, yielding
9 competitive advantage or increased profitability
10 respectively. Regardless of the cause of the lower
11 costs or their long-term sustainability, this
12 opportunity is hard to resist.

13 If one player takes advantage, they all must
14 or risk getting beat in the marketplace. Three years
15 ago there was hardly a Chinese canvas in the
16 marketplace. Today there are stacks of them in just
17 about every retail store in America in that many of
18 the coalition have embraced the Chinese-produced
19 canvas and incorporated this product into their
20 business model. The hoped-for outcome of this
21 petition will represent a disruption and an
22 inconvenience to their business and we sincerely
23 regret that, but longer-term considerations must also
24 be considered.

25 What would be the impact if Tara and other

1 U.S.-manufacturers exit the market and our overseas
2 competitors raise prices in the now-captive market?
3 What are the alternatives in the event of a supply
4 shock caused by geopolitical events, disruptions in
5 overseas transport or SARS-like health epidemics? And
6 what would happen to the steady flow of new products
7 to the marketplace?

8 Many of the coalition are existing or
9 previous customers and it is not our intention to hurt
10 their business. On the contrary, we have always acted
11 to support them. Likewise, we do not believe that
12 their actions in opposing this petition are attempts
13 to damage Tara materials. We are both simply pursuing
14 our respective business interests and in this instance
15 they do not appear to coincide.

16 The critical issue is whether or not the
17 pricing that is being offered by the Chinese
18 manufacturers is below fair market value. We believe
19 it is. Injury to Tara and to the domestic industry is
20 apparent. Therefore, we request that the Commission
21 issue an affirmative preliminary determination in this
22 investigation.

23 Thank you.

24 MR. STRAQUADINE: Good morning. My name is
25 Paul Straquadine. I am the Vice President of Sales

Heritage Reporting Corporation
(202) 628-4888

1 for Tara Materials. I've been employed in that
2 position for approximately four years. My art
3 materials background prior to that included eight
4 years with a large retailer on the West Coast where I
5 served as a sales clerk, as a store manager, and as a
6 buyer. I paint recreationally, my wife paints
7 professionally.

8 My goal is to share some information with
9 you about the scope of the petition and like product
10 as they pertain to the initiative, but before I begin
11 I'd like to say hello to my customers, several of my
12 largest accounts, some former large accounts that are
13 here with us today. People that we've done business
14 with for years who are now, as a show of force, are
15 gathered to oppose our petition. We've been
16 threatened. We've been blatantly told that we will
17 lose business as a result of this from coalition
18 members.

19 I'd also like to take a quick moment and let
20 you know a couple of things that I'd rather not be
21 doing. The first is, I'd rather not be preparing,
22 writing and implementing antidumping petitions. I'd
23 much rather not do that. As a salesman I know that
24 the more I talk about competition the less time I have
25 to talk about my own products, features, benefits, and

1 services. So this is not a pleasant thing for us.

2 The second thing that I'd rather not be
3 doing is creating animosity or making my customers
4 mad. It's just not good business practice, however,
5 we feel we're at a point where we have no choice.
6 We've obviously forced our largest customers to seek
7 counsel, come to Washington, and oppose us.

8 We've been put in a position where we're
9 facing billion dollar corporations who seem more
10 interested in today's profit margins than in the long-
11 term viability of the domestic manufacturers or Tara
12 Materials, and quite frankly, we're playing Russian
13 roulette with our largest customers.

14 But there is a critical reason that these
15 customers and those not present today and former
16 customers, that they're here. These are staunch
17 competitors, and as Pete said, in the retail world,
18 Lowe's and Home Depot don't talk to each other very
19 often. So quite often these competitors are not on
20 friendly terms.

21 At the recent NAMTA, National Art Materials
22 Trade Association which took place last week, three
23 out of four customers who visited our booth discussed
24 a price war between two coalition members. A price
25 war that is driving all the retailers into forced

1 lower profitability, and yet those two internet
2 catalog distributors are on the coalition side by
3 side. I find that rather ironic.

4 They'll all report that they're selling more
5 canvas at better profit levels and they can report
6 that to their shareholders.

7 How do they sell more? How do they make
8 more profit? It's simple. The canvas is cheap. They
9 can afford to promote it at sharper prices as a result
10 of this, and they can afford to promote it much more
11 often.

12 When you can buy a product from China for
13 less than half of what it costs a leading manufacturer
14 to produce it, something is wrong. There is currently
15 no end in sight.

16 Sure, we've read about Chinese inflation of
17 over 20 percent. We've heard about increased
18 transportation or container costs of over 75 percent.
19 Worldwide price increases on chemicals and wood
20 products. But what's happening in the Chinese
21 artists' canvas industry? The prices have either
22 remained constant or actually gotten lower over the
23 last year to two years.

24 I have a contact with a U.S. company that
25 imports Chinese furniture for the art materials

1 industry. That contact reports that in January of
2 this year they were forced to pass along a price
3 increase to the trade due to higher costs in China.
4 And quite ironically, they're passing a second price
5 increase on in June of this year, it's been reported.

6 That's two price increases in a six month
7 period in an industry where maybe one a year is normal
8 or acceptable. So prices are changing in China, just
9 not on Chinese artists' canvas.

10 We're not interested in hurting anyone.
11 We're not interested in hurting any of our large
12 customers, any of our former customers. We don't want
13 to hurt Chinese people or Chinese manufacturers.
14 We're only asking for a level playing field, an
15 opportunity to compete, win or lose, on that level
16 playing field without unfair trade practices. I
17 repeat, we're not trying to hurt anyone and we do
18 apologize to our customers and former customers who
19 will be inconvenienced by this, but it is survival for
20 our industry and for our company.

21 The scope of artists' canvas is a
22 definitively unique product. At its core it
23 represents untapped creative potential. It represents
24 a foundation for artists to express themselves upon.
25 Regardless of its format, it is the absolute building

1 blocks to graphic expression.

2 Physically, artists' canvas has a rather
3 narrow definition and application spectrum. It in
4 essence is a woven fabric primed or coated or gessoed
5 is the term we use in the industry, to accept paints
6 and/or inks. The uniqueness of artists' canvas is
7 seen that it has virtually no other use other than as
8 a foundation for art. Artists' canvas is not used to
9 make camping tents, outdoor awnings, tote bags, or
10 boat sales. It is painted or printed on exclusively.

11 While originally artists' canvas was mostly
12 woven linens, today it can range from fabrics of
13 cotton to polyesters to muslins to joots. The unique
14 modification to these fabrics lies in the artists'
15 coating, most common called gesso, and once the gesso
16 is applied to that fabric, it will now find its final
17 home in some capacity as artists' canvas.

18 Products that are applied to the surface of
19 the artists' canvas range quite widely. They can be
20 oil paint, acrylic paint, alkid paints, tempera
21 paints, pen and ink, water color, casein paints, inks
22 or pigments that are used in graphic reproduction, or
23 it can be a foundation for decoupage and other wall
24 decor.

25 The common thread to each of these different

1 disciplines is the substrate, the artists' canvas in
2 various styles, formats, width and textures.

3 Artists' canvas can take a myriad of
4 physical applications. The most common, what we see
5 mostly here is stretched canvas. Stretched canvas is
6 a gessoed fabric that is then stretched and adhered to
7 a stretcher bar, a wooden stretcher bar. It is either
8 stapled or affixed to the back of the stretcher strip
9 and it can come in a multitude, again, of sizes and
10 shapes. It can come in a multitude of textures as
11 well as depth of stretcher bar.

12 Canvas panels are the same artists' canvas
13 or a grade of artists' canvas that is adhered to a
14 chip board or a cardboard core. They're often used
15 for student-grade, student projects, things of that
16 sort.

17 One of our innovative products is an
18 archival board which is a hard board or archival panel
19 that a more professional grade of canvas is affixed
20 to.

21 Moving on, canvas pads are the next area
22 which are loose sheets of canvas that are cut and
23 bound together similar to a notebook pad. While
24 imitation is the most sincere form of flattery, and
25 we've been led to believe that Chinese factories can

1 be innovative, I show you this sort of innovation.
2 This is a Frederick's product that we've made for over
3 20 years. It has our history and legend since 1868,
4 and this is a Chinese version of that same pad -- same
5 graphics, same color, even the word "real" is
6 highlighted as a direct knock-off. So this represents
7 the innovation.

8 Canvas rolls are also a category in the
9 artists' canvas arena, and they are a very wide
10 variety of textures, styles, widths, and lengths. And
11 they can later be stretched by artists onto stretcher
12 bars or they can be affixed to walls as a mural or
13 they can be affixed to a board like a canvas panel or
14 an archival board.

15 Finally, the last category is print canvas.
16 That is canvas that is intended for art reproduction
17 or giclees. It's critical to recognize that in order
18 to manufacture print canvas the exact same fabric,
19 gesso and manufacturing process is employed. Artists
20 or publishers who choose to reproduce their art on
21 print canvas do so to create the most authentic
22 facsimile of their product. While some print canvas
23 receives an ink jet receptive coating in order to go
24 through either your desktop or a wide format printer,
25 that top coat files squarely upon traditionally

1 manufactured artists' canvas. This is an example of a
2 consumer product of print canvas that you could put
3 through your standard Epson or HP printer to print
4 your artwork or photograph onto artists' canvas.

5 Like product. In the grand scope of product
6 or product manufacturing, artists' canvas is actually
7 very focused. In reviewing the Commission statutes on
8 like product, the evaluation of the six factors is an
9 easy conclusion.

10 First, being physical characteristics. All
11 artists' canvas have the same physical properties in
12 one way or another. Woven fabrics, coated or gessoed.
13 Whether it's stretched, adhered to panels, bound and
14 tabbed, converted to small rolls or sold in bulk
15 primed rolls to companies who then convert it to
16 stretch canvas or otherwise, it's the absolute
17 building block to graphic expression.

18 Point two, interchangeability. Artists'
19 canvas to a very large degree is interchangeable, that
20 being for graphic expression. My wife currently has a
21 show hanging in a gallery in Snowville, Georgia. She
22 has pieces hanging in multiple sizes of stretched
23 canvas, in multiple sizes of canvas panels, and
24 multiple sizes of archival panels. They hang side by
25 side -- some framed, some unframed -- yet it is her

1 expression of graphic art and I'm very hopeful that a
2 lot of it sells this weekend.

3 Point three, channels of distribution.
4 Artists' canvas is sold through a multitude of
5 channels. Specialty art stores or stores focused
6 primarily on fine art. They're most commonly
7 independents or mom and pop stores or small chains
8 such as D.C.'s own Plaza Artist Material or such as
9 Azel Art, a ten-store chain from the great state of
10 Texas.

11 The next category is mail order or internet
12 supply. These are catalog or on-line suppliers who
13 sell directly to artists, teachers or even printers.

14 Category three, arts and craft stores,
15 primarily chains selling a much broader mix of craft
16 and art materials. This includes today's big box
17 stores such as Michael's Arts and Crafts, Hobby Lobby,
18 Jo-Ann Fabrics, or A.C. Moore.

19 Distributors are wholesalers who do service
20 the mom and pop shops quite frequently. Wholesalers
21 typically carry a broad range of products and a broad
22 range of manufacturers, and sell that variety to these
23 independent stores who then resell to artists.

24 Then there's OEM or converters' accounts.
25 These are manufacturers who convert primed artist

1 canvas into rolls, canvas, stretched canvas, or pads.

2 The next category that the Commission
3 outlines is customer and producer perception of
4 product. The term artists' canvas is again, a very
5 specific descriptor for fabric prepared with an
6 artists' coating intended for painting or printing.
7 It is recognized by the trade and the public as a
8 foundation for art. While not everyone may understand
9 the variety, the styles, the textures, or the specific
10 application, they will recognize its ultimate end use
11 -- as a foundation for graphic expression.

12 Common manufacturing facilities, production
13 processes and production employees. The manufacturing
14 of artists' canvas takes place in the same basic
15 facility. We currently coat our canvas on one of
16 three machine coating lines. We also have a hand-
17 priming operation, an old world facility where hand-
18 primed canvas is produced, although that being a very
19 small part of the overall business.

20 The machine-primed canvas is rolled, slit or
21 cut for end use and the next manufacturing process
22 would be to either sell it in a roll, sell it in a
23 bulk roll, sell it in a small roll, or to stretch it,
24 put it onto a panel, a wood board, or any of the
25 things that I've described earlier.

1 Within 100 yards of our coating machines,
2 and quite often with the same employees, our panel
3 department, our wood department, our roll-up
4 departments all exist. Regardless of the final put-
5 up, all machine-primed artist canvas is primed in the
6 same building using the same equipment in the same
7 basic fashion.

8 Today we'll probably be accused of some
9 things, of being aloof or a monopoly, accused of
10 making poor quality goods or providing poor service.
11 I honestly believe this to be window dressing of
12 excuses that only thinly veil the truth of the matter.
13 In every case that we've lost business to Chinese
14 canvas it's been based on one reason, and one reason
15 alone, and that's price. Not just a little bit.
16 We're talking 40, 50, 60 or 70 percent price
17 difference. With each loss of business Tara quoted
18 lower prices in hopes of saving the business. Offers
19 of substantially lower prices, up to 20 percent at
20 times, that in every case were described as not
21 enough, not good enough. The difference was too
22 dramatic.

23 Several of the accounts have literally
24 apologized in their exit of our product and going to
25 China, saying we're sorry, but the price is just too

1 dramatic.

2 As a monopoly, yes, we're a large player in
3 a very small industry overall, but that's for a
4 reason. We've worked very hard at gaining our
5 reputation, of maintaining our history, and becoming
6 the leading manufacturer of artists' canvas. But
7 we've done that successfully in the face of fair
8 competition, both domestically and internationally.
9 By playing by the rules, we've succeeded.

10 What about quality and service? Our fill
11 rates average 90 percent or better on orders shipped
12 in five to seven days on our Frederick's branded
13 products. Our defect ratio on a primarily natural
14 product, in other words wood is a natural component,
15 fabric, the cottons, that is the predominant fabric is
16 a natural fiber, and they are prone to temperature and
17 humidity differences. But within those standards we
18 believe our defect ratio or our quality issues are
19 well within industry standards. If these things
20 weren't true, if we made just bad quality canvas every
21 day, there were options every day for other countries
22 to import product from or other suppliers such as Duro
23 Arts, Signature, Masterpiece or Sunbelt domestically.

24 Most Americans like myself always assume
25 that the lower prices for Chinese manufactured product

1 were based on lower labor rates. In the scope of
2 stretched artists' canvas this is a very small
3 percentage of the total cost. Even considering a ten-
4 fold difference in labor rates, this would not make up
5 for the dramatic difference in pricing.

6 My mother has always told me that if
7 something sounds too good to be true it probably is.
8 Consider that raw materials -- the canvas, the wood,
9 the chemicals and the packaging costs for a stretched
10 artists' canvas, just the raw materials alone -- is
11 selling in China for substantially less than what it
12 costs to manufacture it for here. This doesn't even
13 take into account labor, it doesn't take into account
14 overhead, or a fair profit. The cost that it is
15 selling for in China is more than just the raw
16 material cost here in the U.S.. I believe that's a
17 clear indicator.

18 The consequences of this behavior is that
19 the domestic industry producing artists' canvas has
20 been materially injured by the Chinese imports and is
21 threatened with such injury in the future.

22 I appreciate your time, your attention, and
23 I hope this gets cleared up quickly for all of us.

24 MR. BENATOR: Good morning. Thank you for
25 your time and attention in hearing our petition for

1 injury to the United States artists' canvas industry
2 due to dumping and unfair prices by the People's
3 Republic of China.

4 My name is Michael Benator and I am CEO and
5 25 percent owner of Tara Materials.

6 First I'd like to tell you a little bit
7 about Tara Materials. Tara was started in 1966 by
8 John Benator, my uncle, and Wally Klarman. In 1970
9 Tara purchased Frederick's Artist Canvas Company,
10 moving it from New York City to Atlanta. Frederick's
11 started in 1868 as the first artists' canvas producer
12 in the United States.

13 The primary strength of Tara is our
14 Frederick's brand that we have continued to support an
15 expand, so in our opinion we are trying to protect an
16 industry, an American artists' canvas industry that is
17 over 137 years old.

18 We have a dairy of E. H. Friedrich, who we
19 call Grandpa, where he would travel for six weeks by
20 train to major U.S. cities along the east coast,
21 meeting with famous American artists and wealthy
22 families, taking artists' canvas roll orders. He
23 would then return to New York, produce the artists'
24 canvas orders for an equal six week period. After
25 finishing the production he would load up all the

1 rolls, get back on a train, deliver them to the
2 artists and to the businessmen, and then take new
3 orders. This is the schedule he repeated for many
4 years.

5 In 1974 Tara moved to Lawrenceville,
6 Georgia, a suburb north of Atlanta as we needed more
7 space and because of tight labor in Atlanta. I joined
8 Tara Materials in 1984 when Wally Klarman wanted to
9 retire.

10 In September 1990, 15 years ago, Tara
11 acquired Hy-Jo Manufacturing, now known as Tara
12 Picture Frames. Tara Picture Frames has one of the
13 oldest maquiladora manufacturing facilities in
14 Tijuana, Mexico. We purchased Tara Picture Frames to
15 improve our distribution of artists' canvas on the
16 west coast and expand our product line, adding a
17 complementary, ready-made wooden picture frame program
18 that could be carried by the same distribution channel
19 that sells our Frederick's artist canvas line,
20 increasing our distribution volume and lowering our
21 costs.

22 About nine years later, in 1999, Tara
23 purchased Precision Molding located in Northern
24 California due to our need for additional woodworking
25 capacity to meet the growing needs of pre-stretched

1 artists' canvas products.

2 Tara has never had a layoff due to declining
3 business until April of 2003 due to the loss of
4 business from low-priced imports from the People's
5 Republic of China. One of Tara's proud statements in
6 our history was that we were a stable and growing
7 manufacturer who never had to downsize and lay off our
8 valued associates up until two years ago.

9 Even after acquiring Tara Picture Frames and
10 growing our stretched canvas operation both in Mexico
11 and Georgia, we did not have to lay off any Tara
12 Materials associates until over 12 years after our
13 acquisition of a Mexican manufacturing plant.

14 Since 1990 we have expanded our Mexican
15 factory from about 250 associates to a high of 360 in
16 2001, mostly manufacturing ready-made wooden picture
17 frames and today we are about 260 associates in
18 Mexico.

19 Up until 2003, we did not replace any of
20 your U.S. stretch canvas production with our Mexican
21 factory.

22 Since 1990 we have expanded our Tara
23 Materials U.S. factory from about 275 associates to a
24 high of 450 in 2002, but have had to downsize to about
25 300 associates today.

1 Unfortunately, beginning in 2002 we started
2 losing significant volume of the artists' canvas
3 business, primarily to the low-priced manufacturing
4 companies in China. When additional stretched canvas
5 business was lost in 2003, we made the very difficult
6 decision to shut down our entire precision molding
7 facility in March of 2004, laying off all 39 valued
8 associates.

9 In our efforts to lower costs and try to
10 compete with the low-priced Chinese competition we
11 made the difficult decision to lay off workers in the
12 U.S. and move some of our stretch and woodworking
13 operations to the Mexican factory, but this was only
14 after 12 years of growing operations in both the
15 United States and Mexico.

16 Today you may hear that we've moved our
17 stretch operation to Mexico in order to lower our
18 costs and increase our profits. If this were the
19 case, we would have made that move 15 years ago, in
20 1990.

21 Our shift in production level to Mexico came
22 only as a result of ultra-low competitive pricing from
23 China. Pricing which has forced downward pricing
24 levels and an inability for us to raise prices
25 commensurate with raw material cost increases.

1 In Mexico we now send our proprietary
2 Frederick's artists' canvas in bulk rolls that are
3 coated in our Georgia factory and Mexico then cuts,
4 inspects, and stretches our canvas onto wooden
5 stretcher bars that are either supplied from our U.S.
6 factor, or Mexico now mills, molds and tendens these
7 stretcher bar ends from bulk raw lumber board. The
8 stretch canvas that we manufacture in Mexico today
9 employs the identical process that other U.S.
10 producers who purchase the bulk artists' canvas from
11 other artists' canvas coaters, and then manufacture
12 this into stretched artists' canvas products.

13 If the imports of unfairly low-priced
14 artists' canvas from China continues to escalate as
15 we've seen in 2003 and 2004, we will have no choice
16 but to downsize further.

17 Frederick's artists' canvas and Tara
18 Materials are both proud to be a family, privately
19 owned manufacturer in the United States of America who
20 offers fair wages, family supportive group health
21 benefits and truly cares in treating our associates
22 right. We are very proud that in Tara's 39 year
23 history, of our 300 associates that are with us today,
24 54 or 18 percent have worked at Tara over 20 years,
25 and 180 -- 60 percent of our associates have worked at

1 Tara over five years.

2 We take great pride in maintaining our
3 market leading position for artists' canvas. One of
4 the main reasons is that we continue to innovate and
5 aggressively invest our profits back into the country,
6 automating manufacturing processes wherever possible.
7 This not only has increased our capacity to meet the
8 needs of the growing artists' canvas in the past, but
9 also has reduced our labor cost content, making us
10 more competitive.

11 We are confident that the specific data and
12 information that we have submitted in our petition
13 will clearly demonstrate that the People's Republic of
14 China are aggressively dumping artists' canvas into
15 the United States at unfair prices. That the artists'
16 canvas industry is not able to fairly compete due to
17 non-market support of the Chinese yuan, along with
18 their being able to purchase chinese-controlled raw
19 materials, in particular lumber, canvas and chemicals,
20 at non-market prices.

21 Our documentation will show that the unfair
22 pricing of artists' canvas into the United States has
23 limited our ability to raise prices the past three
24 years, in spite of significant raw material cost
25 increases, lost sales, reduced gross margins and

1 profitability, and it has caused us to downsize our
2 production facilities and capacities, further reducing
3 our margins and reducing our profits.

4 Furthermore, the U.S. import data clearly
5 demonstrates that the import volume of artists' canvas
6 from the People's Republic of China has increased over
7 six times from 2003 to 2004, and almost 12 times the
8 volume in the past two short years, from 2002 to 2004.
9 And based on the initial import data for 2005, it is
10 continuing to escalate.

11 Also our financial data clearly demonstrates
12 that Tara has been injured by the impact of aggressive
13 Chinese imports. As it has driven us to lose market
14 share of artists' canvas products that once earned our
15 best profit margins to now being one of our worst
16 profit margins.

17 Even though we are a small niche industry,
18 we believe there is valid evidence that our industry
19 has clearly suffered injury in a very short time
20 period with a real threat of permanent and future
21 damage to our industry. We do not believe it will be
22 in the best interest of the U.S. art materials
23 industry, to all of our experienced and hard-working
24 associates and our families to see all manufacturing
25 of artists' canvas move offshore.

1 Thank you again for your time and interest.

2 MR. THOMPSON: Thank you, Michael. Now I'd
3 like to ask Bill Cicherski of Azel Art Supply to make
4 a few comments.

5 MR. CICHERSKI: Good morning ladies and
6 gentlemen. My name is Bill Cicherski and I am the
7 President and CEO of Azel Art Supply located in
8 Dallas, Texas. We have ten retail locations
9 throughout the state of Texas. Nine of those are
10 freestanding art materials stores and one location is
11 a college or university bookstore in Lubbock, Texas
12 serving the students of Texas Tech. It also sells a
13 lot of art and architectural type supplies to the
14 students of Texas Tech.

15 Azel Art Supply was founded 54 years ago.
16 We will be celebrating our 55th year on January 1,
17 2006. Our company was started by two brothers, the
18 Azel brothers, and in 1973 I purchased the company
19 from the Azel brothers.

20 In 1987 we made all of our employees who
21 were eligible, shareholders in the company through an
22 ESOP, employee stock ownership plan. That's
23 demonstrated to me, at least, a lot of stability in
24 our employment force. Our store managers and
25 management have an average employment tenure with Azel

1 Art Supply of 23.5 years.

2 We sell artists' canvas as well as other art
3 materials, and I'm quite familiar with Tara's products
4 and have carried their products for decades. It's
5 high quality. I'm also familiar with the Chinese
6 product and I consider it inferior to Tara's
7 offerings. It's not as complete as Tara's offerings
8 may be.

9 The Chinese canvas certainly is priced below
10 Tara, as we have heard -- both from a retailer's
11 prices as well as the resale prices. Although Azel at
12 this time has not purchased Chinese canvas, I have
13 been presented with opportunities to do so and I'd
14 like to discuss with you reasons why I chose not to.

15 We primarily purchase inventory directly
16 from manufacturers or importers, in some cases through
17 distributors, but rare. We subscribe to a motto that
18 we live by in providing to our customers and that
19 motto is "Making the best better." I don't feel that
20 buying the Chinese produced canvas adds to that motto.
21 It doesn't make the best better.

22 I find the principal issues relating to the
23 quality of the product fall in several areas.
24 Certainly you've heard me mention, but I also talk
25 about the logistics of delivery -- not just the

1 delivery from Tara, some 900 miles away from us, but
2 from China some 9,000 miles away from us. In dealing
3 with some of the people represented here today who are
4 manufacturers or distributors, they too know how
5 difficult it is to keep that chain of supply full all
6 of the time. Issues that can prevent them from
7 fulfilling those requirements are usually the 90-day
8 delay in lead time from order to receipt of order, to
9 the shipments, to problems with dock strikes, as well
10 as other issues involving international issues.

11 I also feel that the canvas product itself
12 is inferior, both in coating as well as in the quality
13 itself. What samples we have seen that have been
14 provided to us doesn't make the best better in my
15 opinion.

16 The stretcher bars, for example, are usually
17 very soft or lightweight, thus causing staples to
18 corrode or pull out very easily. Packaging also that
19 is made in China and shipped to domestic resources and
20 brought then into our stores usually provides a lot
21 more for damage. Not that damage doesn't occur with
22 shipments from Tara, but it's modest.

23 It was mentioned about the maquiladora
24 plants in Mexico as being maybe a source in reducing
25 costs, but I believe one of the smallest elements of

1 the cost of making stretched canvas or any other
2 canvas product is labor. I'm going to remind you that
3 the products through a maquiladora agreement between
4 the countries of Mexico and the United States involves
5 the delivery of products from the United States to the
6 maquiladora plant and the plant then adds either
7 conversion or labor to that particular product, then
8 brought back into the United States and sold and
9 distributed out of the distribution points of those
10 manufacturers.

11 I am somewhat familiar with the maquiladora
12 plant because I started one in 1968 with a former
13 employer in what is Mexico. I started that plant from
14 scratch, I saw what the issues were and I know what
15 the issues are today. I'm quite familiar with the
16 circumstances of the maquiladora plant. I also feel
17 that I know some of the issues that involve Tara here
18 and the reasons why they went to the maquiladora
19 concept.

20 In discussing the issue of deliveries, as I
21 mentioned earlier, I find one of the hesitant points
22 that I am dealing with whenever I deal with imported
23 goods is timeliness of delivery. We can live with
24 long delivery periods, but we can't live with sporadic
25 delivery periods. If the delivery period is a three

1 week period or a three day period, we can plan for
2 that. But we don't know what delivery periods might
3 be and how they might be hurt involving a product such
4 as this product that we're talking about this morning.

5 Recently I had an order delivered by Tara, a
6 large size order for us, out of 102 SKUs ordered, 102
7 were delivered. That isn't always the case. Two
8 years ago they did have delivery problems but they
9 addressed those delivery issues in a short period of
10 time. I don't find that type of delivery with most of
11 the manufacturers that we do business with today.

12 That concludes my remarks this morning.
13 Thank you very much, and I just simply want to remind
14 you that in our area of business we have 66 direct
15 competitors in the Dallas/Fort Worth area. Many of
16 those competitors are represented today. We were
17 there before they arrived, we intend to be here quite
18 some time. And even though this particular product
19 line is being challenged by imported products, we
20 still feel that we can do and accomplish what we want
21 to present to our customers and that's a good value at
22 a fair price and the value and the price must first
23 have the best of quality.

24 Thank you, ladies and gentlemen.

25 MR. THOMPSON: Thank you, Mr. Carpenter.

1 That concludes our prepared remarks. We'd
2 like to keep the remaining time for rebuttal, and of
3 course we would welcome the staff's questions.

4 MR. CARPENTER: Thank you, Mr. Thompson, and
5 than you gentlemen for your presentation. We
6 appreciate that.

7 One point of clarification. Unlike hearings
8 in final phase investigations, you can't reserve your
9 time for rebuttal. However, there is an automatic
10 ten-minutes that each side gets for rebuttal at ten
11 end of the testimony, so you will have ten minutes
12 anyway.

13 MR. THOMPSON: You're taking all my fun away
14 here.

15 MR. CARPENTER: Okay, we'll begin the staff
16 questions with Megan Spellacy.

17 MS. SPELLACY: Good morning. I have a few
18 questions, especially for the industry representatives
19 who are here this morning.

20 Under the auspices of conditions of
21 competition, can you discuss in a little bit greater
22 detail the types of artists' canvas that are available
23 and whether, and specifically responding to comments
24 that were made by the Respondents in their opening
25 statement, whether or not imports from China occupy a

1 niche market and whether or not the U.S. market does
2 recognize these artists' products to be highly
3 differentiated.

4 MR. STRAQUADINE: If I understand your
5 question correctly, artists' canvas covers a very wide
6 selection of what we can call put-ups. Within the
7 core base of artists' canvas, the woven fabric, there
8 are many different weaves, textures, weights of the
9 core fabric, and oftentimes different gessoing styles
10 which will end up in a different result.

11 Our best-selling product is called
12 Frederick's red label canvas. It by far outshines the
13 rest of our product line and it is considered by most
14 people the industry standard as a seven ounce, pre-
15 primed weighted cotton. We measure the weight of the
16 fabric before priming it and that's seven ounce per
17 square yard. We then gesso that with two coats of
18 acrylic gesso to finish that, and then stretch it over
19 a standard stretcher bar. That being the industry
20 standard and the greatest selling product. That of
21 course was the first product to be either attacked or
22 brought on and copied on-shore. As is the case with
23 frequent competition, the cherrypicking process is
24 always the beginning and the breadth of the line only
25 comes as consumer demand or customer demand dictates.

1 Our pre-primed Belgian linen, our pre-primed
2 blended fabrics such as cotton polyester blend that
3 may receive a three coat process for an ultra-smooth
4 portrait grade canvas is another selection. We call
5 that our blue label. That gives you a much smoother
6 canvas without as much texture for the detail that
7 portrait artists like.

8 While we offer the widest variety, we
9 believe, in different fabrics, in multiple styles of
10 put-ups we have seen a migration of the cherrypicking
11 process of attack on the biggest branded items. First
12 the Frederick's red label, then the Frederick's
13 gallery wrap type product, and they have continued to
14 copy into pads and panels as we've demonstrated.

15 Does that answer your question?

16 MS. SPELLACY: Yes, partially.

17 Can you also expand on then the difference
18 between, and this is as I understand from your web
19 site, you have a patent or a patent pending on your
20 watercolor canvas.

21 MR. STRAQUADINE: Correct.

22 MS. SPELLACY: I know you brought in some
23 samples today. Can you describe the imports that are
24 coming in -- You mentioned they went for the big
25 common labels first. Can you just expand on that, the

1 type of imports that you're seeing and the type of
2 products?

3 MR. STRAQUADINE: Sure. Today it is
4 strictly on traditionally coated artists' canvas as
5 the substrate. We've had no challenge or penetration
6 against our watercolor canvas.

7 Watercolor canvas works completely contrary
8 to traditionally primed canvas. Traditionally primed
9 canvas wants to allow adhesion of the ink, the paint,
10 or the medium that's applied to it without any strike-
11 through penetration or medium getting to the fabric
12 and causing deterioration of the cotton, the linen or
13 the polyester that's underneath that gesso. So you
14 want a blocked canvas, one that does not allow
15 penetration.

16 Frederick's patented watercolor canvas works
17 quite opposite to that in that it allows the water in
18 the water color to penetrate, similar to a watercolor
19 paper and for the water to migrate through and for the
20 pigment to be trapped in an absorbent coating.

21 We are confident in our patent, both
22 application and formulation of this because it today
23 is our most technically produced product. It is much
24 much harder to reproduce this product than anything
25 else. We're convinced that it will come and we've

1 sought patent protection as a result, but it in some
2 instances revolutionizes watercolor to painters.
3 They've always traditionally painted on paper. In
4 order to hang their art they've had to frame it, put a
5 custom mat and a piece of glass in front of it. By
6 having watercolor canvas we've provided a medium where
7 they can paint, seal with a clear sealer, and hang
8 their art with no glass, oftentimes with no frame at
9 all. The art experience now is much more personal.
10 Standing and looking at a piece of watercolor, while
11 it is beautiful art, you're separated by a piece of
12 glass, either non-glare or glaring glass, and your
13 depth of vision is impeded by that. Watercolor canvas
14 allows you to be a direct experience and much closer
15 to the artwork and you can see and experience the
16 texture of the canvas that's underneath.

17 MR. BENATOR: I'd like to just add on that.

18 The definition of niche would probably be
19 something I'd want a little further explanation,
20 because I would consider a niche being the entire
21 artists' canvas product line. Our niche is taking a
22 woven fabric that's got dimension to it and texture,
23 and then putting a flexible acrylic titanium priming
24 on top of it. So the red label, our flagship product,
25 is one of the most well known, but I would even

1 consider watercolor as part of that entire niche of
2 our product line. The only reason China has not
3 introduced that is because of our patent pending.

4 MS. SPELLACY: Thank you.

5 Can I also ask you one question about the
6 printing canvas or the canvas that is used with
7 digital printers. To the best of your knowledge, are
8 you the only domestic producer of this product? If
9 not, who are the other producers?

10 MR. BENATOR: What was the product?

11 MS. SPELLACY: I've seen it referred to in
12 your petition as printing canvas. In other words the
13 canvas that's used for a digital printer.

14 MR. BENATOR: Print canvas, we are the
15 primary producers of the fabric with the artists'
16 coating on it. There are other producers that will
17 put an inkjet receptive top coat on it. There are
18 other coaters in the United States that do compete
19 with a pre-jet or a litho print canvas. Those names
20 are Holliston Mills, Seaboard Textile and Snyder
21 Textile. Those are the primary ones. There are quite
22 a few inkjet coaters, paper coater companies that have
23 proprietary inkjet formulas. They take our canvas and
24 then put a final inkjet-receptive top coat on.

25 MS. SPELLACY: Thank you.

1 And feeding off this a bit, can you comment
2 on the structure of the industry? Are there domestic
3 producers who produce the bulk rolled canvas who
4 specialize in coating? Or is coating of artists'
5 canvas primarily or exclusively, to your knowledge,
6 done by firms such as yourself who we already have
7 listed as domestic producers?

8 MR. BENATOR: To my knowledge, we are the
9 primary producer in the United States. There are
10 several competitors globally that are importing into
11 the United States.

12 MS. SPELLACY: So you know of no large
13 domestic producer that specializes in putting a gesso
14 coating on canvas?

15 MR. BENATOR: Not that I'm aware of.

16 MR. STRAQUADINE: Other than the ones he
17 mentioned previously -- Holliston, Seaboard Textiles,
18 Snyder Textiles. They do that.

19 MS. SPELLACY: Thank you.

20 Another question. In the petition it was
21 stated that distributors and retailers generally carry
22 a full line of artists' canvas regardless of size or
23 format in which the canvas is presented. I'd like to
24 ask you to expand on that and comment on how the
25 domestic market would characterize a full line of

1 products.

2 MR. STRAQUADINE: A full line of products is
3 typified by a medium text seven ounce cotton duck such
4 as Frederick's red label. A full line also offers a
5 few different styles such as Frederick's green label
6 Belgian linen or Frederick's blue label, ultrasmooth
7 portrait canvas. It would also offer a gallery style,
8 which is a thicker stretcher bar that is affixed on
9 the back which allows a frame-free hanging of the art.
10 So there are multiple styles of stretched canvas, but
11 also part of that full offering would include canvas
12 panels, canvas pads, probably archival panels, and
13 some offering of canvas rolls, either unprimed or most
14 commonly primed roles of artists' canvas. Three or
15 six yard rolls in several different widths, and
16 sometimes several different finishes that artists
17 would buy and stretch themselves.

18 MR. CICHERSKI: As a retailer I'd also like
19 to comment in that particular area. I shudder to
20 think that if a Tara didn't exist, of having to go to
21 many suppliers to buy the things that I buy
22 exclusively from Tara. Mainly because it makes things
23 much easier from our point of view of controlling
24 inventory and buying from one resource as opposed to
25 two or more or multiple resources. That's one

1 additional reason why we shied away from importing
2 Chinese canvas at this time, because it represents
3 only one small portion of the business that we do with
4 Tara.

5 We look upon them as a complete resource of
6 canvas products.

7 MS. SPELLACY: Thank you.

8 I'd like to ask a few questions now about
9 your operations in Mexico. Just to clarify from your
10 comments earlier, I understand that you began your
11 operations in Mexico in 1990. Can you confirm that or
12 clarify if needed, and talk a little bit more about
13 the fact that, or clarify for me, rather, that you do
14 own the facilities and if you can talk a little bit
15 more about your involvement in the maquiladora program
16 and talk about how you classify -- And this last
17 question if you prefer to respond in your post-
18 conference brief that's fine. But if you can clarify
19 how you classify your imports and exports to Mexico.

20 MR. BENATOR: We did start, or Tara did
21 acquire Hydro Manufacturing in September of 1990 and
22 Hy-Jo has a wholly-owned subsidiary called Decoracion
23 Colonial located in Tijuana, Mexico. It is a Mexican
24 corporation.

25 The product, when we first acquired it and

1 the intent -- It was about 95 percent manufacturing
2 wooden ready-made picture frames. The picture frame
3 market is primarily linked molding, you buy in 10 foot
4 lengths normally and then the frame shops cut and
5 assemble the frames to the custom sizes of the
6 artwork.

7 With Decoracion Colonial we made standard
8 sizes, just like standard sizes of stretch canvas and
9 canvas panels. So we would finish it, join it, have
10 it all assembled, saving the labor of the galleries,
11 and offer it at about one-third the price of a custom
12 frame where it had to go into the shop, the designers
13 would pick out, and here the consumer could pick the
14 ready-made, and an artist who we assume would go into
15 a retail store, buy a canvas and also buy a frame and
16 say this will work great for this artwork.

17 One of our specialties in Mexico was we did
18 a lot of compo work where we could do corners. In a
19 ready-made frame you can do corner, and especially in
20 the wedding portraiture market there are some pretty
21 elaborate corner decorations that with linked molding
22 you can't do. So that was one of the niches.

23 In 1990 Decoracion Colonial was doing 95
24 percent picture frames and five percent stretched
25 canvas. The reason we found out about them was they

1 were selling an economy stretch canvas in bulk, a full
2 truckload, to a distributors in Florida -- closer to
3 us and much further away to their location. We were
4 saying how were they competing. So we inquired, and
5 they were assembling and producing the product in
6 Mexico and selling it in truckload quantities.

7 We met them at a trade show and found out --
8 We needed a west coast operation, and found out that
9 the owner was in his 70s and had four daughters and
10 was looking for some type of exit plan so that worked
11 out great for us.

12 From 1990 until probably 2002, we did
13 increase the stretch canvas production because we
14 added a spline, a back stretched, and instead of
15 stapling it on the back there's a groove, and it's a
16 vinyl spline that adheres it to the back, and that is
17 done, affixed similar to a silk screen door, I mean to
18 a screen door, and that probably, if anything, we were
19 probably 75 percent frames and 25 percent -- Ron,
20 would you agree, somewhere around there? Seventy-five
21 percent frames and 25 percent stretch, and only
22 recently would we say -- Because the frame business
23 has also been attacked significantly by China and even
24 our ready-mades with the assembled prices, the linked
25 molding has gone down and selection there is so much

1 less expensive than that competitive advantage that we
2 had for the ready-made has deteriorated.

3 Now I'd say we're about 70 percent stretch
4 canvas and 30 percent frames today in our Mexican
5 factory.

6 MR. FREEMAN: I would like to go back and
7 address a little bit about this niche market.

8 One of the things, the offering, if you were
9 to look at any of these Chinese brochures or whatever
10 offering, basically they have the same offerings we do
11 now. About the only difference might be print canvas
12 as specified as that, but the offerings -- panels,
13 stretch canvas by size, by type, by substrate,
14 everything about it is pretty much equal as far as the
15 offering, so there is a full offering if you want to
16 define it as a niche market. So I just wanted to
17 clarify that.

18 MR. BENATOR: Did we answer all of your
19 questions?

20 MS. SPELLACY: Yes, except for two.

21 Can you discuss your involvement in the
22 maquiladora program a little bit more, and also can
23 you discuss how you classify your imports and exports
24 to your subsidiary in Mexico. And again, if you
25 prefer to do these in the post--conference brief,

1 that's fine.

2 MR. THOMPSON: Certainly the classification
3 we would put as business proprietary.

4 MR. BENATOR: I believe maquiladoras were
5 started with the cooperation of the United States and
6 Mexico in 1970, earlier than that?

7 MR. CICHERSKI: I started one in '68. One
8 of the early ones.

9 MR. BENATOR: What it is is the
10 manufacturing operation in Mexico is owned primarily
11 by Mexican nationals with a U.S. parent who provides a
12 lot of the materials and all of the equipment and
13 sends it in bond to Mexico, and then we send products
14 there. The majority of it, sometimes it's sold into
15 Mexico, but in our case 99 percent plus was brought
16 back into the United States, sold in the U.S..

17 We provided canvas, lumber, staples,
18 cartons, film, and shipped it into Mexico in bond and
19 then it's returned back. And it's considered an
20 export back into the United States.

21 MS. SPELLACY: Thank you.

22 One last question. From the testimony, do
23 you agree that total U.S. consumption of artists'
24 canvas has increased in the last five years?

25 MR. DELIN: Our feel is that yes, the market

1 probably has increased in size. We began to feel some
2 acceleration even before the Chinese entered the
3 market and we felt like we were growing. Part of that
4 was new products in other areas, going in more to the
5 craft industry. We also saw a fairly significant
6 increase in business after 9/11. It appeared, it was
7 a bit of a surprise to us, but it appeared that people
8 were tending to stay home more with family and there
9 was a nice spurt of business.

10 In terms of how the Chinese product has
11 impacted the market, we don't have actual statistical
12 data in our industry to track that. I think we feel
13 pretty sure that the units have gone up. We don't
14 know that the total dollars have gone up any more than
15 the industry was already growing or as a result of an
16 economy that was coming back.

17 MR. STRAQUADINE: In my sales efforts or
18 sales travels and conversations with large and small
19 customers, I do hear a definite tone that the industry
20 has grown, that more artists' canvas is being sold
21 than ever before -- not only of our brand, but
22 especially of this very low-priced product that's
23 being sold and promoted much more aggressively, 40
24 percent off every day, 50 percent off every day, are
25 the signs that hang above the Chinese canvas. An

1 inflated retail price or MSRP that is actually higher
2 than the brand, or often higher than the brand, and
3 yet it's discounted and sold as though it is on sale
4 every day at 40 or 50 percent off. That impression
5 has helped drive the sales of the artists' canvas.

6 The irony of that is that many of the
7 coalition members have reported that their sales of
8 ancillary products such as brushes, paints and mediums
9 that would naturally go hand in hand with this huge
10 up-swing in canvas sales, have not been commensurate
11 by any degree. While some companies can report
12 success of their paint sales, the overall industry
13 growth of paint and brushes are flat or in the single
14 digit growth numbers as opposed to this huge upswing
15 in artists' material or artists' canvas.

16 My question then is, if artists' canvas is
17 so good for the entire industry, why are the ancillary
18 products not coming right along with that? Why are
19 they not selling at a 40 percent increase of a 50
20 percent increase like the increase in sales of overall
21 artists' canvas?

22 MR. DELIN: Another factor. I had mentioned
23 new products have had an impact on growth. Our
24 watercolor canvas has increased significantly. It was
25 the number one art product of the year in Craft Trends

1 magazine, and it has had excellent sales. Also U.S.
2 producers have tried to find new markets, just like
3 any company would, and we're working towards building
4 the brand as well as new concepts and ideas into the
5 craft market to get more of the craft-type business
6 and the scrapbook -- I don't know if you're familiar
7 with the scrapbook market, but it's sort of on the
8 craft side of business. In our marketing programs and
9 strategy we've attempted to try to take more of our
10 products, existing products, with different label
11 strategies into those markets.

12 MS. SPELLACY: Okay, thank you.

13 MR. CARPENTER: Mr. Rees?

14 MR. REES: Good morning. My name is Mark
15 Rees and I'm with the Office of General Counsel.

16 Than you for your testimony this morning.
17 It's very helpful.

18 Mr. Freeman, I don't believe you were
19 identified formally. If you could do so now, that
20 would be helpful.

21 MR. FREEMAN: Yes, I am the Vice President
22 of the Manufacturing for Tara Materials.

23 MR. REES: Thank you.

24 I do have a few questions. Some are of a
25 more technical variety but we've heard some technical

1 discussion from the industry witnesses so I'll do my
2 best to actually put all my questions to the industry
3 witnesses, although Mr. Thompson you're welcome to
4 jump in at any time, of course.

5 Before I get to some of those questions I do
6 have a question that just arises out of the testimony
7 we've heard from you, and I'm going to botch the
8 pronunciation, bur Mr. Cicherski.

9 MR. CICHERSKI: I don't know if the
10 misspelling throws you off that much or not.
11 Evidently when someone hit the computer she or he hit
12 two H's, there's only one H. The name is Cicherski.

13 MR. REES: Thank you, Mr. Cicherski.

14 MR. THOMPSON: Mr. Rees, I have to confess
15 that I am the "he" who hit the wrong key.

16 [Laughter].

17 MR. REES: We've all done that.

18 Mr. Cicherski, I know we're going to hear a
19 whole bunch about this, or I suspect. I don't know.
20 I guess. From some of the folks behind you once
21 you're all seated. And so I'd ask you at this point
22 to enlighten us a bit on this side of the table.

23 You mentioned there were some delivery
24 problems two years ago with the domestic industry.
25 You mentioned it and you said they were all addressed

1 and fully resolved, and you've obviously testified at
2 length, importantly, about your perceptions as a
3 retailer and as a purchaser of these materials, as to
4 the nature of the products in the marketplace and the
5 quality of the domestic product. But could you
6 explain a little bit more, what did you mean by
7 delivery problems? What precisely were you referring
8 to or what are you familiar with in the industry that
9 took place? And also fill in, even the dates are
10 helpful to get some idea of background. If you know.

11 MR. CICHERSKI: I may have to enlist some of
12 the help of the Tara people, but I think they realize
13 the period that I'm talking about probably was in
14 early 2003.

15 They were running into some production
16 issues and some of it I think, I've concluded today at
17 least, may have been related to some of the transfer
18 of manufacturing to their maquiladora plant in
19 Tijuana, but I'm not sure of that. That's my
20 viewpoint.

21 It was a limited period of time, but it was
22 of importance to us because we hadn't planned on it,
23 and in dealing with Tara over the years we had never
24 encountered an issue like this. So we didn't know if
25 there was something economically happening,

1 financially happening, union problems, we didn't know.
2 And in fact it wasn't until we talked to Paul and Pete
3 here about this matter in our office, we finally
4 realized that they were addressing the issues, which
5 they did do, and subsequently, since that 2003 period
6 our deliveries from Tara have been over what we would
7 expect from any normal manufacturer of art materials.

8 As I said earlier in my presentation,
9 sometimes three day deliveries don't necessarily mean
10 that much to you if it's a consistent three day
11 delivery. Just as a three week delivery is not
12 important as long as it's a consistent three week
13 period, and we can build our requirements on what that
14 time period might be.

15 We find that Tara generally lives and
16 subscribes to about a 12 to 16 day period in the turn-
17 around of an order. That is from the time we submit
18 the order to Tara until the time that it arrives on
19 our dock.

20 Granted, we're not that far away from Tara,
21 as maybe some other places in the United States, but
22 it's still about a 900-mile drive. We don't consider
23 delivery an issue at Tara today, nor would we consider
24 the fill rate of an order an issue, and the fill rate
25 is more important to us sometimes than the delivery

1 because if the fill rate isn't there, that just means
2 we might not have merchandise to sell to our
3 customers' demands when they come in, and that can
4 hurt you more than anything because if a customer
5 associates you with that reputation of not being a
6 full-stocking dealer, they may not come back. And as
7 I indicated earlier, with the kind of competition that
8 we have in our community, we have to have our
9 merchandise shelves full for our consumers.

10 MR. REES: Okay. So as I understand it,
11 there was a temporary period in 2003, and as I
12 understand, you're testifying to certain delays
13 associated with delivery. Is that right?

14 MR. CICHERSKI: It was a combination of
15 delays and, I think, probably some back orders that
16 they had, too.

17 MR. REES: Now, having said that, that's
18 helpful, thank you, and if the industry witnesses have
19 anything to add to enlighten us on that, that would be
20 helpful.

21 MR. STRAQUADINE: Like any manufacturing
22 facility, we are very cognizant of our fill rate. In
23 other words, if you order 100 pieces of canvas from
24 me, and I only deliver 93 of them, that would be a 93-
25 percent fill rate based upon the quantity of pieces

1 when we speak of percentages, and we're very cognizant
2 that empty shelves mean lost sales for the retailers,
3 for the wholesalers, or for any of our customers.
4 We're sensitive to that.

5 In 2003, we experienced an anomaly, one that
6 is common in this specific industry, or in the art
7 materials industry, and that's when some of our
8 largest coalition members, without the normal notice,
9 hit us with very, very large orders, above-and-beyond
10 orders, quite often private-label orders that are
11 manufactured specifically in their house brand, and
12 that caused a delay and a back order of product and
13 depleted our shelves of both our branded and our
14 house-brand products, private-label products. That's
15 happened in 2003. We went through a brief period in
16 2002 where a similar thing happened.

17 In every case, it's our goal to communicate
18 with the customer, let them know what the delays are
19 and when they will be getting their product, and
20 specific to any product issues or quality issues, in
21 every case, if a quality problem is related, we try
22 not to ignore it. We try not to turn our heads away.
23 I've gone through some of the warehouses that are
24 represented in the coalition, searching the shelves
25 for a bad product that my label is on and taking it

1 out, at my cost and my time, to get it off their
2 shelves and get it replaced.

3 So we are cognizant of that. It's a natural
4 product. Things will happen. The wood is a tree that
5 grows; it's not metal that's manufactured. The cotton
6 grows and is woven, and it is susceptible to
7 atmospheric changes. That being said, we believe we
8 manufacture a very, very good-quality product, and
9 when we do have problems, we try to immediately
10 rectify it and replace it at no charge, and to try to
11 eliminate the inconvenience to the customer.

12 MR. BENATOR: I would like to add that we
13 can explain some of these shortages specifically, but
14 they do involve some proprietary customer volumes and
15 so forth, and we would be happy to respond separately.

16 I also would like to say that we have done
17 quite a bit of work on improving our forecasting
18 method. That's something very difficult in our niche
19 artists' canvas industry where we've got a lot of
20 sizes, a lot of depths of material, and so one blip of
21 certain sizes will cause a temporary shortage. And
22 what we have done, two major things that we have done,
23 one is we've established, through quite a bit of work
24 and correspondence with key customers, a minimum
25 stocking volume in two warehouses.

1 So we are building towards minimum levels,
2 both in our San Diego warehouse and in our
3 Lawrenceville, Georgia, warehouse. In addition to
4 that, our San Diego warehouse, we increased from a
5 20,000-square-foot facility that was only one story to
6 a 60,000-foot, 28-foot-high. We can stack pallets
7 four high in this warehouse in San Diego, so we've got
8 a lot more minimum stock level capacity to ship more
9 timely today.

10 MR. REES: Thank you for the testimony, and,
11 of course, please take the opportunity to comment
12 further if you wish, or especially if you have
13 confidential information on any of those points, in
14 your post-conference brief. And also, planning ahead,
15 please do respond in your post-conference brief or
16 offer a rebuttal to any of the litany of allegations
17 we might hear concerning any nonprice factors having
18 influenced the competition that we see. That would be
19 helpful for post-conference brief purposes. Unless
20 you have anything to add to that, I'll get to my next
21 question.

22 Is direct importing, that is, importing by
23 retailers directly, first of all, does that exist in
24 this market? Yes. Okay. The witnesses are telling
25 me yes. Is that a newer phenomenon in this market?

1 MR. BENATOR: Absolutely not. A lot of the
2 fine art industry came from Europe, so there has been
3 importing of a lot of art materials from many
4 different countries.

5 MR. REES: Okay. I realize my question is
6 not very clear, so, please, if you want --

7 MR. STRAQUADINE: Specific to canvas, there
8 has been import of artists' canvas into this industry
9 for many, many years. We compete very effectively,
10 and we compete very fairly, with countries such as
11 India, such as Italy, such as France. When artists'
12 canvas comes from any of those countries, and it has
13 for years, it is fair competition. It's only with the
14 advent of the People's Republic of China and specific
15 pricing defined in the petition that the differences
16 have taken place.

17 MR. THOMPSON: Mr. Rees, if I could just ask
18 for a clarification of your question, you're asking
19 about direct imports by retailers as opposed to
20 imports by, say, a distributor.

21 MR. REES: Obviously, the question wasn't
22 phrased well. This is exactly what I'm getting to.
23 You're putting your finger right on it, Mr. Thompson.
24 I'm trying to understand the channels of distribution
25 in this into market not only as they are today but as

1 they have evolved over time, if they have evolved.
2 And when I was referring to "direct importing," what I
3 meant by that is it appears that, as you've testified,
4 there clearly has always be a presence in the
5 marketplace of imports of artists' canvas, and there
6 is today, of nonsubject imports, that is, imports of
7 canvas from countries other than China.

8 But has there been, in the distribution in
9 the United States, has there been any change? Has
10 there been a shift from product that is purchased by
11 retailers where retailers are now importing themselves
12 directly from abroad as opposed to purchasing imports
13 from an importer or other distributor? Is that
14 phenomenon, which we see in other consumer products
15 from time to time, and increasingly so before the
16 Commission, is that taking place here?

17 MR. CICHERSKI: As a retailer, I would like
18 to address that issue simply from our perspective. We
19 could probably put an order together for a container
20 of canvas products brought over from China very
21 easily. The problem is not the initial order; it's
22 the subsequent order. Because we don't sell
23 everything at the same value in the same quantity at
24 the same time, we're going to sell out of some size or
25 some product quicker that other products.

1 So the issue then becomes, how do I bring my
2 subsequent order in? That may take a long period of
3 time in order to build up sufficient value of cube
4 size to fill the container. That then limits me of
5 having out-of-stock merchandise a lot longer than I
6 would expect and, therefore, turning my customer away
7 from desired and moving products.

8 Now, how that issue might work in terms of
9 me now going to another importer, that probably would
10 impact my direct cost based on what my initial order
11 was and what my subsequent order will be through an
12 importer, which will increase my cost.

13 So from the perspective of a small retailer,
14 I would probably shy away from any direct importing of
15 this particular product line.

16 MR. BENATOR: Yes. I think Bill would
17 prefer to do that through an importer or distributor
18 who then warehouses it and sells it or distributes it
19 to the retail.

20 But since 2001, the first large chain, large
21 retailer, that brought in Chinese artist canvas was
22 JoAnn's, a mass merchant, and the art materials
23 industry is similar to a lot of other retail
24 industries in the United States. You can look at
25 hardware, you can look at books, you can look at

1 office supply, and the growth of the mass merchants.
2 They are truly expanding and have the largest buying
3 power, and they now have the ability to buy direct
4 from overseas, and, yes, that's changed since 2001,
5 with JoAnn's, and then with several of the large
6 retailers who buy direct from China today, and it's
7 just started since 2001.

8 MR. REES: Mr. Thompson, I would ask that if
9 we have the data, the pricing data, reflecting some of
10 this direct importing, if you would take the
11 opportunity, in your post-conference brief, to comment
12 on the utility of that data in terms of making
13 comparisons with, say, between direct importing prices
14 and, for example, domestic producers' sale prices, an
15 issue with which you're familiar.

16 MR. THOMPSON: Yes, indeed. My initial
17 reaction is they really are not comparable, but we'll
18 certainly take a look at the data and see what would
19 be included in any prices that are reported.

20 MR. REES: Okay. Is this a growing part of
21 the market in terms of the, as you see it, Mr.
22 Benator, in terms of the subject imports, that's
23 directly imported product, or is it just one small
24 part of the subject imports?

25 MR. BENATOR: It's a growing part. The

1 private labeling and the private branding of large
2 retailers and offering that product at similar
3 specifications but at much lower prices.

4 MR. REES: Thank you.

5 Mr. Straquadine, is it? We have a very
6 interesting group of names here.

7 MR. STRAQUADINE: It just looks that.

8 MR. REES: The scope also referred to floor
9 cloths and placemats. I don't see any examples of
10 those here. How do they fit into this scheme of this
11 petition?

12 MR. STRAQUADINE: Floor cloths and placemats
13 are an extension of artists' canvas. It's a heavy-
14 weight artists' canvas that is gessoed on the top
15 side, which will be painted decoratively, and then
16 used like a throw rug or a floor covering, like old-
17 fashioned linoleum used to be painted. The difference
18 between it and standard artists' canvas is we apply a
19 coat of gesso on the back side as well so that it
20 doesn't want to curl. But basically, it is a large,
21 loose piece of artists' canvas that is painted
22 decoratively.

23 Placemats are part of the off-fall, or part
24 of what's left over when we make these rolls, and
25 it's, again, a floor cloth, but it's cut into a

1 placemat size and offered for painters to paint their
2 own placemats. It's a perfect gift for a grandma to
3 have her grandkids each do their personalized
4 placemat, and when they come visit, they have their
5 own placemat.

6 So they are an extension of artists' canvas.
7 We've mentioned them because we felt that it is part
8 of the scope, the overall scope, but, in name alone,
9 floor cloth and placemat -- I understand your question
10 -- certainly sounds odd, but, in effect, it is another
11 application of artists' canvas.

12 MR. REES: Do you have any idea what
13 percentage of subject imports are made up of these
14 particular items?

15 MR. STRAQUADINE: No, I don't, and if you
16 would like, we can respond later with some research on
17 that.

18 MR. REES: That would be helpful. Thanks.

19 But following on that same point, then, and
20 since you're the one who testified to the like product
21 and six factors, questions that I might ordinarily
22 direct right to the lawyer, but you have some familiar
23 with, at least, the factual underpinnings that go into
24 an analysis of those factors; is it your company's
25 position that those are all part of one like product,

1 that this is just one product that we're dealing with
2 in terms of a like product?

3 MR. STRAQUADINE: Correct. I would say that
4 they are an extension or a part and parcel of artists'
5 canvas. If I were to lump them into an area, I would
6 lump them into the rolled canvas because that's where
7 the majority of the product, floor cloth, is sold in
8 rolls through retailers.

9 MR. REES: Okay. If you could include in
10 your post-conference brief a discussion under the
11 traditional criteria of why the Commission ought to
12 include those in a single-like-product definition.

13 MR. BENATOR: Mr. Rees, I would like to add
14 that the canvas pad that we demonstrated here, that
15 Paul has here; that is a lighter weight. That is a
16 seven ounce with a double-acrylic priming for
17 painting. The placemats, both oval shaped and
18 rectangular, are a similar product. It's just the 12
19 ounce with a double-acrylic priming on the top and
20 single on the back.

21 And this is a market that Tara and
22 Frederick's have been innovative in marketing and
23 promoting to the artist to extend their versatility
24 and different types of products that they can sell to
25 the marketplace, the roll canvas, Frederick's has over

1 40 different styles of artists' canvas, and a few of
2 them are 12-ounce, acrylic-primed. That's the same
3 product on our floor cloth. Several of the artists
4 out there and decorative painters out there will buy
5 our 12 ounce, cut it to shape, and gesso the back of
6 it or sew it or glue it to the back to make lay flat.
7 So there is a lot of crossover, and that's why it's
8 considered all part of the same scope, the artists'
9 canvas scope.

10 MR. DELIN: To try to simplify it possibly,
11 in terms of the commonality, all of them are coated,
12 woven materials. We refer to all of this as "artists'
13 canvas," but they are all coated, woven materials.
14 All of our coated canvas is manufactured on the same
15 machinery. The difference is how they are mounted, I
16 think, more than anything else. A canvas mounted on
17 stretcher strips is a "stretched canvas." The same
18 canvas mounted on a chipboard is, we call, a "panel."
19 If it's on archival hardboard, it's still the same
20 canvas, but it's on a hardboard. If it's in a pad,
21 it's still the same canvas made on the same machines
22 in a pad form. So that's the point of commonality.
23 It's still the same product; it's just delivered in a
24 different format or package.

25 MR. REES: Is the scope intended to cover

1 any items that do not incorporate artists' canvas?

2 MR. STRAQUADINE: No. The scope is intended
3 to cover fabrics coated with gesso, defined as
4 "artists' canvas."

5 MR. REES: And that would include in
6 whatever form they might be made, whether it's the
7 prestretched or these various other forms that you've
8 described. So it wouldn't encompass frames or kits.
9 Do I understand that correctly?

10 MR. STRAQUADINE: Correct.

11 MR. REES: That's how it was intended.

12 MR. THOMPSON: Mr. Rees, frames, stretcher
13 bars, for example, are outside the scope. However,
14 the scope, as I understand it will be defined in the
15 Commerce initiation notice, would encompass kits. I
16 don't think I have the language with me now, but it
17 would be a kit with a primed artists' canvas. So it's
18 an in-scope item that happens to be imported with
19 other artists' materials, say, stretcher bars or
20 brushes or paints, what have you. Those would be
21 considered in-scope merchandise.

22 MR. REES: Okay. What is a "kit"?

23 MR. THOMPSON: A kit is what, in the past,
24 has been a retail item that would have fabric, the
25 artists' canvas. So it's going to have the coated

1 fabric cut.

2 MR. DELIN: It could be any number of
3 formats, depending on the purpose of that kit, but it
4 might have an artists' canvas in it or a panel, or it
5 might have a sheet of canvas, and it might have
6 watercolor paints, or it might have acrylic paints or
7 brushes or any combination of those, depending on the
8 specific strategy and the target.

9 MR. THOMPSON: If you like, we can provide
10 additional information. You'll certainly want to see
11 the scope language as finally settled upon by Commerce
12 and our rationale for including those within the
13 scope.

14 MR. REES: Thank you. That would be helpful
15 if you could address that in the post-conference
16 brief.

17 MR. THOMPSON: I would be happy to, yes.

18 MR. REES: Now, in terms of the prestretched
19 artists' canvas, do I understand it correctly that --
20 well, let me put in just an open-ended question. Does
21 Tara prestretch any artists' canvas presently in the
22 United States?

23 MR. BENATOR: Yes.

24 MR. REES: So you talked about the Mexican
25 production. I wasn't certain. I heard a number of

1 percentages about the shifting and developing Mexican
2 production. I didn't know whether that meant --

3 MR. FREEMAN: It has shifted quite a bit in
4 the last few years, just trying to compete at cost and
5 those kinds of things. But, yes, we still produce a
6 prestretched canvas. Twenty-five percent of it is
7 produced in Georgia.

8 MR. REES: Okay. Are there other domestic
9 producers that make a prestretched canvas?

10 MR. BENATOR: Yes.

11 MR. REES: In terms of their production
12 process, the prestretching is done in house, or do
13 they have converters who perform that work?

14 MR. BENATOR: There is both, but the ones
15 that are producers in the United States; they will buy
16 the bulk canvas and then will fabricate the wood,
17 assemble it, stretch it, inspect it and stretch it, in
18 their facilities in the United States.

19 MR. REES: Okay.

20 MR. BENATOR: From Duro Art, who has joined
21 the petition, to Masterpiece Artists' Canvas, who is
22 here, to Sunbelt to Signature.

23 MR. REES: To refine it further, are there
24 any converters in the United States that the only part
25 of their involvement in the production of artists'

1 canvas is in this stretch piece of it?

2 MR. BENATOR: Stretch alone?

3 MR. REES: Yes.

4 MR. BENATOR: I think Sunbelt is just doing
5 stretch alone.

6 MR. REES: Okay. Well, then, Mr. Thompson,
7 in your post-conference brief, if you could address
8 whether entities that are only performing converting
9 operations, such as stretching, or if there are other
10 aspects of converting operations, if you think they
11 meet the criteria such that they ought to be included
12 in the definition of the domestic industry that the
13 Commission adopts for purposes of the preliminary
14 phase of this investigation.

15 MR. THOMPSON: I certainly will. One point
16 to consider, though, is there's different converting
17 operations, from what I understand, that may involve
18 different elements of work.

19 So a converter -- I don't know that that's a
20 catch-all term. The people from Tara and correct me
21 if I'm wrong, but conversion might encompass a number
22 of different meanings within that term.

23 MR. REES: Okay.

24 MR. THOMPSON: We'll try to define that.

25 MR. REES: With the limited time we have, I

1 won't explore all of the nuances of each, but I just
2 put it open endedly, any aspect of the manufacturing
3 process that you describe in the petition that is
4 something that Tara actually outsources or sends to
5 another entity or to a converter, whether it's
6 stretching or some other feature -- I don't know
7 whether some part of it, gessoing is converted, I
8 don't know, but any aspect of that, if you could just
9 include a discussion of that as you describe the
10 production process. It's basically a refinement of
11 the description of the production process that exists
12 in the petition. Can you explain who is doing what,
13 when, and if there are these converters out there,
14 whether the Petitioner thinks that they ought to be
15 considered part of the domestic industry for purposes
16 of this investigation?

17 MR. THOMPSON: Certainly.

18 MR. REES: I'm going to stop there. Thank
19 you.

20 MR. CARPENTER: Ms. Bryan?

21 MS. BRYAN: Thank you. I'm Nancy Bryan from
22 the Office of Economics. Thank you for all of your
23 questions thus far. They are very helpful.

24 My first question is regarding any
25 substitute products of artists' canvas, such as paper,

1 possibly wood, and if you could describe their quality
2 differences and relative prices.

3 MR. STRAQUADINE: Substitute products are
4 very limited. There is nothing like the real thing
5 when it comes to an artist's painting. There are
6 papers, and there are paperboards that are used, and
7 some are gaining popularity, which are either gessoed
8 boards or papers intended to imitate canvas. They are
9 a very small part of the industry, and they are
10 certainly not part of the scope that we've focused
11 upon.

12 MS. BRYAN: Sure, sure. Okay. And their
13 prices -- can you describe their relative prices, in
14 your understanding, to artists' canvas?

15 MR. STRAQUADINE: Relatively speaking, and
16 this is rough, I would say that they are rather
17 comparable. It's ironic, to me, to see a canvas pad
18 on a shelf at a \$7 retail and see a canvas set, which
19 is a paper that is textured to look like canvas,
20 selling for \$6.95. So very similar. Ten sheets
21 versus 10 sheets, but the paper does sell. I do see
22 it moving off the shelf.

23 MR. BENATOR: Ms. Bryan, excuse me. I want
24 to add that the fine-art papers are a big segment of
25 the art materials market, but as far as competing

1 against the textured canvas, it's a small percent.
2 But there's a lot of print-making papers, sketching
3 papers, drawing papers, construction papers that
4 comprise quite a bit of volume.

5 MS. BRYAN: Okay. Thank you.

6 Also, could you further discuss the raw
7 materials that you use -- in my understanding, it's
8 mostly the raw canvas and the lumber -- can you
9 explain what percentage of your total production costs
10 are accounted for by each raw material?

11 MR. BENATOR: That's proprietary. We would
12 be happy to provide that later.

13 MS. BRYAN: Okay. Thank you.

14 MR. THOMPSON: And I take it, you would want
15 us to address the other materials involved.

16 MS. BRYAN: Yes, any other raw materials
17 that you use.

18 MR. THOMPSON: Certainly.

19 MS. BRYAN: Thank you.

20 And also, and this is just a general
21 question about the industry, in your understanding,
22 are the processing steps -- the coating, the
23 stretching, the cutting -- are those pretty much the
24 same across the industry, or do certain producers have
25 a certain specialized way they do it?

1 MR. STRAQUADINE: If you ask the producers,
2 they will all say it's specialized. So, of course,
3 ours is proprietary. But the basic manufacturing
4 process, the concept of taking lumber, cutting it,
5 molding it, joining it, and the concept of taking
6 fabric, priming it, and then stretching it, is very,
7 very similar. While some people may use machines or
8 machine assists to help in the stretching process, and
9 other people do it strictly by hand, there are nuances
10 and differences there, but the ultimate concept of
11 this manufacturing process, I believe, is generally
12 very similar.

13 MS. BRYAN: Okay. Thank you.

14 Also, if you could explain the quality
15 differences and the price differences of artists'
16 canvas made of cotton, linen, and polyester.

17 MR. STRAQUADINE: This, again, would be a
18 wonderful debate not only amongst manufacturers but
19 amongst individual artists.

20 Linen was the traditional substrate. Linen
21 comes from the flax plant, which gives you a very
22 sturdy yarn similar to the linen in textiles or sheets
23 or tablecloths. However, artist-grade linen, of which
24 the better grades tend to be grown or woven in
25 Belgium, is treated with a similar acrylic or an oil-

1 priming process, and it is more of the Cadillac brand.
2 Linens are typically seen in the higher-end oil
3 paintings and favored by artists selling their work
4 for usually a higher price.

5 Cotton is probably the Ford or Chevy textile
6 that's used most commonly. It's readily available.
7 It's grown and woven in multiple countries, including
8 the U.S., though much smaller today than ever before.

9 And the polyester is a synthetic product, as
10 a petroleum derivative, and it is used as a very
11 stable yarn that tends not to have a lot of elasticity
12 to it. From a purist's or an archival artist's point
13 of view, it goes very contrary to a traditionalist's
14 point of view. A purist who says they want their
15 artwork to last three to 500 years would today
16 probably use a synthetic fabric, an acrylic gesso, and
17 an acrylic paint, all plastic and not very subject to
18 a great deal degradation, while the purist, the
19 traditionalist, would say he would use a linen fabric,
20 an oil gesso or an oil ground, and then an oil paint
21 on top of it, often followed by a varnish to increase
22 the longevity.

23 MS. BRYAN: And what are the relative prices
24 between those three materials?

25 MR. STRAQUADINE: We can supply a price list

1 that shows the difference between the ultra-smooth
2 polyester blend, the linen, and the cotton.
3 Typically, the cottons are priced more economically.
4 By far, the most economical would be taking a cotton
5 that's been bleached -- we don't use any bleached
6 cotton in our process. When I spill bleach on my
7 bluejeans, eventually a hole will be formed there, and
8 we believe that the same thing will take place in
9 artists' canvas. Although we've seen bleached cotton
10 brought in from the People's Republic of China, it's a
11 contrary product to what we believe.

12 MS. BRYAN: Okay. Thank you.

13 Also, this is a question about how their
14 canvases are typically packaged, especially the canvas
15 panels. Are those usually sold in packs of three or
16 individually?

17 MR. STRAQUADINE: Canvas panels have
18 traditionally been sold in packs of three or packs of
19 12, a classroom pack. Many retailers, Bill probably
20 being one of them, will buy the packs of 12 and yet
21 sell them individually, take them out of their
22 packaging and sell them individually.

23 Today, with the advantageous pricing from
24 China, we have seen individually packed canvas panels
25 coming on shore, so it's already shrink wrapped

1 individually versus threes.

2 MS. BRYAN: Okay. Also, I had a question
3 about the delivery issues that you may experience when
4 delivering to the West Coast. Do you notice any
5 difficulties or differences in shipping to the East
6 Coast versus West Coast?

7 MR. FREEMAN: If I may, one of the reasons
8 for purchasing a much larger warehouse on the West
9 Coast is to take care of that seven days that it
10 typically takes to ship across the country, and as
11 Michael said earlier about trying to develop max and
12 mins in keeping those levels. Currently, right now,
13 are West Coast has a better shipping, on-time
14 percentage than we do on the East Coast, but we do try
15 to keep all of those minimums there.

16 I would like to go back. Earlier, there was
17 a question asked. You know, we can demonstrate our
18 on-time delivery. Over the last two years, every
19 month has continued to improve.

20 MS. BRYAN: Okay. Thank you.

21 Also, Mr. Straquadine, I think you mentioned
22 earlier your main customer bases -- specialty art
23 stores, Internet suppliers, arts and crafts stores,
24 wholesalers, converters -- do you have a sense of what
25 share they each account for of your total customer

1 base and which one is the largest, for example?

2 MR. STRAQUADINE: I think that for
3 competitive reasons, we should respond to that either
4 very ambiguously or later. But the largest part of
5 the business is the big-box, arts and crafts retailer
6 -- everyone on the coalition would represent, or the
7 majority of the coalition would represent, that --
8 followed by the fine-art chains and/or wholesalers.
9 The wholesale business in the U.S. is a business
10 that's been a bit volatile, similar to other
11 industries: paint, hardware, food and drug. Lots of
12 larger retailers are buying direct from factories more
13 and using less fill in.

14 As described by opposing counsel earlier, we
15 were accused of firing a longtime distributor a year
16 and a half ago. Short of antidumping, that was, by
17 far, the company's largest decision and toughest
18 decision, to end a relationship with someone that we
19 had done business with for many years. It was done
20 specifically due to the importation of Chinese canvas,
21 what we believed was free riding, leading people to
22 believe that the canvas was made in Lawrenceville,
23 Georgia, by Tara Materials and then converted in China
24 and brought back into the States. We have a couple of
25 evidences of that.

1 Not being invited to be part of their
2 marketing program, sales meetings, things of that
3 source, being treated more as a competitor, having our
4 brand available but being undersold by the Chinese
5 product is the reason we went there.

6 It was, by far, our toughest decision. We
7 regret that we had to make that decision, but we
8 believe that, today, my information or my knowledge
9 would say is the largest importer of Chinese canvas,
10 that was a good decision on our part to end that
11 relationship and choose to exercise our resources in
12 arenas where we felt there was further support taking
13 place.

14 MS. BRYAN: Thank you.

15 This may be a little harder to answer, but I
16 suspect that there's a few large groups of final
17 customers: amateur artists, student artists,
18 recreational, professional, possibly firms that
19 manufacture reproductions. Again, do you know which
20 of those groups is your largest customer base?

21 MR. STRAQUADINE: We love them all equally,
22 but we believe the volume is still higher in the craft
23 market, on the amateur or part-time artist, and that
24 the serious fine artist, professionally working, is a
25 smaller segment, yet, in our eyes, as equally

1 important, in essence, because it's part of the
2 integrity of the industry. Often, they are the last
3 to shop price and price alone. But we can probably
4 take our best stab at defining what the overall market
5 is in terms of amateur crafters, part-timers, serious
6 amateurs, and professionals.

7 MR. STRAQUADINE: Okay. Thank you.

8 MR. BENATOR: And I think some of the other
9 retailers would have different -- there would be a
10 wide range of responses. There is no valid industry
11 study of that.

12 MS. BRYAN: Okay. Thank you. That's all I
13 have.

14 MR. CARPENTER: Mr. Jee?

15 MR. JEE: Good morning. My name is Justin
16 Jee. I'm an auditor and a financial analyst in the
17 Office of Investigations. I have just one comment and
18 a request.

19 I'm concerned with timely responses by
20 domestic producers, and the response was due on April
21 15th. As of today, a week later, we have received so
22 far four producers' responses out of a possible 11.
23 Furthermore, I have issued three deficiency letters,
24 as well as several phone calls, to the Petitioner. I
25 still have not received complete and usable financial

1 data and some other data. So I would appreciate your
2 cooperation on my request. Thank you.

3 MR. CARPENTER: Thank you. Ms. Freund?

4 MS. FREUND: Hi. I'm Kim Freund from the
5 Office of Industries, and I just have a couple of
6 quick questions, mostly about the raw materials you're
7 using in the canvas.

8 First of all, I just want to clarify, to be
9 an artists' canvas, it has to be coated. Is that
10 correct? I seem to remember reading that you
11 sometimes sell raw canvas to artists who do their own
12 coating.

13 MR. BENATOR: Some artists prefer to buy it
14 uncoated or raw and then put their own formula or
15 their own preferred texture onto the canvas. Because
16 of the raw market being so voluminous and that
17 industry selling to sailboats, to awnings, to
18 industrial products, book covers, and so forth, we
19 preferred to leave that out of the scope.

20 MS. FREUND: Okay.

21 MR. BENATOR: A very small percentage of the
22 artists' canvas market.

23 MS. FREUND: Okay. Thank you. That helps.

24 And that was a follow-up question, actually,
25 what uses are there for that canvas, so basically you

1 just covered it there, I guess.

2 Also, where do you actually purchase your
3 canvas from? It is domestically produced or imported?

4 MR. BENATOR: When Tara first started in
5 1966, it was primarily in the United States, in the
6 Southeast. Thus, the name Tara from Gone with the
7 Wind. Both the cotton, all of the chipboard to make
8 our panels -- none of the lumber supplies -- the
9 lumber was from the Northwest because the yellow pine
10 had too much sap was not conducive for an artist's
11 canvas to be stretched over, but also the paper for
12 all of the labels -- so we were a Southeast, pretty
13 much materials supporter.

14 But through the years, our canvas, the
15 synthetics, the polyesters, the majority of that is
16 purchased from the United States; otherwise, it's
17 moved all around the globe, from South America to
18 India to Hong Kong. We've never gotten it from the
19 People's Republic of China, but all over.

20 MS. FREUND: Okay. And the artists' canvas
21 that are competing from China; what kind of raw
22 materials are they? Are they using cotton or
23 polyester?

24 MR. BENATOR: Primarily, 100-percent cotton
25 bleached or unbleached, primarily. That's the biggest

1 volume, but there are other products that they use.

2 MS. FREUND: Okay. And would you be able to
3 give some estimate of how much your production is in
4 that later?

5 MR. BENATOR: Yes, we would later.

6 MS. FREUND: Okay. Thanks.

7 Regarding the coatings, you mentioned
8 earlier, I think that some of them were petroleum
9 based, have you seen a lot of price fluctuation in the
10 costs of your coating?

11 MR. BENATOR: If I can respond, we've had
12 three price increases in the last 12 months, and as
13 far as the amounts, I would prefer to keep that
14 confidential, but we had two, one earlier last year
15 and one at the end of '04, and we have now been
16 advised that there is another one coming shortly.

17 MS. FREUND: Okay. And, I guess, the last
18 question -- I think you mentioned earlier, but just a
19 little clarification, on the coatings used for inkjet
20 versus, say, oil painting or some other type, -- I
21 want to make sure I understand this correctly -- did
22 you say that the product coming in from China is not
23 appropriate for use in inkjet printers or for printing
24 purposes?

25 MR. BENATOR: That is a product that's just

1 started to come into the United States with the ink-
2 receptive coating.

3 MS. FREUND: Okay.

4 MR. BENATOR: There's quite a few other
5 global producers of that inkjet-receptive coating.

6 MS. FREUND: Okay.

7 MR. BENATOR: China is just starting to get
8 actively into that account.

9 MS. FREUND: Okay. Thank you. That's all I
10 have.

11 MR. CARPENTER: Before I go to Ms. Mazur, if
12 I could just ask one follow-up question related to the
13 question of the uncoated canvas, which is clearly
14 outside the scope.

15 Mr. Thompson, is it your position that that
16 would also be outside your proposed like product?

17 MR. THOMPSON: Oh, yes. The uncoated canvas
18 is outside the scope of the like product definition.

19 MR. CARPENTER: Thank you.

20 Ms. Mazur?

21 MS. MAZUR: Thank you. Thank you very much
22 to the industry witnesses for taking the time to come
23 today to Washington and to prepare your testimony and
24 present it to us. It was very, very helpful.

25 A couple of questions. Mr. Straquadine, in

1 talking about the anomalous situation in 2003 that
2 resulted in back orders, et cetera, you indicated that
3 the coalition members basically placed a series of
4 large orders. Was there anything in particular that
5 was happening in the marketplace that was driving
6 those orders?

7 MR. STRAQUADINE: I would say store
8 promotions, advertising, store growth, chains going
9 from 700 stores to 800 stores perhaps or other growth
10 within the market seemed to accelerate that and
11 provide this anomaly of larger orders.

12 MS. MAZUR: So it was just a confluence of
13 events. All of these things happened at roughly the
14 same time.

15 MR. STRAQUADINE: Yes. Primarily, all of
16 those things happening at the same time. Sometimes
17 inventories at year end appear, and I really don't
18 feel I can speak to that, but sometimes some
19 retailers, and in my retailing background, at year
20 end, inventories will be run down for year-end audits,
21 and after the first of the year or the first of the
22 fiscal, large orders will be placed to restock shelves
23 for some badly needed product, those things can time,
24 along with some growth issues and promotion issues, to
25 bring in a flood of large orders that, in this case,

1 resulted in our fill rates dropping into, I believe,
2 the 80 percent on our branded products.

3 MR. FREEMAN: If I might add just a little
4 bit to that, just from a manufacturing standpoint, one
5 of the things that we try to do very diligently is to
6 get as much information by forecasts from the market,
7 and we try to develop a capacity plan to meet that
8 capacity, and if you were to extrapolate through 12
9 months, if the world was perfect, everything would be
10 balanced, and that's the reason for the inventory
11 pieces that we try to drive up.

12 When you develop a plan, let's say, just use
13 a number, \$4 million, and then in that month you
14 receive sales or orders of \$6 million, it certainly
15 stretches the fabric. You have kind of cyclic
16 deliveries sometimes when you do those kinds of
17 things. And I must say, we appreciate very much these
18 larger orders. We work very diligently. We try to
19 add shifts. We try to do all kinds of different
20 things to try to meet this requirement, but sometimes
21 it's pretty difficult because we try to plan this on a
22 yearly basis, how many people do we need doing this,
23 this, this. It's hard to carry, especially in this
24 day and time, extra people to respond to this very
25 quickly and that kind of thing. So I just wanted to

1 add that.

2 MS. MAZUR: Thank you. That is very
3 helpful.

4 MR. DELIN: I could add to that, if I may.

5 MS. MAZUR: Please.

6 MR. DELIN: There are a lot of different
7 reasons, over time, where there is demand that changes
8 rather radically, for whatever reason. Like, 9/11 was
9 an example that just nobody foresaw. We thought it
10 would go down; instead, it came up.

11 Our retailers make adjustments as well.
12 They realize that they don't have enough in stock, and
13 they are losing sales on the shelves at retail, and
14 they suddenly make a strategic decision to load up,
15 and then suddenly we get, from perhaps our largest
16 customer, two or two and a half or three times the
17 normal order, and that kind of a thing does have an
18 impact on us.

19 As Ron pointed out, we've attempted to work
20 with them to get forecasts from them to help us, and
21 they just haven't helped at all.

22 So all you can do is try to prepare as much
23 as you can, carry reasonable levels of safety stock in
24 anticipation of needs. We go into heavy overtime to
25 fill orders on time, if necessary, but there is a

1 combination of many different events that can impact
2 demand at any given time.

3 MS. MAZUR: Thank you.

4 MR. DELIN: One of the points, I think, if
5 I'm beginning to grasp some of the dynamics of this,
6 our case is based on price, and I believe that the
7 coalition really can't deal with the issue of price,
8 so they are going to try to find other reasons for why
9 they are going to China. But we have clear evidence,
10 as I stated, even in writing from customers, as well
11 as witness commentary from customers, as well as exit
12 reports that are documented, that in almost every case
13 it has been as a result of price.

14 MS. MAZUR: I wonder if Tara could respond
15 in the post-conference brief and provide us with order
16 book sales, quarterly order book sales, for the entire
17 period of investigation, January 2002 to 2004, in the
18 post-conference brief. That would be very helpful.

19 MR. BENATOR: We would be happy to provide
20 that.

21 MS. MAZUR: Thank you very much.

22 One other issue with respect to one of the
23 issues that Mr. Gallas, on behalf of Respondents,
24 raised this morning was the firing of the distributor.
25 Mr. Straquadine, you mentioned that earlier and

1 provided some detail. If you could, in the post-
2 conference brief, give us details as to what happened
3 or what transpired in that episode, and if we could
4 talk volumes as well, dates and volumes, that would be
5 helpful. Thank you.

6 And then one last issue with respect to the
7 domestic industry. Mr. Benator and Mr. Straquadine,
8 you mentioned the three coaters, three additional
9 coaters, who might be out there in the industry. Do
10 they perform tolling operations for other producers of
11 artists' canvas that you know of?

12 MR. BENATOR: Not that I know of. That is
13 only a small percentage of their business. They do a
14 lot of other coatings -- textile, vinyl, all different
15 types of signage, industrial coatings.

16 MS. MAZUR: To what extent does tolling go
17 on in the artists' canvas industry; that is, the
18 canvas producer is contracting out to a toll producer
19 for coating operations?

20 MR. BENATOR: Primarily, in the United
21 States, it relates to the print canvas side, to the
22 inkjet, and to some of the other specialty artists'
23 canvas.

24 MS. MAZUR: Mr. Thompson, if you could
25 explore this issue in the post-conference brief with

1 respect to tolling being performed by these three
2 coaters that have been mentioned, if you could also
3 identify their locations as well, we would appreciate
4 that.

5 Those are all of the questions I have, and,
6 again, Thank you very, very much for your testimony.

7 MR. CARPENTER: I have a few questions, too.

8 The Respondents, in their opening statement,
9 made what may be considered a causation argument, that
10 your Mexican imports are displacing your domestic
11 production. Of course, you made the argument that
12 you've increasingly shifted production to Mexico
13 because of competition from the low-priced imports
14 from China, and they may elaborate on that argument
15 this afternoon. But what could you tell me? Is there
16 anything you could tell me at this point that would
17 refute their argument that if they were to argue, for
18 example, that this was self-inflicted injury, that you
19 were shifting your production to Mexico, and that's
20 hurt your U.S. operations? Do you have any
21 information you can provide on that at this point?

22 MR. BENATOR: The only thing I can say right
23 now; I would like to think about it and provide a
24 better answer, but the only thing I can say right now
25 is the displacement of stretch production from the

1 United States to Mexico was, because our margins kept
2 getting squeezed, a kind of reactionary measure to
3 lower our costs as much as possible, and we feel we
4 would not have had to do that without this unfair,
5 low-priced Chinese product, and that regardless of
6 Mexican labor at, say, one-fourth of U.S. labor cost
7 and Chinese at one-tenth of U.S. labor cost, we still
8 can't be competitive against China. That's not the
9 factor.

10 MR. CARPENTER: To some extent, this strikes
11 me as possibly a timing issue. If there is anything
12 you can provide in your post-conference briefs that
13 would support the argument that you are increasing
14 your shifting to Mexico in response to increasing
15 volumes and lower prices from China, that this was,
16 like you said, a reactionary move, I think that would
17 be helpful.

18 You also made the argument, and I didn't
19 catch all of the factors, but basically innovative
20 marketing by the Chinese and certain other factors has
21 increased demand for this product in the U.S., and I
22 believe that this panel has indicated that you feel
23 that demand for this product has increased somewhat in
24 recent years. Do you see any merit to their argument
25 that the Chinese, through marketing or other reasons,

1 have succeeded in expanding the market, to the benefit
2 of all of the players?

3 MR. STRAQUADINE: I would say, independent
4 of price, no. Taking price into consideration and
5 being able to sell canvas panels individually rather
6 than in packs of three; that could be considered an
7 innovation. The innovation of offering perhaps a
8 larger size or a different size than what we currently
9 manufacture within a particular range of artists'
10 canvas may be the next question of innovation or the
11 only other thing I could propose as innovation. But I
12 would say 98, maybe 99 percent of the products offered
13 are direct imitations, not innovations, to our product
14 line or other U.S.-manufactured product.

15 Another U.S. domestic supplier, Masterpiece
16 Artists' Canvas, has, for years, manufactured a three-
17 inch deep, very, very deep, artists' canvas on a deep
18 stretcher bar. It's a nice piece of goods. It's a
19 market that we've never competed with them on. I've
20 always admired their quality in that, yet, today, it's
21 being imported as a direct displacement of the
22 Masterpiece product in, ironically, a three-inch
23 depth. So that, again, would be evidence of
24 imitation, not innovation.

25 MR. BENATOR: I would like to add that the

1 low-priced Chinese product, especially in the economy
2 stretched, has displaced canvas panel product because
3 the stretched canvas is less expensive. Artists who
4 normally were buying panel, which was considered a
5 nonarchival, inexpensive substrate, now can paint on a
6 prestretched, and that has probably grown the
7 stretched canvas portion of the artists' canvas
8 industry.

9 In addition, because of these low prices
10 that are coming into the United States, retailers have
11 more aggressively promoted artists' canvas and taking
12 up much more floor space in their stores. It's valid
13 logic that it carries more paints and brushes to come
14 out of the store, so they get more total sales per
15 customer. But if you look at it, it's volume of
16 artists' canvas, not necessarily dollars of sales
17 volume.

18 MR. CARPENTER: One question about the kits
19 that are coming in from China. Could you describe to
20 me, to the extent that you have seen these in the
21 market, what these are? For example, do they have
22 essentially two pieces, the treated canvas and then
23 the completed frame, or is the frame sometimes also
24 unassembled?

25 MR. STRAQUADINE: To date, kits have

1 primarily been either a stretched canvas with some
2 paints and brushes nested inside the opening or a box
3 containing a canvas panel or a sheet of canvas that
4 then contained artists' paints and artists' brushes.
5 We have not seen a kit that involved four stretcher
6 strips and a piece of canvas for someone to stretch
7 themselves.

8 Our goal in including kits in the scope is
9 to try and avoid any end runs that could precipitate
10 if a canvas duty was put in place on artists' canvas
11 that, by calling it a kit and putting one brush in
12 with it, that somehow or other that would avoid any
13 duty just because a 29-cent brush is nested in the
14 back of the canvas, thus making it a kit. We have not
15 seen that, but we could see that as an opposition,
16 should a dumping duty be put in place.

17 MR. CARPENTER: Do you describe to me,
18 again, what steps are now being performed in Mexico?

19 MR. BENATOR: The Mexican factory, as I
20 said, has 260 employees there. They are doing quite a
21 bit of woodworking on the stretcher bars. We take the
22 raw boards, we rip them, we defect out the knots, we
23 then cut it to different sizes based upon demand, we
24 then mold it, applying the shape to the stretcher bar,
25 and then we put the tongue-and-groove end work, which

1 we call "tennoning the ends," so that when we put the
2 inside frame of an artists' canvas together, you can
3 adjust it or peg it out if it starts to loosen.

4 MR. CARPENTER: Is all of the woodworking
5 and the construction of the frames being done in
6 Mexico?

7 MR. BENATOR: Not all of it. We still have
8 a large woodworking facility in Lawrenceville,
9 Georgia. We were providing it up until recently
10 because when we closed down the Precision factory in
11 April of '04, we had quite a bit of woodworking
12 equipment there. We moved the majority of it Mexico,
13 but we were still doing volume and sending them a lot
14 of finished stretcher strips throughout 2004.

15 We still, today, send blanks where we take
16 the bulk lumber and rip it and defect it and send it
17 to Mexico. We provide the bulk rolls. We were
18 providing it cut and on sheets. They now have a
19 cutter and a sheeter. They are sheeting and cutting
20 the canvas to size to stretch onto these assembled
21 stretcher bars.

22 They are also, at this point, -- is there
23 anything else I'm missing?

24 MR. FREEMAN: Well, right now, 65 percent of
25 the woodworking is still done in Georgia, and 35

1 percent down there. Also, about 30 to 35 percent of
2 the work they do now is still picture frames, but they
3 are applying the canvas to these strips, and we do
4 send, almost on a weekly basis, we send, at least, one
5 or two trailer loads of wood product and also canvas
6 to them.

7 MR. CARPENTER: Is the woodworking the most
8 labor-intensive part of the entire production process
9 and cutting and that sort of activity?

10 MR. FREEMAN: It is if you consider cutting.
11 Coating is the most labor intensive.

12 MR. CARPENTER: Coating is the most --

13 MR. FREEMAN: Coating is the most costly
14 process.

15 MR. CARPENTER: Okay. Would coating be the
16 more capital-intensive process?

17 MR. FREEMAN: It's more capital intensive.
18 I shouldn't say "labor intensive," but it's more
19 capital intensive, yes, and then all of the equipment
20 you have to have to apply paint and make paint and
21 those kinds of things.

22 MR. CARPENTER: Okay. Thank you.

23 Mr. Cicherski, if I understood your
24 testimony correctly, in describing the Chinese
25 product, I believe that you had indicated that it was

1 inferior in quality, that there were some delivery
2 problems or maybe not so much problems, but there was
3 typically, I guess, about a 90-day order delay or 90
4 days from the time of order to shipment as opposed to
5 about 12 to 16 days for Tara and that the deliveries
6 were somewhat sporadic.

7 I think you also mentioned that the coating
8 was inferior, the stretch parts were inferior, and the
9 packaging was inferior. Is this based on product that
10 you've actually imported yourself from China?

11 MR. CICHERSKI: No. As I said earlier, I do
12 not import any Chinese canvas. I am referring to
13 samples that have been provided me by some of the
14 people who are present here today who are selling the
15 Chinese canvas who would like for us to buy from them.

16 MR. CARPENTER: I see.

17 MR. CICHERSKI: And my rejection is based
18 simply on what they, I had hoped, would provide me
19 their best, and if that is their best, it doesn't fit
20 my criteria of making the best better.

21 So, as a consequence, I've rejected it for
22 two reasons, and one I didn't mention earlier. The
23 first reason is what I did say, and that is just the
24 quality of the product as well. But what we find is
25 that our growth in normal sales of Tara canvas has

1 gone up, and the reason it's gone up is those buyers
2 of imported Chinese canvas from our competitors are
3 coming to us to buy the better grade of canvas for
4 their particular use because they can depend upon it,
5 and it works better for them. So those are basically
6 the two reasons that I would reject it.

7 You mentioned something about the delivery.
8 The delivery that I had reference to is if I had
9 chosen to import canvas, my concern would be not in
10 developing my initial order, which would be handled on
11 an anticipated basis, and, I suspect -- I don't know
12 this for truth, but I suspect that it's about a 90-day
13 turnaround time to get an order, from the time that
14 you send it in to the time that you receive it at your
15 dock door and cleared by customs.

16 My problem is the subsequent reorders, and
17 what I had referenced there is some products outsell
18 other products that I might have brought in in that
19 initial order, and how am I going to replace those
20 that sell first if I have to wait to buy through the
21 manufacturer in China and work up an order for a
22 container?

23 At the moment, I don't have any track record
24 of any major distributor in the United States of the
25 Chinese canvas that would satisfy my requirements. So

1 my primary problem would be in the length and term of
2 subsequent deliveries to my first order, not
3 necessarily the first order.

4 MR. CARPENTER: Is it fair to say that you
5 tend to stock higher-end products, high-quality
6 products, that that's your customer base?

7 MR. CICHERSKI: Our primary product line,
8 and not just including canvas, is name-brand products
9 that people know and recognize. Many of our customers
10 are students, and that's what teachers prescribe,
11 name-brand products, not just the generic product.

12 So we have to be in a position of not only
13 providing to them what the teachers prescribe, but
14 then, in terms of commercial art users, as well as
15 fine-art users, they all usually subscribe to a
16 certain brand of product that works better for them
17 than other products. Sometimes that means we may
18 duplicate products, comparable products but yet from
19 different manufacturers, just to satisfy the
20 customer's requirements.

21 Each of our customers; they are the ones who
22 determine what we are going to buy, and if we have a
23 customer or customers that come in making a demand for
24 a particular product, we'll have to listen to that,
25 and we'll wind up buying the product for them if we

1 don't currently stock it. At the moment, and that's
2 as of yesterday, we don't have people coming into our
3 store making demands for a cheap Chinese product in
4 canvas. It just doesn't exist.

5 MR. CARPENTER: Do you have a sense as to
6 who is buying the Chinese product? Is it a different
7 type of client base?

8 MR. CICHERSKI: My view is that it's the
9 mass merchandiser who is getting the bulk of the
10 business because that's where it's being offered and
11 advertised. No, I don't have a detailed sense of
12 where all of this is coming from; it's just from what
13 I've seen.

14 I might add, the importation of Chinese
15 canvas is somewhat interesting to me in a lot of ways
16 because I think there's a lot of issues to be involved
17 here. One of my major suppliers has introduced a
18 Chinese canvas early last year. They have yet to
19 deliver. I question why. I don't know what their
20 problems are, but if I had made that adjustment in my
21 thinking of bringing that product in in the middle of
22 2004, I wouldn't have it on my shelf yet.

23 MR. DELIN: I would like to add to that,
24 there have been major service disruptions in Chinese
25 canvas. For example, we had one major, big-box store

1 that we lost their business, and we were trying to get
2 in, and I made regular visits, almost every two weeks
3 to every month, for over a year, just constantly
4 monitoring their out-of-stock position because we were
5 using it in our strategy to try to get back in, and I
6 kept repeating that because I was a bit dumbfounded by
7 the amount of out of stock and their unwillingness to
8 switch over. It was huge out of stocks, over 50
9 percent of the shelf being empty in this case.

10 Now, I don't know what the reasons were
11 behind it, but that's just one example, and Paul could
12 probably address that more because he spends more time
13 in the field than I do, but there have been huge out
14 of stocks.

15 MR. CARPENTER: Mr. Straquadine?

16 MR. STRAQUADINE: I would add that, yes,
17 there's been out of stocks. A large, house-brand
18 account of fine-art stores that made a conversion from
19 our brand to a Chinese brand based on price did, in
20 fact, experience the same thing, that their stores
21 were out of the product that they were importing from
22 China. They had their alternative U.S. brand on the
23 shelf, and it looked good, nice quality, I believe, at
24 a higher price than what they purchased it from us
25 for, but it was there. But the majority, or a large

1 part, of their program that was dependent on China was
2 very much delayed, and they went several months
3 without product as a result of that.

4 In the case of who buys the Chinese canvas,
5 Bill is more the exception than the rule. Many art
6 material dealers feel they have been forced to buy it
7 as a result of distributors who are offering a very
8 low-priced item. Once your biggest competitor, the
9 other art store in town, is offering something for 40
10 or 50 percent lower prices than you, the only way to
11 keep from being embarrassed is to join him rather than
12 fight him and just lose money.

13 So when the pricing difference is that big,
14 many retailers, and many of the ones that came by in
15 support of us at the NAMTA show last week and told us
16 this was a good thing, many of them told us, we're
17 only carrying the product, and we only left part, or
18 even sometimes all, of your brand as a result of the
19 competition changing and the low, low prices of 40, 50
20 percent every day off retail being offered in the
21 market.

22 MR. CARPENTER: All right. Thank you very
23 much for your responses. That was very helpful.

24 Are there any other questions from staff?

25 Ms. Mazur?

1 MS. MAZUR: I'm sorry. I have one
2 additional question.

3 Mr. Freeman, when you were discussing the
4 operations down in Mexico, you indicated that you also
5 send these stretcher strips down to the Maquiladora in
6 Mexico. Is that correct?

7 MR. FREEMAN: We actually send the blank.
8 We don't send the stretcher strip. We send it down,
9 it's molded there, and it's tennoned, or a 45-degree
10 angle is put on it there.

11 MS. MAZUR: All right. So that's why you
12 consider the stretched canvas returning from the
13 Mexican Maquiladora as Mexican product.

14 MR. FREEMAN: Yes. It's an import back into
15 the --

16 MS. MAZUR: But the country of origin is
17 considered Mexico because you're sending down the
18 coated canvas and the wood blanks.

19 MR. FREEMAN: Yes. As a salesman, for many
20 years now, I've asked, why does our label have to say
21 "made in Mexico"? It's much more palatable to say
22 "assembled in Mexico." It would be sales tool for me.
23 I've been told time and time again by our Maquiladora
24 operation that in order to get goods in and out of
25 Mexico, this is considered by the Mexican government a

1 manufacturing process, so we've never been able to put
2 "assembled in Mexico," and it's always had to say
3 "made in Mexico."

4 MS. MAZUR: That's very helpful. Thank you
5 very much.

6 MR. CARPENTER: All right. Thank you again.

7 At this point, we'll take a brief break,
8 about a 10-minute break, and we'll resume at about
9 twelve-twelve, by the clock in the back. Thank you.

10 (Whereupon, at 12:03 p.m., a brief recess
11 was taken.)

12 MR. CARPENTER: Mr. Gallas, feel free to get
13 started whenever you're ready.

14 MR. GALLAS: Thank you, Mr. Carpenter. We
15 have a lot to say, so I'm just going to turn it over
16 to our first witness, Frank Stapleton of MacPherson's.
17 Thank you.

18 MR. STAPLETON: Hello. My name is Frank
19 Stapleton, and I have worked in the art-supply
20 business for 33 years. The company I head,
21 MacPherson's, began in the 1930's as a small, regional
22 wholesaler in northern California, and we've gradually
23 grown to become the only nationwide wholesale
24 distributor and especially of name-brand art
25 materials.

1 We sell only to retail stores, including
2 thousands of mom-and-pops, and, like most in the
3 business, our challenges seem to be becoming more
4 difficult every year. However, I would like to say,
5 contrary to what was stated by Tara, the distributor
6 sector that we represent is growing. We are growing,
7 and so are our competitors.

8 What I hope to do here is to explain a bit
9 of the context of this sorry situation from a point of
10 view very different from the owners of Tara.

11 Success in the market requires basic skills,
12 such as a close connection to the forces that drive
13 trends, strong relationships up and down the supply
14 chain, a dedication and success to your customers,
15 with lost of ingenuity.

16 MacPherson's has positioned itself in a very
17 different way from Tara in the U.S. canvas market. We
18 have carved out a company mission that focuses
19 everything we do towards helping our retailer
20 customers achieve success. In short, growing both our
21 customers' business and the greater industry is our
22 top priority.

23 This vision guides us to build strong
24 relationships with our suppliers and customers because
25 we believe that, through teamwork and cooperation, we

1 magnify the result. I'll explain later how Tara's
2 vision and actions differ significantly from ours.

3 I think it's important to get a basic
4 overview of the canvas market, focusing on one
5 significant and wonderful trend that has shaped our
6 industry over the past 10 years.

7 First, the product. As you've heard,
8 stretched canvas is a unique product category in the
9 art-craft business. It is the surface that painters
10 and the artistically undiscovered use to express their
11 creativity with paints, brushes, and other supplies.
12 In the early days of my career, canvas was considered
13 just one of many necessary categories within a typical
14 store. There was very little product or merchandising
15 leadership in canvas sales until the early 1990's when
16 a California-based, home-decor retail chain, Standards
17 Brands Paint, created an art-supply specialty division
18 called The Arts Store.

19 Up until this time, the game in canvas was
20 at the producer level, and the big dog in canvas
21 manufacturing was Tara Materials and it's Frederick's
22 brand. The Benator family took control of Tara in the
23 mid-1980's, as you have heard, and their focus on
24 sales volume, production efficiencies, and
25 profitability allowed them to systematically

1 neutralize competitors, and by the year 2000, they
2 dominated the U.S. market.

3 In a touchy-feely business full of casual
4 dressing and creative types, these were always the
5 guys wearing a suit and tie. Tara's strategy made for
6 impressive financial results, but its dominance also
7 resulted in a failure to connect with customers and
8 forge relationships or to perceive changes in the
9 market and, as a major consequence, put its control at
10 risk.

11 Traditionally, most stores merchandise
12 canvas in custom-built, cubbyhole-styled cabinets,
13 much like library books, designed to contain the
14 products in the smallest-possible space. I would like
15 to call your attention to MacPherson's No. 1 picture.
16 This shows the traditional way that canvas was
17 merchandised.

18 I would also like to call your attention to
19 the second picture, which is not labeled, which is a
20 photograph taken of one of Asel Art's locations in
21 Dallas, Texas, yesterday. I think what it
22 demonstrates is that this is not a very appealing way
23 to merchandise.

24 At the newly established art store, the two
25 managers decided to try something revolutionary in the

1 early 1990's. They displayed stretched canvas on
2 shelves with the surface side facing out, and I'll
3 call your attention to faced-out merchandise in
4 MacPherson's No. 2. This is an example of what the
5 new merchandising looks like and what the customers
6 would face if they walked into a store like the Art's
7 Stores at the time.

8 And following the principles of long-
9 established retail merchandizing, they began to sell a
10 range of products and quality offerings, meeting the
11 needs of hobbyists as well as the professional artist.
12 Picture No. 3, Mac No. 3, is just kind of a
13 continuation of that same concept, retailers doing it
14 in their own unique ways.

15 Although this merchandizing approach took
16 infinitely more space, the results were dramatic,
17 "draw-matic." For some reason, creative people are
18 inspired when they see rows of white surfaces
19 beckoning them to express their inspirations. This
20 initial idea turned into a full-blown program with
21 stunning results. Generally, canvas sales rarely
22 exceed 5 percent of a store's art supply sales. The
23 magic that these guys created resulted in their canvas
24 sales topping 15 percent of the entire store sales,
25 while generating additional sales of materials and

1 implements needed to cover the canvas. And that's not
2 always paint and brushes. There's lots of things that
3 can go on canvas.

4 How is this possible? The trick to this
5 program is that it gets consumers to buy canvas on
6 impulse, in addition to what they came to the store
7 originally to buy.

8 As with the growing sophistication of the
9 wine industry in the 1960's, this focus on the
10 painting surfaces category in the mid-1990's spawned a
11 new generation of discerning canvas consumers
12 demanding much more to choose from in canvas styles
13 and qualities. And I would like to point out all of
14 the array of stuff. We bought this, literally, all in
15 the D.C. area yesterday, just to show you. Each
16 product that I'm showing here represents, and I would
17 be happy in the question-and-answer period to go over
18 any specifics that you might want to hear about, but
19 they are all very different, and they are perceived
20 very differently, and they are bought by very
21 different customers.

22 Leading the charge of new product innovation
23 was the San Francisco canvas manufacturer,
24 Masterpiece, who is here. Examples of these new,
25 specialty niches for painting surfaces are air brush,

1 portrait, archival, museum, digital printing, home
2 decor, and more. Manufacturing companies on the
3 lookout for these new segments suddenly had many more
4 selling options. The result of all of this activity
5 is an explosion in the sales of all painting surfaces.

6 So what was our experience with Tara in
7 relation to the market trends? For over 25 years, we
8 were a loyal customer. We paid our bills on time,
9 constantly promoted their products, jumped on new
10 items, and gave them large orders, and I hope you will
11 ask me later on about some of the allegations that
12 they made about the reason for their firing us.

13 Our decision to import canvas from China was
14 never meant to displace Tara or Masterpiece canvas.
15 The amazing program that the Art's Stores created had
16 the potential for turning around years of sales
17 declines in art material retail stores, and we never
18 gave up on trying to find a way to benefit our
19 customers.

20 We had tried for years to enlist Tara's
21 cooperation. In the year 2000, a full 10 years after
22 discovering the Art's Stores merchandizing idea, we
23 found that Chinese canvas could meet the needs of this
24 growing market. A plan was designed to highlight and
25 build on the power of a complete and varied selection

1 of painting surface products. We felt that much of
2 the high-end and specialty ranges should still be
3 sourced in the U.S.

4 From the outset, we were very open about the
5 rationale and intentions for this program with our two
6 domestic suppliers, Tara and Masterpiece. We saw our
7 small product offering as a fresh way for our
8 customers to grow their business while, at the same
9 time, promoting the value and quality of U.S.-made
10 brands. We continually coached our sales force in the
11 nuances of this vision, and in no instance did we ever
12 encourage customers to reduce, eliminate, or replace
13 Tara or Masterpiece with our China-made, Art
14 Alternatives canvas.

15 Our view expressed continually to our
16 customers was the more style, varieties, shapes,
17 sizes, everything, and brands that you display, the
18 more you will sell. Our customers bought into the
19 concept big time. As proof, we often sold Tara,
20 Masterpiece, and Art Alternatives in the same
21 shipment.

22 We made a concerted effort to partner with
23 Tara to increase our customer sales volume of art
24 canvas. In 1990, at the Hobby Industry Convention, I
25 approached the senior management team of Tara for the

1 first time to share the story of Art's Stores' canvas
2 program and to try to develop ways that we could co-
3 develop this plan for others to benefit from. We were
4 unsuccessful in persuading Tara management that this
5 new marketing approach represented a dramatic
6 opportunity, and I can see why today, listening to
7 their approach, which is entirely, we make the
8 product, we make an excellent product, and people buy
9 it.

10 Nevertheless, when we found an alternative
11 and began selling our own line in 2001, we continued
12 our support of Tara. Astonishingly, and despite
13 repeated supportive letters to MacPherson's, Tara
14 lashed out at the end of 2003 by firing us on only 24
15 hours' notice. Tara claims in the petition that its
16 termination was the result of declining sales.
17 Ironically, the largest part of the decrease was due
18 to Tara's increased sales directly to customers who
19 had previously bought Tara from us.

20 Prior to our cancellation by Tara, our
21 product selection in Art Alternatives had been very
22 narrow and targeted to be compatible with the
23 multisourced, multibrand strategy that we had laid out
24 from the beginning, which required sourcing from U.S.
25 manufacturers. In the first half of 2004, our sales

1 of imported canvas increased dramatically after Tara
2 dropped us, primarily because importing was the only
3 viable way for us to replace the lost sales due to
4 their control of the market.

5 Before our cancellation, we had needed only
6 a sampling of sizes and styles from our foreign source
7 to supplement our U.S.-produced offerings. It is also
8 our belief that, starting in 2002, virtually all of
9 the stretched canvas product that Tara shipped to our
10 warehouse in Reno, Nevada, was made in Mexico. The
11 invoicing to us made no distinction between U.S. made
12 and Mexican produced.

13 Can some of the sales decline they have
14 reported in the U.S. be attributed to their own shift
15 in Mexican production? When Tara fired us in 2003,
16 our canvas purchases from them were nearly a million
17 and a half dollars. We still wonder how dropping us
18 could help Tara's declining sales performance. What
19 was their strategy for making up the lost sales? Many
20 in our industry have concluded that this was a more
21 emotionally motivated reaction than a rational, well
22 thought out business decision.

23 Many of our loyal customers, some who were
24 buying Tara canvas from us, others who were buying
25 direct from Tara, were so outraged by Tara's action

1 that they were very willing to examine any option that
2 replaced or diminished Tara's place in their stores.

3 After Tara dropped us, we significantly
4 increased our selection and purchases from U.S.
5 producer Masterpiece Artist Canvas. One of the few
6 remaining regional producers of canvas, Masterpiece is
7 located in San Francisco, in perhaps the most
8 expensive labor and commercial real estate market in
9 the United States.

10 The fact that we replaced Tara's significant
11 role in canvas marketing with similarly high priced
12 products from the U.S. producer Masterpiece
13 underscores two key points.

14 First, if the canvas is the commodity that
15 Tara claims, why is one U.S. producer doing poorly
16 while another is doing well, even as imports from
17 China are increasing?

18 The explanation for these two wildly
19 different results is found within Tara's approach to
20 the market, not imports from China or any other place.

21 Second, as I discussed previously, lower
22 quality ranges are as important as premium quality and
23 specialization to satisfy the very needs of the
24 consumer. Products must be offered at many different
25 quality and price levels.

1 As much as Tara would like to pin the blame
2 for its problems on unfair practices by Chinese
3 suppliers, it inflicted these wounds on itself by
4 unilaterally refusing to sell me and failing to see
5 and capitalize on the opportunities in the market.

6 When you own a large share of the market, as
7 Tara does, there is a huge temptation to put all your
8 energy in defending that position rather than building
9 the market. Unfortunately for Tara, the art market
10 has rebelled at Tara's market dominance and
11 stagnation.

12 Over the last ten years, this product
13 category has been redefined. From the first signs of
14 an upward trend until now, Tara's response has been
15 reactionary rather than adaptive or nurturing.

16 I would like to make one additional
17 observation about the retail art supply world which
18 differs a little bit from Mr. Cicherski.

19 Even the smallest stores carry thousands of
20 different products made by hundreds of manufacturers.
21 Each of these suppliers has minimums for both
22 individual products and for the total order. Ordering
23 directly from suppliers like Tara generally offers a
24 store better pricing, but also requires significantly
25 more storage space and inventory investment.

1 To meet these minimums, stores who buy
2 direct will let their stocks run down before ordering.
3 Because distributors like MacPherson's offer a full
4 basket of art supplies from a nearby warehouse, our
5 customers can purchase fewer canvases more frequently
6 and still receive free freight.

7 Free freight is a huge factor for the small
8 retailers due to the high cost of shipping such a
9 bulky product as canvas. This averages 10 percent or
10 more of the delivery cost. In addition, our ability
11 to warehouse canvas as needed with free freight is an
12 enabling factor for smaller retailers to carry a
13 larger array of canvases.

14 The combination of Tara's inflexible
15 policies and cutting us off has isolated them from an
16 important customer base. This is in contrast to our
17 quick response, just-in-time system that keeps the
18 small independently owned store customers satisfied
19 with better in stocks while strengthening their
20 critical cash flow.

21 This convenience benefits all our suppliers
22 and is the core of the service we provide. When Tara
23 fired us, it hurt its own ability to sell by limiting
24 the options of many of the mom and pops who rely on
25 this service. This is one reason why any of our

1 customers that bought Tara canvas through us reacted
2 so negatively when we were fired by Tara.

3 I'd like to read an excerpt from the letter
4 sent to Tara in January 2004, right after we were
5 fired by a customer in Kansas that concretely
6 illustrates this point. It reads, "I was told that
7 your objection with MacPherson's has been that you
8 feel that they have been essentially competition to
9 you by selling their less expensive canvas. I do
10 carry their cheaper canvas next to your canvas, but it
11 hasn't seemed to interfere with sales of Frederick's
12 canvas. The students and professional artists who
13 want to work on inferior canvas choose the
14 MacPherson's brand of canvas rather than going to my
15 competition to buy it. And those who recognize
16 quality purchase your products from us. If anything
17 else, our Frederick's canvas sales have increased with
18 the infusion of MacPherson's brand because some people
19 actually buy both. With all of this in mind, I am
20 sitting here wondering what to do. Do I really want
21 to pay the huge freight bills from Frederick's
22 relating to my canvas consumption? Do I want to try
23 and use the other distributors who can't efficiently
24 deliver product to me in a timely manner? Or is it
25 time to start looking for a different brand of canvas

1 to replace my Frederick's brand? I am honestly
2 perplexed. I must say I am also perplexed at your
3 decision concerning MacPherson's because as a business
4 decision it seems to have only created animosity and
5 problems for retailers like myself who have probably
6 purchased your products for years but need fast and
7 inexpensive means to deliver it to me such as
8 MacPherson's has provided. With that in mind, I ask
9 respectfully that you reconsider your decision
10 concerning using MacPherson's as a distributor for
11 your product. Sincerely, Penny A. Colors, the Kansas
12 State Student Union Bookstore."

13 And I would just like to make one final
14 quote that I took earlier today and that is "Poor
15 Chinese canvas ultimately leads to greater sales in
16 Tara." Bill Cicherski, Azel Art.

17 Thank you.

18 MR. MAREK: Good afternoon, Mr. Carpenter
19 and commission staff. My name is Alan Marek and I am
20 the director of importing for Michael's, which
21 includes canvas as well as other arts and crafts
22 materials.

23 Michael's is a unique arts and crafts
24 retailer, serving over 800 communities throughout the
25 United States, employing in excess of 38,000

1 Americans. As a retailer for arts and crafts from the
2 hobbyist to professional artist, our line of products
3 include a wide range of artist canvas. It is my
4 understanding that we are the single largest purchaser
5 of artist canvas from Tara and this continues to be
6 the case, even after our purchases of canvas from
7 China.

8 My testimony will cover three issues:
9 first. my role in procuring artist canvas from China
10 and the reason for buying; second, how artist canvas
11 made in China fits into our retail sales strategy in
12 relation to our purchases and the sales of Tara made
13 canvas; and, third, the role of price in the market,
14 both for our purchases and sales at retail.

15 My chief responsibility for Michael's is to
16 identify production capability for arts and crafts
17 materials that are consistent with our retail
18 philosophy. This involves attending trade fairs to
19 first identify such products and manufacturers. When
20 I identify a potential product for Michael's, I then
21 visit the factory. We are a large enough buyer to
22 allow us to buy directly from the manufacturer and
23 this gives us more control over the quality, the
24 product and the packaging.

25 My first encounter with Chinese canvas was

1 at the Canton fair in late 2002. I saw canvas from at
2 least five suppliers. Several of these suppliers were
3 showing Phoenix-produced canvas in their booths, so
4 Phoenix appeared to be a major and reputable
5 manufacturer. I then arranged a visit to their
6 factory in China because I need to ensure that our
7 source of supply has the capacity to meet Michael's
8 requirements regarding quality and volume.

9 To ensure quality, we first send sample
10 products to an independent testing lab to evaluate the
11 product against specifications and protocols we have
12 provided to the lab.

13 Buying direct from the factory gives us more
14 control over the product itself. We can provide our
15 specifications to the manufacturer, changes to the
16 product can be made if necessary, and we drive the
17 packaging, aesthetics and marketing.

18 How the product is presented on the shelves
19 to our customers has a direct impact on retail sales,
20 so control at the manufacturing stage is important to
21 us. Ultimately, we contract direct production that
22 provides us with more flexibility and control than we
23 otherwise would have were we to purchase exclusively
24 from Tara. This allows us to differentiate products
25 to our customers.

1 Once we were satisfied that Phoenix could
2 meet our requirements, we decided to import from
3 China. Our purchases from China were for three SKUs:
4 two different 16 by 20, a single and double pack, and
5 an 18 by 24 side stapled canvas. These canvases are
6 at our opening price points and we consider them to be
7 a driver for sales of other art products.

8 In fact, contrary to what you've heard from
9 Tara, this is exactly what occurred. We have found
10 that our sales for these canvases has grown
11 significantly when we offered and promoted them at
12 attractive price points and this volume growth would
13 likely not have been attained at higher price points.

14 If as Tara claims price is the only factor
15 driving a purchase decision, either ours or our
16 consumers', we would sell only the lowest priced
17 canvas available to us, whatever the source. Yet this
18 is not the case.

19 Michael's continues to sell Tara's red label
20 and creative edge canvas in its retail outlets, as
21 well as our canvas imported from China.

22 Some customers buy only Tara canvas, some
23 buy only our imports, and some customers buy both. In
24 addition, neither is it the case that customers that
25 buy only the lower priced canvas necessarily did so

1 instead of a Tara red label or creative edge canvas.

2 While this may have occurred, Michael's has
3 experienced significant sales growth by offering and
4 promoting our imported China canvas at the lower price
5 point.

6 Thus, it is probable that much of the
7 increase in our sales of imported canvas are sales
8 that would not otherwise have been made at higher
9 price points. In other words, much of our import
10 volume did not displace Tara's red label or creative
11 edge sales, but in fact were incremental sales.
12 Indeed, 75 percent of our total sales of canvas in
13 2004 were sourced from Tara.

14 Tara may claim that their business with
15 Michael's has decreased, but during 2004, Michael's
16 implemented an automatic replenishment inventory
17 management system which reduced purchases and
18 inventories. The reality is that out the door retail
19 sales of Tara's Frederick's brand canvas has grown in
20 excess of 15 percent during 2004.

21 It is my understanding that Michael's will
22 continue to be a major purchaser of domestic canvas
23 even as we continue importation of artist canvas from
24 China.

25 Thank you.

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1 MR. KANTER: Good afternoon, Mr. Carpenter
2 and commission staff. My name is Harvey Kanter and
3 I am the president of Aaron Brothers. Aaron Brothers
4 is a frame and art retail store with 165 stores in 11
5 states, including Maryland and Virginia. However, our
6 major markets are in California and along the West
7 Coast.

8 Aaron Brothers now primarily sells canvas on
9 its own private label, rather than a manufacturer's
10 label. Originally, we did purchase our core canvas
11 program from Tara, but decided to move this program to
12 China-produced canvas. In this regard, I will make
13 two key points. First, because canvas generates sales
14 of other art supply products, as Alan mentioned, in
15 our retail stores we want to continue to purchase
16 canvas that meets our high quality standards and at a
17 price point that would allow us to conduct a
18 promotional program for canvas to generate volume
19 growth at retail and at a positive margin. Please
20 note it is not just about price.

21 I would ask you to look at picture 1 and
22 picture 2. These are both pictures from our store
23 with respect to the impact we made of creating an
24 inspirational impact with the customer. In both
25 cases, it is not about price. We actually only

1 promote the core canvas program twice per year.

2 It is important for the commission to
3 understand that to implement our strategy Aaron
4 Brothers first approached Tara. Tara struggled to
5 provide consistent quality and delivery and, further,
6 to provide us with the price-value combination that
7 would allow us to produce and execute our strategy.

8 This inflexibility forced us to look at
9 alternative sourcing. Tara may characterize this
10 inconsistent quality due to effects of their
11 production and to a reduction in price, but from my
12 perspective Tara refused to recognize the sales volume
13 growth opportunity created through the promotional
14 strategy which we were pursuing at retail. In fact,
15 our assessment has been correct. Aaron Brothers'
16 sales of canvas at retail has significantly increased.

17 Unlike Azel's experience, our sourcing
18 review showed China can make high quality product and
19 deliver it on time. As a result, we produced and
20 introduced our private label program which is at a
21 higher quality level and allows us to maintain our
22 margins, affording us the ability to promote which has
23 driven significant growth in retail sales.

24 My second point, I believe that most of the
25 canvas we purchased from Tara was actually produced in

1 Tara's Mexican production plant.

2 As I mentioned, Aaron Brothers' major market
3 is in California and shipping from Mexico to
4 California reduced costs for Tara. To my
5 recollection, Tara had moved some of its production to
6 Mexico some time in 2002. Tara says in its petition
7 that it was forced to move because of impact of
8 competition from China, but this makes no sense. As
9 imports from China were not significant in the U.S.
10 until much later, in 2004. Rather, it is my belief
11 that Tara's motivation was to lower costs, both
12 manufacturing and freight, which make great sense
13 based on our significant sales growth which is a
14 result of our promotional strategy and has
15 successfully enabled us to compete in the market and
16 grow our business significantly.

17 Thank you very much.

18 MR. URNES: Good afternoon, Mr. Carpenter
19 and commission staff. My name is Eric Urnes. I am
20 the general manager of ColArt Americas. ColArt's
21 experience differs somewhat from what you've heard
22 from the other witnesses today. First, we are a
23 European-headquartered company with our primary
24 product being artist paint, not canvas. We are the
25 world leader in artist paint and can trace our

1 heritage back more than 208 years.

2 Second, our experience with Chinese canvas
3 in the U.S. market has been relatively limited until
4 recently. Nonetheless, I believe I can offer some
5 useful perspective based on our position in the
6 market.

7 Our experience in Europe is useful because
8 it's real world proof that the demand for canvas by
9 consumers at the retail level is highly responsive to
10 increased promotion and selection.

11 Sales have increased dramatically to
12 consumers who would normally not be buyers of canvas.
13 Examples of these new consumers are moms of school-age
14 children, Cub Scout leaders, young professionals
15 decorating their starter apartments, as you may have
16 seen on "Trading Spaces" on the television here in the
17 U.S.

18 Our experience in Europe over the past few
19 years demonstrates to us that making some canvas more
20 broadly available at lower price points generates an
21 explosion in demand for canvas at these price points.
22 As an example, if we look at our canvas business in
23 Germany, it more than doubled last year. And in
24 response to some of the comments made by Petitioner,
25 we also see that the demand for paint has also grown

1 significantly, both in the U.S., but even more so in
2 Europe where the canvas explosion is probably a year
3 or two ahead.

4 Our experience has also shown that the sales
5 of these low price point canvases generally have not
6 resulted in declining sales for high quality or
7 branded canvas sold at higher price points. In many
8 European markets, we have seen stable demand for
9 European manufactured and more highly priced canvas.

10 ColArt has a joint venture manufacturing
11 partner in China which produces artist canvas to
12 ColArt specifications which was recently launched in
13 the U.S. market under our Windsor Newton brand,
14 recognized as a premium quality canvas.

15 Our experience in Europe led us to the
16 conclusion that we could enter the U.S. markets with a
17 recognized brand sold at good price points could
18 generate additional demand. We were looking to grow
19 the market. Our strategy was based primarily on
20 market growth, not taking sales away from other canvas
21 suppliers. We wanted to leverage Windsor Newton's
22 extensive experience in making high quality artist
23 supplies and launch a higher end product in this fast
24 growing category.

25 Because we also sell paints and other artist

1 supplies, we have seen that higher canvas sales,
2 whether it's our canvas or other people's canvas,
3 drives the sales of paint and art-related accessories.

4 The artist materials industry has been quite
5 a challenging business due to very limited growth over
6 the past few years. The explosion of canvas sales has
7 been one of the most exciting developments for our
8 industry in the past ten years.

9 The fact that more people paint on canvas
10 than ever before has generated a much needed boost for
11 the overall artist materials industry. In the past,
12 we have worked with Tara, but it was always difficult
13 as they were inflexible. If you look at our factory
14 opening in China, it actually happened a long time
15 after we stopped cooperating with Tara. When we
16 launched our Windsor Newton canvas range earlier this
17 year, we did not approach Tara because we wanted to
18 have much better control over the production process,
19 the product specifications, formulations, quality
20 control and logistics.

21 Our impression is that Tara's historically
22 dominant position in the market has led them to prefer
23 the status quo with regard to working with retailers
24 or other non-competing manufacturers in many ways.

25 Thank you.

1 MR. KLETT: Good afternoon, Mr. Carpenter,
2 commission staff. My name is Daniel Klett. I'm an
3 economist with Capital Trade, Inc., testifying on
4 behalf of certain respondents in this investigation.

5 The previous witnesses described the U.S.
6 artist canvas market and competitive dynamics with
7 respect to Tara. I will briefly address four points.

8 First, Tara has asserted that its decision
9 to move part of its canvas manufacturing process to
10 Mexico was due to competition from canvas imports from
11 China. However, official U.S. import data show that
12 imports from China were at very low levels prior to
13 2004.

14 As you can see from Chart 1, which is a bar
15 graph from 2000 to 2004 representing imports from
16 Mexico, imports from Mexico have been significant
17 since at least the year 2000, when they were valued at
18 over \$2 million. Imports from Mexico then grew
19 significantly, nearly tripling in value by 2003.
20 Thus, any shift by Tara to Mexico occurred well before
21 Chinese canvas became a factor in the market. Given
22 the lag between when business decisions are made and
23 when they are fully implemented, Tara's decision to
24 relocate some of its canvas manufacturing to Mexico
25 had to have occurred well before imports from China

1 were a factor in the U.S. market.

2 Tara's own statements confirm this. In a
3 fall 2004 article in Art Affairs magazine, Michael
4 Benator of Tara stated that the consolidation of its
5 production and distribution facilities, including an
6 expansion of its Mexican operations was "a process
7 started two years ago" or 2002.

8 I also found it perplexing that on the one
9 hand Tara indicated it switched to Mexico because of
10 increased competition from China in 2003, but also
11 indicated that it had a surge in orders from coalition
12 members in 2003, in canvas orders from our coalition
13 members. Given the discrepancy between the import
14 data, this statement and Mr. Benator's testimony this
15 morning that imports from China was the only reason
16 for shifting to Mexico, the commission staff should
17 ask Tara for more detail regarding the shift to Mexico
18 including contemporaneous internal documents relating
19 to this business decision and particularly their most
20 recent expansion in the 2002-2003 period.

21 Second, you've heard testimony about how the
22 availability of artist canvas from China at an
23 attractive price point combined with innovative
24 marketing has increased overall demand for artist
25 canvas and has grown the market. Mr. Urnes testified

1 to his experience with demand growth in the European
2 market. Using official Chinese trade statistics,
3 Chart 2, which is a bar chart from 2000 to 2004, shows
4 that China's exports of artist canvas from Chinese
5 trade statistics.

6 Export growth to Europe in particular has
7 been dramatic since 2000, exceeding the growth in
8 China's exports to the United States. So while
9 Chinese producers may be export oriented, Petitioner's
10 allegation that export growth will be directed to the
11 United States is misplaced.

12 In addition, the data confirm our position
13 that a significant component of any import growth from
14 China into the United States reflects a growth in
15 demand for China canvas, not a displacement of U.S.
16 production.

17 Third, I want to address how the commission
18 should review any financial data that Tara may provide
19 given publicly available information relating to Tara.
20 Tara's website shows that it produces non-subject
21 merchandise, including stretcher strips and unprimed
22 canvas that are sold rather than incorporated in the
23 subject product. Tara's U.S. sales also include
24 products that are at least partially produced in
25 Mexico, as their witnesses testified. For these

1 reasons, any financial information reported by Tara
2 may have required some allocations to the financial
3 data as kept by the company in the normal course of
4 business.

5 In addition, Tara testified of shifts to
6 Mexico in 2003. This would involve some costs and
7 it's unclear whether these costs would have been
8 expensed or capitalized and what the effects on their
9 domestic financial operations would have been.

10 The commission staff should follow up on
11 question 3-2 of the producer questionnaire and request
12 that Tara provide copies of its internal financial
13 statements as kept in the regular course of business
14 and from a comment made by Mr. Jee earlier today, it
15 appears that they have already made that request.

16 Finally, please refer to the last chart of
17 the package which are two pie charts and the intention
18 of this chart is to summarize what our witnesses
19 testified to just now.

20 Tara would have you believe that artist
21 canvas is a commodity with price the overriding factor
22 driving purchase decisions and that overall market
23 growth is limited. However, you have heard that the
24 canvas market is more complex with many more non-price
25 factors that differentiates canvas. These include

1 quality, differences in product range, the adoption of
2 innovative marketing techniques, responsiveness to
3 customers and the effect on small retail purchases of
4 differences in free freight policies and other
5 factors.

6 Regarding product differentiation, I'd just
7 like to note that Petitioner indicated this morning
8 that they've expanded the scope to include kits.
9 Although there are kits that are being imported, it's
10 my understanding from talking with our witnesses that
11 there are no kits now being produced in the United
12 States so at least with respect to those types of
13 products, there is little competition. It's also my
14 understanding that print canvas, which is produced by
15 Tara as well as other producers, is not imported at
16 least in any significant quantity from China.

17 The chart also demonstrates that our
18 witnesses see the opportunity for and indeed have
19 experienced a growing market for canvas through their
20 ability to procure Chinese-produced canvas for a niche
21 in the market that they have grown through innovative
22 marketing and at attractive pricing points.

23 Thank you.

24 MR. DOWERS: Good afternoon, Mr. Carpenter
25 and committee. My name is John Dowers. I'm the

1 president and CEO of Utrecht Art Supplies. We
2 currently operate 35 stores across the entire United
3 States, serving primarily student and professional
4 fine artists. One of our stores, in fact, is located
5 at 13th and I Street here in Washington, D.C. We
6 purchase from over 200 different vendors or suppliers.

7 Utrecht is located in Cranberry, New Jersey
8 and was founded in 1949 as a premier supplier of the
9 world's finest artist linen and canvas. We are not a
10 direct importer of stretched canvas, but rather a
11 purchaser of this product as a retailer through
12 various vendors. Until the summer of 2004, Utrecht
13 purchased its private label merchandise from Tara.

14 The relationship between our company and
15 Tara dates back to Utrecht's original owners and
16 founders, the Golamerian family. Over these many
17 years, Utrecht remained a loyal customer of Tara,
18 which had become our prime vendor of stretched canvas.
19 During the past 20 years, we had purchased their
20 canvas under Utrecht's private label and under Tara's
21 own brand. It is not an industry secret that Tara had
22 established itself as a dominant supplier of canvas in
23 the United States.

24 However, in recent years, Utrecht had become
25 increasingly troubled by Tara's declining quality with

1 respect to their product line and service.
2 Consequently, as the quality of other domestic and
3 imported products improved, we decided to move our
4 private label stretched canvas, stretched linens and
5 stretcher bar business to what we believe to be better
6 vendors.

7 I believe it would be helpful for me to
8 explain the shift of how it came about since in light
9 of our longstanding relationship with Tara it involved
10 considerable deliberation on our part.

11 Between September 2003 and May 2004, we
12 received an unusually high number of documented
13 customer complaints regarding Tara's product.
14 Specifically, the complaints noted poorly constructed
15 canvas panels, partially primed rolls of canvas as
16 well as mislabeled goods that were sent in the
17 original sealed factory cartons to the Utrecht
18 warehouse. We actually got some Windsor Newton
19 products in our boxes, which obviously creates a bit
20 of a problem through our distribution channel.

21 We also received a call from an experience
22 artist who complained that their finished oil painting
23 was experiencing adhesions problem on the Tara canvas.

24 Utrecht maintained pictures of many of these
25 problems and we also documented test results showing

1 leeching of oil paint through the prestretched heavy
2 duty canvas, stretcher bar warping and discoloration,
3 prime linen products showing loss of tension and a
4 rippling effect, as well as stretcher bar cross and
5 diamond braces, those are the pieces in the back that
6 help hold the larger sizes together, falling outside
7 their secure wrap.

8 I would also like to add that Azel's
9 president is lucky he didn't see the same quality
10 problems that we had seen and ours totaled in the tens
11 of thousands of dollars.

12 In September 2003, at the onset of a host of
13 problems, Joe Flatley, our category manager and buyer
14 at the time, negotiated an agreement with Paul
15 Straquadine of Tara whereby Tara would extend a
16 .5 percent annual damage allowance to Utrecht.
17 This allowance was intended to address all the quality
18 inconveniences, both on Utrecht's private label
19 program and the branded goods it was purchasing from
20 Tara.

21 Beginning in October 2003, we began
22 documenting the inconsistencies in quality, especially
23 those concerning our private label merchandise
24 supplied to us from Tara.

25 Then, on October 8, 2003, Joe received an

1 e-mail from Paul that Tara had inexplicably changed
2 its mind and would not honor the agreement for this
3 damage allowance. Instead of offering the previously
4 granted allowance, a unilateral decision was made by
5 Tara to appoint a senior quality control director in
6 its warehouse with the hopes that he could eliminate
7 the unacceptable merchandise reaching our customers.
8 Despite this new appointment, Tara quality problems
9 continued.

10 Then in November of 2003, Mike Stone was
11 appointed category manager for Utrecht and replaced
12 Joe Flatley. Tara, like all our vendors, was notified
13 of his appointment by myself in a letter to the trade
14 and yet Tara did not contact Mike for an extended and
15 noticeable period of time, something rather unusual in
16 my experience, usually they try to go see the new
17 buyer and sell everything they possibly haven't been
18 able to get in under the prior regime. This neglect
19 only underscored the impression that Tara was
20 increasingly indifferent to Utrecht's business
21 concerns.

22 In December 2003, after continued
23 frustration triggered by Tara's non-responsiveness to
24 the quality problems and our belief that the Utrecht
25 brand was not getting the attention that it deserved,

1 we requested a meeting with Tara's president, Michael
2 Benator, and gave them a detailed agenda of issues and
3 concerns and a work plan for helping to grow our
4 respective businesses.

5 In January 2004, we met with Mr. Benator and
6 Mr. Straquadine at our facilities in New Jersey. Not
7 withstanding the issues raised by the way of a written
8 agenda, as I mentioned earlier, that we wished for
9 Tara to address in order to improve their
10 deteriorating business relationship with us, Michael
11 and Paul barely skimmed the surface in addressing our
12 concerns.

13 Specifically, we asked who was going to be
14 named our sales representative, at that point, it was
15 unclear, and how quality control was going to be
16 improved. We also made suggestions for a coding
17 system to ensure that product could be better tracked,
18 specifically, detailed large quantities of damaged and
19 poor quality Tara merchandise that was clogging up the
20 inventory flow and disrupting our replenishment
21 system.

22 In addition, we showed Michael and Paul
23 examples of the defective product in our warehouse.
24 We went and took a walk out of the meeting room and we
25 showed them mislabeled cartons, mislabeled canvas,

1 unauthorized substitutions on products, pinholes in
2 the canvas, poor gesso application, and damaged
3 merchandise. We also communicated our displeasure to
4 Tara's saddling Utrecht with lower quality materials.

5 Despite all the problems that we raised at
6 this meeting, Tara made no improvements to address our
7 concerns. What's more, in the meeting, Michael and
8 Paul informed us that the base year for calculation
9 our 2004 volume incentive, which is sort of the carrot
10 that traditionally vendors use to help have you
11 increase your volume, for Utrecht would be 2002 rather
12 than 2003, the prior year. The normal industry
13 practice is to base the current year incentive to the
14 prior year as the base.

15 Given the circumstances for our meeting,
16 this sudden announcement was baffling and counter to a
17 true partnership. Since our 2002 purchases from Tara
18 were higher than our 2003 purchases, obviously tied to
19 some of the quality issues I described, this meant
20 that our bonus target for Tara's products was being
21 set higher than we expected. Combined with the
22 already existing quality problems, this unanticipated
23 target left us even more exasperated with Tara than
24 when we started the meeting.

25 Each of these instances in isolation might

1 be considered normal tensions between a buyer and a
2 seller. However, I've been involved as a purchaser in
3 a lot of other sectors and the cumulative effect of
4 these factors led me to believe that Tara took Utrecht
5 for granted as a customer. We had a serious cause to
6 believe that the quality problems we were incurring
7 would continue into the future. Quite simply, there
8 was no indication to the contrary from Tara.

9 Furthermore, Tara is not willing to
10 entertain more innovative ways to assist us in growing
11 our canvas market at retail, ignoring what we felt was
12 a significant part of the written agenda provided to
13 Tara well in advance of our meeting.

14 After careful evaluation of the quality,
15 reputation, service, pricing, product value, marketing
16 programs and other factors I have described, Utrecht
17 decided to shift its business from Tara materials.

18 On May 26, 2004, in a face-to-face meeting
19 at an industry show in Denver, I notified Michael
20 Benator of our decision.

21 Utrecht's final decision was to divide
22 purchases of our private label brand between a
23 U.S.-based producer, Signature, which manufactures in
24 Kansas City, and MacPherson's, the largest art
25 materials distributor in the U.S. which imports

1 Utrecht's canvas from China and some of the product is
2 displayed behind us here.

3 We also chose a U.S. company, Jack
4 Richardson out of Kimberly, Wisconsin for domestically
5 made stretcher bars.

6 Additionally, we decided to purchase
7 stretched linen domestically from Signature. This
8 product had also previously been supplied to us by
9 Tara.

10 Over recent years, Utrecht worked very hard
11 to nurture its relationship with Tara, but Tara failed
12 to reciprocate. The Utrecht brand has always stood
13 for value as the cornerstone of our business. The
14 declining quality and service provided by Tara did not
15 match their high prices and Utrecht had no choice but
16 to look for other suppliers who could deliver the
17 quality, service and value that we require.

18 In making this necessary business decision,
19 we secured sourcing from both domestic and foreign
20 manufacturers.

21 Having relied on its nearly dominant hold of
22 the domestic canvas market for so long, it's my belief
23 that Tara began taking its customers for granted,
24 which led others, like Utrecht, to source elsewhere.
25 It is evident that in its filing and antidumping

1 petition Tara is attempting to make up for its poor
2 management decisions including failure to address
3 quality and service concerns with their longstanding
4 customers like ourselves, costing them sales and
5 future business. In short, this dumping case is
6 Tara's transparent attempt to force prior customers to
7 return to its product under the same arrogant regime.

8 Thanks for the opportunity to express our
9 views.

10 MR. GALLAS: That concludes our direct
11 testimony.

12 MR. CARPENTER: Okay. Thank you, gentlemen,
13 for your testimony. We appreciate your coming here.

14 We'll begin again with Megan Spellacy.

15 MS. SPELLACY: Good afternoon. Megan
16 Spellacy, Office of Investigators. I wanted to start
17 off by first asking you to elaborate on the statement
18 you made in your opening statement regarding the niche
19 markets that you see in the artist canvas industry and
20 respond to what the Petitioners presented to us
21 earlier this morning.

22 MR. KLETT: I'll take the first cut at that.
23 I think our point generally is that there was an
24 opportunity to expand growth for sales of artist
25 canvas. And, as Mr. Stapleton indicated, this was a

1 combination both that resulted from -- or the
2 opportunity presented itself by virtue of offering
3 canvas using an innovative marketing technique at a
4 more attractive price point that would generate
5 growth. So generally that's, I think, our position
6 with respect to the niche market.

7 I think Mr. Stapleton can probably elaborate
8 on that point.

9 MS. SPELLACY: Yes. And if I may, if you
10 could elaborate -- and also keeping in mind the
11 conditions of competition, if you feel that the
12 imports are targeting a certain section or if you
13 believe there is specialization within the artist
14 canvas market that imports are focusing. The
15 Petitioners indicated that they did not that to be the
16 case, that they did not believe that there are
17 varieties of specialization within the artist canvas.
18 If you could comment on that as well, I would
19 appreciate it.

20 MR. STAPLETON: Yes. I think what Tara's is
21 alleging, really, is that canvas is all one thing and
22 from that simple view, it sort of makes sense, but
23 even way before the import canvas stuff started to
24 happen in this country there were a lot of specific
25 niches that were in place already, portrait canvas,

1 for instance, the smooth portrait canvas, was already
2 in place. The linen canvas was sort of a predecessor
3 of the more modern cotton canvas. There are different
4 usages for the canvas that sort of spawned those in
5 the first place. Our contention is that this
6 marketing approach, that essentially took a product
7 that the consumer in the past would have to wake up in
8 the morning, decide that they had an inspiration that
9 they wanted to express, knowing that they were going
10 to drive down to the art supply store or the arts and
11 crafts store that week some time to buy it, they knew
12 exactly where to go in the store, really didn't need
13 to have the product be displayed in any way that sort
14 of grabbed them. And that was the way it was always
15 done in the past.

16 And so it was always kept this really narrow
17 sort of product selection and the illustration that
18 I had in MacPherson's number 1 photo shows this, that
19 it was sort of the retailers thought that the more
20 compact they could build that display the more they
21 were going to be successful. And, by the way, you
22 could put it interview he back of the store or even in
23 a back room, it didn't matter, the consumer knew what
24 they were going to be getting.

25 What these guys in California discovered,

1 and I think what we're seeing variations, if you go to
2 the stores here within walking distance of the office
3 here, you'll see just what I'm talking about, that
4 they've made it prominent. You walk into Utrecht and
5 you see a wall of canvas in that store.

6 Well, people who walk into the store looking
7 for something else suddenly are seeing this
8 inspiration. That inspiration led to all kinds of
9 other things. We've got birch board being created
10 because it simulates what the old masters used to
11 paint on. You're seeing masonite being coated with
12 gesso. You're seeing increases in sales in paper
13 canvas now. You're seeing an explosion in what's
14 going on and it isn't really just the paints and the
15 brushes. The "Trading Spaces" thing that Eric talked
16 about I think is really significant because that's
17 become a huge area. You can take little squares of
18 stretched canvas that previously were not really
19 offered in that size that were created by these
20 collaborations that were spawned by all this increase
21 in business and those little squares can be made into
22 a big giant cube and all you have to do is paint them
23 with craft paint or house paint. And that's something
24 somebody who is not an artist, somebody who could walk
25 into an art supply store and normally feel intimidated

1 would not feel intimidated. It led to a lot of other
2 things.

3 When you sort of expose people to a much
4 bigger thing, they start asking for other things. Air
5 brush canvased. The shapes. We're going to be
6 introducing next year triangles. As you can see,
7 there's ovals there, but rounds and all kinds of crazy
8 shapes. This has created, I think, this process of
9 people wanting more. Giving them more, they want
10 more. And that's pretty much -- I hope that answers
11 the question.

12 MR. KLETT: Ms. Spellacy, I'd just like to
13 make one very short point. I think it needs to be
14 understood that when we talk about niche, we're not
15 talking merely about the physical properties of the
16 product, we're talking about the marketing techniques
17 as well.

18 MR. URNES: I would agree and I thought
19 I would just relay an example from certain markets in
20 Europe where we're talking about creating a new
21 category where they're actually rolling out canvas
22 together with the same type of branded paint into Home
23 Depot like shopping environments, so we're really
24 talking about accessing a completely new consumer base
25 and you see all of this particularly in Germany much

1 earlier than you do in the U.S. The source or the
2 supplier of reasonably priced canvas from the Far East
3 has enabled this explosion in market development. It
4 was interesting to listen to the VP of sales from Tara
5 in a sense trying to talk about this one gray blob of
6 market with no distinction and then he starts
7 referring to the canvas as the Rolls Royce and the
8 Bentley or the segmentations, so clearly in the minds
9 of Tara as well there is segmentation.

10 MS. SPELLACY: Okay. And I'm sure we'll
11 have more questions on domestic like product, but I'll
12 leave that for some of my colleagues.

13 Let's see. I'd like to ask you if I can
14 follow up on some of the comments that several of you
15 made earlier.

16 Mr. Marek, you mentioned that in 2004 your
17 store experienced 15 percent growth in Tara's product.
18 I'm assuming that that is by unit and I was
19 wondering -- and you may not have this information
20 available today, which is fine, you can comment on
21 this later, if you can give a correlation for the
22 increase that they had in value of the product as well
23 so we can get an idea of not only how the units are
24 increasing, but the value and how the product mix may
25 be affecting that.

1 MR. MAREK: Certainly. The 15 percent
2 I referred to was in dollars, it was dollar volume,
3 and I can certainly get that information for you and
4 supply it in our post-conference brief.

5 MS. SPELLACY: Okay. So I was incorrect.
6 You were referring to dollar value.

7 MR. MAREK: That is correct.

8 MS. SPELLACY: Okay. Thank you.

9 And also, Mr. Kanter, whether you can do it
10 now or in the post-conference brief, if you could
11 supply me detailed information on the difficulty you
12 had with sourcing and quality with Tara that you
13 referenced in your testimony.

14 MR. KANTER: Yes. I can certainly. Two of
15 the points that John made relative to gesso and
16 actually the paint bleeding through and the holes were
17 two of the key things, but we can follow up in more
18 detail.

19 MS. SPELLACY: Okay. Thank you.

20 MR. KANTER: And also relative to Allan's
21 comment on unit and dollar volume, I think it's worth
22 noting that we are obviously part of the same
23 corporation, Aaron Brothers' specific dollar volume
24 accelerated at a greater level than its unit volume,
25 so I think that's an important point to note relative

1 to that.

2 MS. SPELLACY: Also, I know that you've
3 mentioned this before and it seems that the Petitioner
4 agrees and if you have anything to expand on this,
5 again, in your post-conference brief, there seems to
6 be a consensus that the U.S. consumption of artist
7 canvas has increased in the last five years, if anyone
8 has anything different, otherwise, I'm going to take
9 that as an operating consensus.

10 And then, finally, just two more questions.
11 I want to just give you an opportunity now and my
12 colleagues may have more specific questions, if there
13 was anything about the samples that you brought in
14 today that you wanted to highlight for us now?

15 MR. STAPLETON: Sure. [Off Mike.]

16 MR. CARPENTER: Could you try to bring your
17 samples and bring it over to the microphone? I'm not
18 sure if the microphone will stretch that far.

19 MR. STAPLETON: Just as an example, this
20 canvas here represents sort of the old style, staples
21 on the edge, pine wood, wood frame. This one happens
22 to be a canvas that is designed for portrait. It's
23 ultra smooth. But that's an example of the old style.
24 This one happens to be Tara.

25 This one happens to be the deep edge style

1 offered in a limited number of sizes. If it was
2 available, it was marketed to the fine art customers.
3 It is in this format, the Asian format, it's marketed
4 more to the home improvement type of customer, put
5 this on a wall, paint it with a very simple kind of
6 formula.

7 Noting, too, that the edge does not have any
8 staples on it, which opens up another option for
9 consumers, particularly the ones who did not intend to
10 buy canvas when they walked into the store. The ones
11 who came into the store wanting to have canvas
12 typically envision having a frame around it. These
13 canvases don't require that, so you can paint the
14 edge, you can leave it plain, put it in a frame,
15 you've got all kinds of options that you can do with
16 that.

17 This is another example of a different depth
18 of molding. It just creates more of a dimension, less
19 of a dimension than this. In this case, the side is
20 paintable.

21 I'd just like to point out, too, there are
22 three methods by which canvas is attached to the
23 frame. The one I showed you first of all was the one
24 with the staples on the edge. That one is the old
25 style. Again, it's not quite as flexible in terms of

1 how you would finally put it up on the wall.

2 The remaining two, and I don't know whether
3 we have -- you see that they're both paintable edge,
4 but this one is stapled on the back as opposed to the
5 spline system was described by the Tara people.

6 Again, this kind of look is really targeted
7 to the non-serious artist. It's designed to look
8 great and look sharp for all kinds of purposes, but
9 it's not really -- the process is really different.

10 In the case of this particular canvas, this
11 illustrates that this style doesn't look quite as
12 good, but this is this in a strange sort of way, this
13 is a super premium canvas. This is Utrecht's super
14 premium. It has a hardwood frame. It has seven and a
15 half ounce duck canvas on it, triple primed, ultra
16 smooth for the discriminating artist.

17 And I've listened to the sales pitches in
18 the stores about the differences between these two.
19 Serious artists will like this. Even though it
20 doesn't look as good, serious artists are going to
21 like this. All right. Ultimately, you can pull the
22 staples out, whereas this one would be very, very
23 difficult to do. So it sort of opens things up.

24 MR. KANTER: I think it's of worth to note
25 that the Utrecht product that Frank was just referring

1 to and the difference between Utrecht's business and
2 Aaron Brothers, Utrecht is actually highly dedicated
3 to the professional artist and hence the product they
4 carry is very broad and includes that, whereas Aaron
5 Brothers is more oriented towards the hobbyist and
6 enthusiast, and it just continues to document, if you
7 will, the broad based applications and end uses is
8 quite large in scope.

9 MR. STAPLETON: This is a twist, actually,
10 I haven't seen. It appears that Tara is gradually
11 changing from side staples to back attached in one way
12 or the other. This happens to be linen canvas, which
13 is the old traditional style canvas that you see, the
14 brown material there. This one is framed for acrylic.

15 I wanted to call your attention to that
16 because that is another sort of unique category for
17 the very serious fine art painter. Somebody with a
18 lot of money.

19 And then I just wanted to point out
20 something because we talked about quality. One of the
21 things, quality was never really an issue for us when
22 we were buying from Tara because we were flowing a lot
23 of product through and we had a great -- well, we
24 thought we had a great relationship, so it wasn't a
25 big issue for us.

1 I'll pass this around, you should take a
2 look at this. This is an example of a stretching
3 problem.

4 Now, Masterpiece in San Francisco is the
5 domestic supplier described. They've never had a
6 problem with stretching. This is a floppy canvas on
7 the inside. A consumer would not want to buy that.
8 That would have to go back because, as you can see,
9 it's caving in in the center. So I thought I'd show
10 you that just as an example.

11 There are different shapes that are coming
12 out now, as I sort of talked about, and they are just
13 one more twist. Those shapes, I can't imagine --
14 well, there are serious artists that would buy them,
15 make a construction out of them, but they really are
16 for somebody else.

17 MS. SPELLACY: Okay. Thank you.

18 This is a question, I'm not sure how
19 relevant this actually is to your industry, but
20 I asked it earlier. Can you also maybe just point out
21 some of these different types of canvases that you
22 have here? I know you mentioned earlier that they all
23 are kind of in one size for comparative purposes.

24 When you talk about a store carrying a full
25 line of products, what does that entail? I don't know

1 if you recall what the Petitioner mentioned today.
2 Does that sound about right?

3 Obviously, I think, Mr. Kanter, you just
4 mentioned that some stores are going to have slightly
5 different product lines given their consumers, but if
6 you could expand that.

7 MR. STAPLETON: In the photo of Azel Art,
8 you would see really two different styles. Now,
9 I don't know whether that represents the whole thing,
10 but they gave most of the space to two styles. One
11 was red label, which is the traditional depth, this is
12 a red label right here. And the other appears to be
13 on the bottom shelf, the blue label, which is the
14 smooth canvas.

15 The old style store would definitely think
16 that that was a complete selection. The new thinking,
17 the merchandising concept that was created by these
18 guys at the art stores, entirely different. What we
19 tell our customers, when we're marketing this program,
20 really, I heard this said by Tara and I really,
21 really, really want to dispute that because at no time
22 did we ever say to any of our customers that this
23 product that we're selling from Asia is the same or
24 has the label of Tara or any other American made
25 product.

1 It wouldn't make any sense for us to carry
2 all three of these manufactures from the U.S. if we
3 were trying to confuse somebody. There wasn't any
4 instance of that whatsoever.

5 I got diverted here. What was the question
6 again?

7 MS. SPELLACY: I'm sorry. I was just asking
8 about the definition of a full product line.

9 MR. STAPLETON: Oh, a full product line?

10 MS. SPELLACY: Yes.

11 MR. STAPLETON: Okay. So what happens is we
12 talked a retailer into this big, massive change which
13 is go from this cubbyhole thing which is tight space,
14 in the back, doesn't take up anything, it's a huge
15 decision for a retailer to say I am suddenly going to
16 expand the space to reflect the possibility that the
17 sales could move from 5 percent to 15 percent.
18 Because in theory if it had less than 5 percent
19 before, but you ought to be able to give the product
20 15 percent of the floor space. So you can't get them
21 to do that right away.

22 So what you say is take this small section
23 and MacPherson's picture number 2 illustrates kind of
24 the first step, which is carry a faced out selection
25 of stuff, but be ready to grow that into the next step

1 because what's going to happen to your consumers is
2 you're going to start showing this stuff, people that
3 you would never imagine would buy it are going to
4 start buying it and they're going to want more. So
5 then you start expanding.

6 That was the thought behind it.

7 So at that point, and I heard this last week
8 in a store, they wanted linen canvas, they had
9 expanded the store selection from the little cubbyhole
10 to the bigger selection and now they're starting to
11 get people asking for linen canvas. You never would
12 have had that in the past because the artist would
13 have had it in their mind, that store is never going
14 to have it because he doesn't have a very big
15 selection.

16 So it goes from there. We've added sizes
17 and styles, the ovals, the rounds. It just is a
18 progression. The latest thing that I'm hearing about
19 and Paul was talking about it, too, is people wanting
20 to paint on the old world style painting on wood
21 panels and that's becoming a category. That never
22 would have happened in the past.

23 New York City is the only place, it's the
24 largest art supply market in the world, and that's the
25 only place you would have found this stuff in the

1 past. Maybe in Paris or London. But you're seeing it
2 in Portland, Oregon now and that has just -- this
3 whole concept has just led to -- and that's all people
4 talk about, is painting surfaces now, because they
5 really see it as something to drive their business.

6 So I hope that answers the question. You
7 can't just -- to be a complete store, you would have
8 everything. And many stores have the space to put out
9 pretty close to everything.

10 MS. SPELLACY: Okay. So if I'm
11 understanding you correctly, it sounds like there's
12 probably a very short list of what would be considered
13 a full product line, but the possibility of adding to
14 that and expanding the marketing opportunities are --

15 MR. STAPLETON: And that's a moving target
16 because the full product line now really is different
17 from what it was last year. You could look at that
18 photo from Azel Art and say that's a full product
19 line, but really these discerning customers are coming
20 in now, they wouldn't say it was, they would say, no,
21 no, you don't have rounds now? You don't have the
22 three-inch thick? I need that. I need the
23 super-sized stuff. We're selling a canvas that is 15
24 inches by 60 inches. That's five feet tall. It's a
25 crazy size, but we're selling a huge amount of it

1 because people can make a screen out of it, put hinges
2 on it and make screens out of it. So that sort of
3 thing you would have said in the past you're a
4 complete store if you don't have that, but now,
5 I don't know.

6 MR. DOWERS: I could maybe give some
7 specifics. Just, again, it would be specific to
8 Utrecht, but we carry about a hundred SKUs, canvas
9 SKUs, now. In the past, we carried about 50, so we've
10 more than doubled our assortment. Again, we saw a
11 trend clearly within the industry. Saw a lot of
12 movement, lot of change. Said, wow, this is an
13 interesting dynamic going on here, we need to be a
14 part of it and again challenged Tara, were not happy
15 with the results and some of the other issues that
16 I described earlier. Then they about doubled the
17 number of SKUs that we carried. We've seen a 35
18 percent increase in dollars over the last 26 weeks,
19 about a 25 percent increase in unit, a 35 percent
20 increase in dollars, and a very significant increase
21 in margin. And a lot of it has to do with that
22 impulse factor and offering lots of different shapes,
23 sizes, depths, and better communicating what the
24 different canvases are about because it can be a
25 little bit daunting. So, we'll give you a rough idea

1 of what a fine art store may carry that we certainly
2 carry.

3 MS. SPELLACY: Okay. Thank you very much.
4 That's very helpful.

5 Just one last question. I wanted to remind
6 you that we haven't yet received the foreign producer
7 questionnaire from Ningbo Two Birds. I don't know if
8 that's on it's way, but we would appreciate getting
9 that if at all possible.

10 Thank you.

11 MR. CARPENTER: Mr. Rees?

12 MR. REES: Thank you, and thank you,
13 witnesses, for your testimony and coming all this way.

14 I can't remember. You didn't actually come
15 from Europe though. Where are you based?

16 MR. URNES: In New Jersey.

17 MR. REES: You're in New Jersey. Good. It
18 wasn't terribly far. Welcome.

19 MR. URNES: Thank you.

20 MR. REES: Mr. Klett, you made the point,
21 and I'm probably wildly oversimplifying it, but
22 something to the effect that we see the increase in
23 imports from Mexico before you see a significant
24 presence of Chinese imports from the data and that
25 therefore the shift to increased imports from Mexico

1 would seem to be something other than Chinese imports
2 driving that.

3 MR. KLETT: I think that's what I said. I
4 don't think that's an oversimplification.

5 MR. REES: Okay. No. I meant I'm
6 oversimplifying your argument. I don't mean your
7 argument is oversimplified. I'll leave that to the
8 other side.

9 Let me ask you this. How do you respond to
10 the Petitioners' point that well, why hadn't they gone
11 to Mexico 10 or 15 years ago when they bought the
12 Mexican plant? In other words, your focus, and
13 perhaps appropriately -- the parties will debate it --
14 is on let's say 2001 to 2004. What about 1990 to
15 2001?

16 If there weren't an increase then might
17 there be any merit to their point that costs are not
18 or that it's Chinese imports that explain --

19 MR. KLETT: Mr. Rees, I don't know why they
20 didn't.

21 I mean, in fact I think they indicated that
22 they did make some shifts to Mexico as far back as
23 1990 when they discussed the history of their
24 participation or marketing or manufacturing in Mexico
25 earlier today. I think factually their point that

1 they didn't make that shift earlier is just not
2 correct. I think they did.

3 Number two, even if they hadn't made the
4 shift back through 1990, I can't say why they didn't
5 or wouldn't have made the shift back then. All I can
6 say is that they are attributing the shift to China,
7 and it's pretty clear to me from looking at the data,
8 and I don't have the Chinese imports on the charts,
9 but if you look at the official import statistics
10 China was really not much of a factor in the market
11 prior to 2004.

12 If China was the reason, I would have
13 expected to have seen the decision to shift to Mexico
14 in 2004 not prior to 2004, and the fact that they
15 shifted in a big way apparently in 2002 or 2003, well
16 before China was even present in the market, I can't
17 see the linkage between that decision and imports from
18 China regardless of what they did or didn't do back in
19 1990.

20 MR. REES: Thanks. Actually in terms of
21 your Chart 2 -- I think it was your chart. Maybe it
22 was someone else's.

23 MR. KLETT: That's my chart.

24 MR. REES: Right. Chart 2. Is it your
25 opinion that the blue there, which indicates Chinese

1 exports of artists' canvas to the United States, that
2 the blue there reflected from 2001 to 2004, that the
3 volume reflected in this data that you've encapsulated
4 on this chart is significant?

5 MR. KLETT: In what years?

6 MR. REES: I'm sorry. Not the growth.
7 Well, all right. Let's start there. Growth and
8 volume between 2001 and 2004.

9 MR. KLETT: Between 2001 and 2004 the growth
10 is significant, but my point is that with respect to
11 Tara's decision to move to Mexico that decision
12 appears to have been made in terms of moving canvas or
13 assembly to Mexico in a big way sometime in 2002, and
14 in 2002 imports from China were it looks to be about
15 \$1 million, a very small part of the market.

16 So my point is that at the time the decision
17 was made to move assembly to Mexico in a big way,
18 imports from China were not a big factor in the
19 market. Now, it's true that since that time imports
20 from China have increased, but my point is that at the
21 time the decision was made I do not see even from this
22 data that China was a big factor in the U.S. market
23 for artists' canvas.

24 MR. REES: Would you say based on this data
25 that the imports from China in 2004 were a big factor

1 in the U.S. market, to use your words? I prefer the
2 word significant.

3 MR. KLETT: Based on this data, and I don't
4 have all the information to look at the market to know
5 what the market share of this is because we don't have
6 I think full and complete information with respect to
7 what U.S. production is, for example, that this is
8 significant.

9 I think the key point and I think one of the
10 key points we were trying to make today with respect
11 to the growth in 2003 to 2004 was that I don't think
12 you can assume that if there was a market share
13 increase consequent to this increase in volume from
14 China that that displaced U.S. production. I think a
15 large component of that increase was a creation in
16 market demand, not displacement of U.S. production.

17 MR. REES: Thank you.

18 We've heard a lot of testimony about the
19 significance of or the role that merchandising has
20 played in this market and in the growth of the market.

21 I ask myself and I look at these pretty
22 photographs. I'm not an expert on merchandising, but
23 they convey your point. I ask myself is there any
24 reason that the product indicated in Aaron Brothers
25 Exhibits 1 and 2 or in MacPherson's 2 and 3 could not

1 be U.S. product?

2 MR. STAPLETON: From our standpoint --

3 MR. REES: Yes.

4 MR. STAPLETON: From the standpoint of our
5 getting into the canvas program, the introduction that
6 we had was a very, very narrow range in a sort of a
7 value category so we felt following, and it was
8 described I think by Paul Straquadine.

9 We felt that following the model that The
10 Art Store had created the retail prices were, you
11 know, in relationship to themselves, not necessarily
12 other products in the market, but that it was a
13 significant factor in inducing somebody who did not
14 intend to come into the store to buy canvas to get
15 them to do it.

16 There were several factors, and one of those
17 was merchandising. The other one was I'm not going to
18 say price because I'd guess discount against retail
19 equals price, but the more significant thing in that
20 was getting, and to take Barnes & Noble, 25 percent
21 off of the bestsellers was a significant kind of
22 motivator.

23 Our belief was that we were aiming at a
24 customer who was not going to buy canvas coming into
25 the store, and this is the way you kind of kneaded

1 them to do that. When it was all said and done, the
2 next price was very, very close to the price that most
3 retailers -- I don't know Asel's scanning policy, but
4 would be very close or equal to what that was.

5 You know, we originally approached this
6 thing from the standpoint of going to Tara and saying
7 gee, let's work together on this thing. This is a
8 miracle what these guys have done at The Art Stores.
9 They created their own product with their own label
10 with a kind of a pricing structure that you could do,
11 you know, if you had your own label on it. There was
12 no interest in that.

13 We're a distributor. We were never going to
14 get into manufacturing the products for ourselves. We
15 really needed to find a way to do this. It wasn't a
16 burning priority because you can see it took 10 years
17 before we actually moved from the idea to actually
18 getting something done, but we ruled out the U.S.
19 operations because of a number of factors, but the
20 main one was there was a lack of receptivity.

21 When the canvas from China came on board
22 basically that became a really sensible solution for
23 us because the flexibility of at least our experience
24 with the Asian suppliers is they're not rigid. They
25 just say what would you like it to be? How would you

1 like it to be? We'll try something different. You
2 didn't like that? We'll do something new.

3 If you looked at the sort of iterations we
4 went through from initial introduction to where we are
5 today, it was night and day almost so there really was
6 a much more narrow approach that we had that led us to
7 want to deal with the American suppliers, but
8 basically failed. The Chinese suppliers were just
9 open arms.

10 We didn't explore a lot. Like I said, our
11 main business is really selling brand name art
12 supplies just-in-time to retailers that we serve
13 throughout the United States.

14 MR. REES: Okay. That's helpful. It still
15 leaves this question of you talked about the price
16 structure. They couldn't fit it into the price
17 structure.

18 Price is a magic word that you don't want to
19 use here or whatever, but I'm just wondering. Is the
20 problem that they were not capable of manufacturing
21 the product and other reasons, or I keep hearing, you
22 know, within the value structure or the cost scheme.
23 It's that part that I never don't hear that. That
24 always seems to play a role.

25 I'm wondering. Is there anything, you know,

1 but for the price structure, the value, whatever term
2 people are most comfortable with? But for that, is
3 this stuff that the domestic industry can make and can
4 supply?

5 MR. STAPLETON: The experience that we had
6 was that Tara is the game; that they were not
7 interested, that they did not want to participate in
8 this thing.

9 I mean, our original idea that I expressed
10 to them in 1990 was we don't want to take on the
11 responsibility of this big, huge line so we really
12 need to have somebody sort of co-partner this thing
13 with us. Would you be willing to do that?

14 I described kind of what I described to you,
15 and what they said was that doesn't really fit in our
16 plans. I mean, they were willing to undertake a
17 private label program for somebody like Utrecht or
18 Standard Brands Paint at the time or Aaron Brothers
19 because their volume was so significant that, you
20 know, they could sort of plot it out, but they weren't
21 really interested in saying okay, we don't know what
22 it's going to be. We don't know where it's going to
23 go, but we're willing to give it a try with you.

24 They weren't willing to do that, so they
25 didn't really provide us any opportunity. The answer

1 I guess is yes, they could do it if they wanted to.
2 They didn't want to.

3 MR. REES: Okay. Let me follow up on
4 another point. You were mentioning quality. We've
5 heard discussion. Obviously we heard from a retailer
6 this morning who spoke glowingly of the quality of the
7 U.S. product and in fact was suggesting it's superior
8 to that of the product from China.

9 I think, Mr. Dowers and Mr. Kanter, we've
10 heard some testimony to the opposite effect. From
11 you, Mr. Stapleton, it's been more a message that the
12 quality wasn't really driving your decision making.

13 MR. STAPLETON: For the category that we
14 were aiming for, which was this -- you know, I have to
15 say that I don't think many -- I have conversations
16 like this all the time with retailers, and you can see
17 from listening to Mr. Cicherski. He still is back,
18 you know, in the time when you did it in a different
19 way. That's a pretty prevalent idea.

20 A lot of what I'm doing is proselytizing for
21 a concept, and that concept is really not understood.
22 The idea that I had originally was a small value line
23 that is presented big that drives everything else. I
24 think the momentum that's happened, you know, by our
25 doing that -- you know, I won't take credit for the

1 original idea. The original idea came from these guys
2 in California, but that concept has really kind of
3 exploded, and everybody is doing some form of that.

4 MR. REES: Okay, but the message I'm getting
5 from you is that the quality was not a driving force.

6 MR. KANTER: In that little, narrow thing
7 that we started with --

8 MR. REES: Right.

9 MR. KANTER: -- that was the driver of our
10 program.

11 MR. REES: Okay. Let me just put it the
12 other way, and this is bluntly. Are you saying that
13 the Chinese product is a better quality than the U.S.
14 product? Maybe it's an over simple question.

15 MR. KANTER: The reality is --

16 MR. REES: What's the reality? That's what
17 we're looking for.

18 MR. KANTER: We source the quality level
19 that we want, and the question becomes is the Chinese
20 market capable of producing that quality. The answer
21 to that question is yes.

22 We have moved the majority of our program to
23 the factory that Alan referred to, and the quality has
24 been -- there's been a nonexistent issue with quality
25 in terms of we inspect a certain package. To Alan's

1 point, we MTL test it regularly, and it meets our
2 specifications to the conversation they mentioned
3 prior to you, which was fill rate, delivery, almost
4 perfect.

5 The reality is that's a huge undertaking for
6 a 165 store chain to roll the program overseas, and
7 this resource has been phenomenal. I'd say there is
8 no quality issue whatsoever. In fact, we improved the
9 spec. Frank showed you a couple examples in our
10 market for our target consumers. Some of the specific
11 specs we made to the art canvas itself, but that also
12 requires a certain level of expertise that that
13 manufacturing is more than producing what our spec
14 requires.

15 There is no quality issue whatsoever in our
16 overseas production that is currently in place, and
17 the interesting side on that is also because we have
18 two companies that both jointly had done business with
19 Tara -- one still does the majority with and one does
20 without -- we can compare and contrast a lot of what
21 is happening and have the ability to move if we needed
22 to, but we're not moving back because it's working
23 very well.

24 MR. REES: That's helpful hearing your
25 experience with the Chinese product. I think you've

1 made the point then that the quality is a non-issue.
2 In other words, it's top quality. You're selling top
3 quality product --

4 MR. KANTER: It is top quality.

5 MR. REES: -- meeting all of the
6 specifications.

7 I guess my question is compared to the
8 American supply, that's one point. I hear it loud and
9 clear. Well made. Are you saying that American
10 quality is inferior?

11 MR. KANTER: No. It is a question of the
12 specific manufacturer. Masterpiece is in the room,
13 which I don't have personal experience with, but some
14 of my colleagues do and have recognized that that
15 manufacturer is producing a higher level of output.

16 We do have specific experience with the Tara
17 product. My colleagues back at the office have a
18 great deal of track record, if you will, and we have
19 had experience with both inconsistent delivery and
20 specific quality issues, which already were being
21 addressed but were not being addressed at the level
22 required.

23 While I wouldn't say it's a choice not to
24 produce the quality required, it wasn't happening.
25 Obviously John can talk to direct experience he had

1 most recently.

2 MR. DOWERS: As far as quality goes, the
3 Chinese goods to Tara goods, yes. Just looking at our
4 returns that would pretty much state, you know.

5 It's in our best interest when it's got our
6 name on it to have the best quality product in our
7 stores, and we had tens of thousands of dollars of
8 RTVs with Tara that's documented. We have not had
9 that with Chinese goods.

10 As it relates to American made goods, you
11 know, we chose to source those domestically in a
12 broader range in terms of some of the products that
13 Frank pointed out here. We've been very, very happy
14 with those, and it's shown up in our dollar sales and
15 our returns.

16 In our case, I'll let our numbers do the
17 speaking.

18 MR. REES: Thank you.

19 Mr. Marek, there was some discussion this
20 morning about this dynamic of direct importing and
21 whether and how that's influenced the marketplace in
22 the last several years.

23 Mr. Stapleton came out and said gee, I don't
24 see that from my perspective in my business that the
25 growth, and he was speaking from his own perspective,

1 but the growth in a business based on distribution has
2 done exceedingly well in these last several years.

3 I'm wondering from your perspective. Has
4 there been some development where there's increasing
5 amounts of imports being imported directly? That is,
6 importing by companies such as your own where you
7 imported directly rather than go through an importer
8 or other distributor.

9 MR. MAREK: I can only speak for Aaron
10 Brothers and Michael's, and in the case of Michael's
11 75 percent of our product mix today is domestic, and
12 approximately 25 percent is not. In the case of Aaron
13 Brothers, as Harvey testified, the majority, if not
14 all, of that product has been moved overseas for the
15 reasons that he brought up.

16 I know that in competition like Jo-Ann's,
17 which is another arts and crafts company, and A.C.
18 Moore, which is a second arts and crafts company, that
19 they have imported product in their store, but I am
20 not knowledgeable as to whether they're direct
21 importing it from a factory or if they're buying it
22 from the importer.

23 MR. KANTER: Might I add something to add?
24 My experience both prior to Aaron Brothers, as well as
25 at Aaron Brothers, is both in what I would define as a

1 branded retail environment.

2 Aaron Brothers is a company that we are
3 trying to actually enhance the brand retail aspect of
4 our business, and to do that requires several things.
5 Several key components are exclusivity of product.
6 It's all about the product you sell, so it could be
7 very well priced, but if the product isn't the right
8 product it doesn't matter.

9 So when you combine having to have the right
10 product and then exclusivity it requires very often
11 you to go to places which will produce the product you
12 spec. That is countered very often to a branded U.S.
13 retailer or, for that matter, an overseas retailer
14 because they're producing our product in almost a
15 contract environment.

16 Our direct import business has grown, Aaron
17 Brothers specifically. We expect it will continue to
18 grow as we continue to actually develop private label
19 exclusive product. With that obviously comes greater
20 pressure on when you develop something on your own you
21 unfortunately don't have the ability to talk with
22 anybody -- it's not selling; help me -- which is in
23 some respects a normal retail practice and so there is
24 a required margin because you then have to liquidate
25 the product all on your own.

1 The end result means you develop it on your
2 own, source it on your own, bring it on your own and
3 deal with it on your own if you're in trouble, which
4 ultimately requires more direct importing whether it
5 be direct from the Asian market or, for that matter,
6 even Europe or other communities.

7 We are specifically and with purpose
8 exploring other sourcing alternatives both in the
9 states, but also overseas.

10 MR. REES: Thank you.

11 Mr. Marek, it would be helpful, and it might
12 be most appropriate in any postconference brief, but
13 it would be helpful to have your perspective on the
14 utility, if we get the data, on making any comparisons
15 between product that you import directly versus the
16 selling price of the domestic producer.

17 Actually, you might not be in a position
18 even to have access to the data so I leave it to Mr.
19 Gallas to sort out, but I think, Mr. Gallas, you
20 understand. It would be helpful to explore if we have
21 the data that includes direct purchase prices, as
22 opposed to an importer's purchase prices and
23 importer's sales to a retailer.

24 What utility or what use, if any, should the
25 Commission make of the data regarding the purchase

1 price of a direct importer, if that doesn't come
2 completely out of left field?

3 MR. GALLAS: We will certainly supply that
4 in our brief.

5 MR. REES: As I mentioned this morning, it's
6 a phenomenon that I think the Commission has seen
7 increasingly in recent years and so any wisdom that
8 you can lend on that and can glean from your client in
9 terms of why a particular price, you might think it
10 makes a good comparison or does not make a good
11 comparison. That's welcome.

12 MR. GALLAS: We'll be happy to supply it.

13 MR. REES: Thanks. The last of my questions
14 really are these more technical variety that are
15 perhaps directed more to the lawyer than the others,
16 although he might need your input as he writes his
17 brief.

18 We would be interested in knowing how the
19 Respondents define the domestic like product. We
20 haven't heard.

21 MR. GALLAS: I think we're of the same
22 accord as the Petitioners in their definition. The
23 only other point is Dan's earlier reference to we're
24 not sure about U.S. production of the kits.

25 MR. STAPLETON: I think there's another

1 question that we had about something that Tara said
2 about bleached canvas.

3 Bleached canvas is imported as a value line
4 here, and they've basically said that they won't sell
5 it so I'm not really sure whether that should be
6 included.

7 MR. REES: Okay. But as I understand it
8 now, your position at least here is the Respondents
9 aren't advancing a debate for preliminary purposes, in
10 any event, regarding the definition of the like
11 product proffered by the domestic industry, although
12 there might be some refinement of that in your brief?
13 Do I understand that correctly?

14 MR. GALLAS: That is correct. At this point
15 for the preliminary that is correct.

16 MR. REES: Of course, it will be helpful to
17 see that in your brief. I'd appreciate that, even if
18 it's just saying you're not going to dispute it.

19 Similarly on the issue of domestic industry,
20 how the industry ought to be defined, and if it's
21 simply that you agree for purposes of the preliminary
22 on the Petitioners' definition that's fine as well,
23 but if you would please note that.

24 Lastly, and I forgot to ask this of the
25 Petitioners as well, but it's a purely legal issue.

1 If there's evidence that any member of the domestic
2 industry is a related party within the related parties
3 provision of the statute, imports, engaged in import
4 of subject imports during the period examined or the
5 other criteria that would satisfy the definition, I
6 would appreciate it if both sides could comment in
7 their brief on whether they think the related parties
8 definition is met.

9 And, if so, whether they are advocating that
10 a particular member of the industry be excluded from
11 the domestic industry for purposes of the Commission's
12 decision making in its preliminary phase of the
13 investigation.

14 MR. GALLAS: When we get the several missing
15 producers' questionnaires we'll be better able to
16 address that. Thank you.

17 MR. REES: And that's why I put it that way.
18 Thank you.

19 That's all I have. Thanks.

20 MR. CARPENTER: Ms. Bryan?

21 MS. BRYAN: Thank you.

22 I guess my first question would be for Mr.
23 Dowers. If I heard you correctly, it sounds like you
24 still source some American made canvas, just not Tara,
25 and I guess my main question is why do you still

1 decide to source from those American sources? Is it
2 just brand recognition, or is there a quality issue?

3 MR. DOWERS: It's about half, so it's
4 significant. We use Signature out of Kansas City.

5 We really try to look at things sort of
6 across a range or a tier as you want to present them.
7 We saw that the domestic supplier was extremely
8 flexible as it related to some of the really creative.

9 We tried to stick with the 16x20 size here,
10 you know, to see the same thing or different things
11 across the same size, but there is a multitude of
12 different sizes that are fabulous that are very
13 inspiring, and that was one of the primary reasons.

14 There is also shorter lead time. There's no
15 doubt about that. There's a slightly higher comfort
16 level as it relates to using a domestic supplier. You
17 know, you can go down to Kansas City and see the
18 operations.

19 We also felt too that part of the thinking
20 was perhaps an underlying belief that using and being
21 wholly dependent on a single source supplier that was
22 dominant in the marketplace was a little bit
23 dangerous. You know, you're relying on them solely to
24 manage a category for you, and we like getting
25 different points of view. We do that in brush. We

1 have a couple different brush suppliers. One is
2 German. One is Japanese.

3 There's a couple reasons for it I think
4 underlying that decision, but it's worked very well
5 for us.

6 MS. BRYAN: Okay. Besides the quality
7 problems you had with Tara, the shipping, the service,
8 things you just mentioned, are those comparable or
9 were they comparable between Tara and Signature,
10 between the domestic producers themselves?

11 MR. DOWERS: In terms of the issues we've
12 had, no. You wouldn't stay with a supplier long if
13 you had those issues. It creates too much of a
14 disruption and distraction to your business.

15 Ultimately my position as the president is
16 to write the direction for which our company goes. I
17 try to let people do their jobs, and this one had
18 reached a point where I had to get on the phone and
19 ask Michael to come up and see us and say we've got to
20 find some solution here. We have problems. I don't
21 do that often. I don't have to fortunately, but it
22 had reached that sort of a stress point.

23 No, we don't have anywhere near the same
24 problems. It's difficult to conduct business when you
25 do have those issues.

1 MS. BRYAN: Thank you. I guess this is for
2 Mr. Dowers and both Mr. Kanter.

3 Before you started seeing the quality
4 deteriorating or the problems you were having with
5 Tara, before that did you used to consider Tara a more
6 high end product relative to other choices?

7 MR. DOWERS: Yes. I couldn't quote on the
8 long-term perspective that you're probably asking for
9 and would like to get from me. I wouldn't be
10 qualified to probably do that.

11 I don't know, Harvey, if you would.

12 MR. KANTER: Unfortunately, John and I are
13 both in the same boat. We've been with our
14 organizations about two plus years and it's prior to
15 us, but I would say there's an inkling of that in
16 there, but more details may be appropriate for our
17 brief.

18 MS. BRYAN: Okay. Thank you.

19 Also, is there a consensus among the
20 retailers who has the better, the wider product range?
21 Is it Tara or the Chinese producers? Is there a
22 consensus among all of you about that?

23 MR. DOWERS: I don't know if I've ever made
24 a comparison. I think the one slight difference is
25 again given, and I have not been to Tara's facilities,

1 but a number of our associates -- my Utrecht
2 associates have.

3 You know, they're more of an automated
4 process, much more of a more technically efficient
5 process, less labor oriented, whereas, you know, one
6 of the advantages of the Chinese plants is that there
7 is an enormous amount of flexibility in terms of
8 create me this product with this spec, and it's like
9 making your own ice cream sundae. You can pretty much
10 tell them what you want on it, and they'll try to make
11 it for you.

12 Given their less sophisticated level of
13 production, unlike most situations in the United
14 States, they are more high tech. You do tend to have
15 greater flexibility, so it's almost an infinite range
16 I guess. It's hard to compare it on paper up front,
17 but that would be my impression.

18 MS. BRYAN: Okay. Thank you.

19 I don't know if this question would be for
20 Mr. Klett or for posthearing briefs later. In Chart 2
21 we see the Chinese exports to Europe really
22 skyrocketing here through 2003 and 2004 especially.
23 Do we know how is the European market more attractive
24 to the Chinese than the U.S. apparently?

25 MR. KLETT: I think Mr. Urnes can testify to

1 that because he has actually been in the European
2 market and I think maybe can discuss the different
3 trends between the U.S. and Europe.

4 MS. BRYAN: Okay.

5 MR. URNES: That's a tricky question. If I
6 knew the answer, you know, we could plan our marketing
7 strategies years ago, but let me give it a go.

8 I think one of the things that characterizes
9 Europe in terms of bringing in the new customer and
10 especially crafts for Germany, Holland and the like is
11 that they are actually early in the curve so we tend
12 to see phenomenas in the intercontinental Europe
13 countries happening before in Europe and then coming
14 to the U.S., so I think that's one of the things
15 that's driving the phenomenal growth in Europe is that
16 this whole new category of consumer have come in.
17 That's one area.

18 I think the other from a ColArt perspective,
19 before we want to launch in the U.S. with our canvas
20 we waited partly because the demand in new was so huge
21 so we were told to go to the back of the queue, you
22 know, for production reasons, but we also wanted to
23 make sure that the quality was right, that we got the
24 elements that we felt, you know, so we can offer a
25 product that would suit the U.S. market.

1 So there might have been tactics from
2 manufacturers like ourselves, just purely strategical,
3 technical reasons, but I think the main drive in
4 Europe has really been the change in the public
5 consumer who buys canvas.

6 That's my take. You know, I'm happy to
7 speak in more detail with my European colleagues if
8 you think that would be useful.

9 MS. BRYAN: That was helpful. I think that
10 will be sufficient. Thank you.

11 MR. KANTER: Might I just add just a piece?
12 Aaron Brothers is owned by Michael's Corp., who also
13 owns a company called Recollections. Recollections is
14 a scrapbook company, and to Eric's point the
15 Netherlands is one of the leading countries relative
16 to scrapbooking.

17 The increased use of canvas has been
18 broadened now to the point where scrapbooking has what
19 they call altered art. Altered art means specifically
20 basically scrapbooking applied to canvas and hung on
21 the wall as wall art.

22 To his point, whether it be that or my past
23 life where we shot to Europe specifically for trends a
24 year in advance, I think that directionally is a very
25 accurate reflection on why it potentially could have

1 accelerated there fast.

2 MS. BRYAN: Okay. Thank you.

3 My next question has to do with any
4 seasonality you might all see in demand for artists'
5 canvas. I suspect that around school time there is
6 higher demand. If you could address that, please?

7 MR. GALLAS: I think we'll have them address
8 it, but the timing of this petition is the beginning.
9 You will see a surge of imports following the filing
10 of the petition due to seasonality because they are
11 ramping up for back-to-school.

12 Go ahead.

13 MR. STAPLETON: I was going to say that I
14 was drooling over the concept of a 90-day lead time
15 from China. We tell customers it's 180 days now.

16 What's happening right now is we are
17 building the inventories for back-to-school. The most
18 significant period in the canvas selling season for us
19 mirrors the back-to-school selling season, which
20 depends on the country or the school or whatever.

21 It generally begins at the first of August.
22 Retailers are buying in at the end of June to that
23 time period, and then it carries through all the way
24 until about the 15th of October, maybe a little bit
25 beyond that. That really is the seasonality of it.

1 I just want to add one little thing to the
2 European perspective. Every year there's a trade
3 convention in Germany, the Frankfurt Spring Fair.
4 Paper World it's called. They have now a giant hall
5 that's arts and crafts, so they've kind of made a
6 specialization in that. Every year it's a real
7 opportunity to see what the trends are that are coming
8 on.

9 For two years running, the home decor based
10 canvas has had the most dynamic presentations and the
11 most dynamic introductions of new product. I forget
12 the name of the company, but there's a German company
13 now that has paint as you would traditionally, so they
14 have sort of formula painting on canvas. They have
15 the altered art on canvas.

16 They have things that you can apply to
17 canvas and then spray paint, so there's all this huge
18 explosion of stuff that really is starting to happen
19 here, yet the big bucks guys haven't yet gotten onto
20 it because it takes them a while to sort of move to
21 the trends. I just thought I'd add that.

22 MS. BRYAN: Okay. Thank you.

23 I guess my next question would be the
24 substitute product issue. I think you've mentioned
25 masonite panels, wood panels. If anybody wants to

1 comment on their availability and relative prices to
2 artists' canvas?

3 MR. STAPLETON: Well, I mean the relative
4 prices between masonite and canvas board and actually
5 there's a product that John sells and is sold pretty
6 regularly which is just a cut piece of canvas either
7 primed or unprimed, so you can buy that, lay that down
8 on a table and start painting on that. There's all of
9 these possibilities to do the basic thing, which is to
10 express yourself graphically onto a surface.

11 Stretch canvas, there's a little romance to
12 it. It looks like you're an artist. You know, you're
13 kind of feeling like there's something special about
14 that. If you really just took it down to the raw
15 thing, you know, what is the cheapest possible product
16 that you could buy that performs well, look at
17 Leonardo. He painted on hardwood.

18 MS. BRYAN: Would you say that the interest
19 in these non-traditional substances like masonite and
20 wood panels are increasing following the trends that
21 you've been mentioning?

22 MR. STAPLETON: In a word, absolutely.

23 MS. BRYAN: Okay. I guess if there's any
24 way you could all elucidate on your use of promotional
25 sales and discounts, whether that's something that

1 comes from the producer or it's a marketing decision
2 you all make and why and when that happens?

3 MR. KANTER: Aaron Brothers, which has been
4 around since 1946, in 1972 started what they called a
5 one-cent frame sale, and actually canvas has been
6 incorporated in that for quite some time.

7 No different than the seasonality question
8 you asked, we historically -- it's kind of like
9 Nordstrom's semi-annual sale. It's that big a feature
10 of our marketing program. That's why we only promote
11 it twice a year. In July and January we have this
12 event. We promote twice a year.

13 Beyond that, canvas categorically is not
14 really promoted other than one-offs for either the set
15 business or the masonite category, but for the most
16 part that's the extent of the promotional business.
17 It has been driven by us, and actually one of those
18 two pictures is one of the presentations during the
19 one-cent frame sale where that large bulk stack
20 presentation is down because most of the year the wall
21 and the way Frank described that statement of all
22 faced out canvas up on that mantle is how we actually
23 drive the business.

24 We stock inventory in a multitude of sizes, but
25 we don't promote. We create our own promotional

1 strategy, and for the most part, although in some
2 packaged goods categories retailers provide rebates
3 or, excuse me, wholesalers provide rebates and things
4 of that nature, for the most part our promotional
5 strategy is driven by our specific business and our
6 marketing team.

7 MS. BRYAN: Okay. Anyone else on that?

8 MR. STAPLETON: I can very much repeat that.
9 It's not a back in allowance driven thing where
10 there's large discounts that are offered by the
11 manufacturer. Decision is made for whatever reasons.

12 Ours, very much because of our locations
13 near schools, is very much tied to the back-to-school
14 period that you referred to earlier, but it is
15 primarily retailer driver, not manufacturer driven.

16 MR. URNES: I don't know how relevant it is,
17 but I think from my perspective as a paint
18 manufacturer and marketer, you know, to preserve our
19 brands we spend a lot of money on marketing and
20 setting of promotional schedules and opportunities to
21 work with retailers. We'll run a normal schedule for
22 the whole industry where we have product innovation.

23 You know, I have 25 marketers just in the
24 U.S. working on how we build our brands and how we
25 work with our customers, and then with bigger

1 customers we will do selective projects so I think as
2 a sort of manufacturer representative, you know, our
3 job in order to stay current, given that we've been
4 around for 280 years, we need to stay ahead of the
5 game in terms of marketing and understanding the needs
6 of the customers.

7 I think there is a role for active
8 involvement from the manufacturers' side, which we
9 obviously try to stay abreast on, but I think it
10 sounds like it may have been missing to some extent
11 from Tara.

12 Obviously being a big company we can't be as
13 flexible as somebody producing paintings in their back
14 garden, but I think in terms of the responsibility we
15 feel to keep excitement in the industry, you know, we
16 are doing a lot of time and resources from a
17 promotional marketing perspective.

18 MR. DOWERS: Yes. I think the only
19 difference between mine and Eric's is that on
20 nationally branded products clearly the marketing
21 people are driving programs.

22 In the case of a contract pack brands, own
23 brands that we talked about, it's typically the
24 retailer that's making those decisions so I think that
25 explains some of the differences between, you know,

1 the marketing initiative and drive on a national brand
2 versus an own brand, a private label brand. It's a
3 very different approach because yet you take ownership
4 to it.

5 MR. URNES: Which means that the retailers
6 with their own brands take -- you know, they have to
7 have the right idea to take the risk and the returns
8 as Harvey spoke to earlier.

9 MR. STAPLETON: One of the things that we
10 want to submit in the post brief materials is the
11 promotional material that our company engaged in for
12 the year prior to our being fired by Tara to show -- I
13 think it illustrates two different ways. One is the
14 largest retailers pick their promotions in the time
15 periods that they want to do them.

16 Distributors like ourselves representing 200
17 odd manufacturers really have a responsibility to take
18 the promotional schedules that the manufacturers have
19 created like ColArt and Tara and actually present
20 those in our quarterly promotional books exactly as
21 they wanted us to present them, so in watercolor
22 season we'll be selling watercolor paints. In back-
23 to-school we'll be selling kind of the basic market
24 basket, that sort of thing.

25 You'll also see, and sort of counter to what

1 they said, that they indicated one of the reasons that
2 we were fired is that we weren't promoting their
3 goods. We promoted their goods in every single flyer
4 aggressively for years.

5 In that last year before we were fired when
6 presumably they were making their decision we were
7 promoting their products on their schedule.

8 MS. BRYAN: Okay. That's all I have. Thank
9 you.

10 MR. CARPENTER: Mr. Jee?

11 MR. JEE: Justin Jee. I have no questions.
12 Thank you.

13 MS. FREUND: Hi. I'm Kim Freund, Office of
14 Industries. I just have a couple questions.

15 I've heard a lot about all the different
16 sizes and shapes of the stretch panels, and it seems
17 to me that a lot of the new product differentiation
18 you've had has been the shapes and sizes.

19 I'm wondering if the product inputs at all
20 have changed as far as the fabric or the finishes.
21 Has that had any impact on your variety?

22 MR. KANTER: I think there's at least
23 several key things that have happened. Frank referred
24 to the construction of the product itself, but there's
25 other things that have obviously been done differently

1 by different manufacturers or retailers -- the number
2 of coatings of gesso, things of that nature -- which
3 are in fact beyond just pure shape that will
4 differentiate the product assortment.

5 Frank, you might have more to offer, but
6 it's not just the shape that will drive a
7 differentiation among retailers.

8 MS. FREUND: And that's been changing? I
9 mean, you've been changing that?

10 MR. KANTER: In our specific case, yes. We
11 changed the spec when we went to a different
12 manufacturing relationship.

13 MS. FREUND: Okay.

14 MR. STAPLETON: When you're creating your
15 own line you have a lot of input, as Harvey said, and
16 those inputs can reduce cost, add features. I think
17 what's happened over a period of time, ours has
18 remained relatively the same, our basic input. The
19 only thing that's changed for us is a proliferation of
20 sizes and depths.

21 There are all of these other little benefits
22 and features like, you know, quadruple priming or
23 using acrylic primer versus oil primer. I've seen
24 canvases that are coming out for the home decor that
25 are actually precolored, you know, with a trendy color

1 that can then just be put up on the wall, or you could
2 attach something to it, glue something to it.

3 There's all these little inputs that can
4 happen. Ours has been relatively modest. I think the
5 rest of the panel members here have sort of targeted
6 towards being refinements that would appeal to a
7 discerning aspect of a customer, so a niche they'd be
8 looking for.

9 MS. FREUND: Okay.

10 MR. URNES: And I think if you look at what
11 we produce out of our joint manufacturing in China,
12 the formulation of the gesso, the chemical properties
13 you have there have been developed by our technicians
14 and chemists.

15 You know, from a Winsor & Newton we've put a
16 lot of emphasis on the performance of the gesso and
17 spent a lot of time and money in the R&D going behind
18 that gesso.

19 It's obviously how you talk to your
20 consumers about the differentiation is a marketing
21 issue, but from a product innovation point of view the
22 guys in the lab in the U.K. would have developed the
23 formulation that we then prime the canvases with.

24 MS. FREUND: Okay. Great. What about
25 everybody else as far as what you're importing from

1 China versus buying domestically in terms of the
2 product differentiation?

3 Are you buying more SKUs from China versus
4 domestically? Has that changed, or are you still
5 getting a broader assortment from domestic producers
6 and importing some of the staple items?

7 MR. STAPLETON: If you added the total
8 number of SKUs up for what we carry, I think -- you
9 know, our second line now is Masterpiece that we
10 source from San Francisco, and I'd have to check this,
11 but I think if you took the total number of SKUs that
12 we buy from Masterpiece versus the total number of
13 SKUs that we offer in the art alternative line that
14 probably it would be maybe 30 or 40 percent more SKUs
15 we're buying from Masterpiece.

16 MS. FREUND: Okay.

17 MR. STAPLETON: They're different things.
18 You know, we are buying kind of the middle level
19 Chevy, as Paul called it, line from Masterpiece
20 because some customers like Bill Cicherski really want
21 an American made product, and we have that.

22 Some people really like the fact that they
23 can trust the quality. Some people, looking at the
24 discerning aspects of it, see that the canvas by
25 Masterpiece is stretched so much more tightly, so it's

1 like a drum. We can't quite make that claim, and we
2 don't. Again, where our range is is something very
3 sort of basic.

4 MS. FREUND: Okay.

5 MR. KANTER: The only thing I was going to
6 add is that you've defined it and Frank enunciated it
7 a little bit that it is really categorical or
8 specifically driven by what the product is -- end use,
9 if you will -- so we specifically still buy from Tara
10 the watercolor canvas, which is a product that only
11 they can provide, and it's based on something they've
12 been able to accomplish.

13 You know, it goes back to that sourcing
14 thing where you source with the person that's the
15 best, if you look at our pie chart, the best example
16 of the multicomponent that you're trying to
17 accomplish.

18 In Tara's case, with respect to watercolor
19 that's what they have done for us, and there's a
20 reason to buy that from them, but it is not really
21 about the SKUs, the breadth of SKUs, as much as
22 categorically the end use of the product and what
23 unique property that basically products support.

24 MS. FREUND: Okay. Anyone else?

25 (No response.)

1 MS. FREUND: That's all I have. Thanks.

2 MR. CARPENTER: Ms. Mazur?

3 MS. MAZUR: Thank you very much to the
4 Respondent panel. This afternoon's testimony and
5 answers to questions has been very, very helpful, and
6 we always appreciate your presence here.

7 I just have one question in the area of non-
8 subject imports, non-subject being other than China or
9 in this case we have discussed extensively Mexico.
10 Are there any other sources of imports from foreign
11 producers that have an impact here in the U.S. market?

12 MR. STAPLETON: In canvas specifically?

13 MS. MAZUR: Yes.

14 MR. STAPLETON: India is a producer of
15 canvas, and it's imported to the U.S. Latvia is an
16 importer.

17 MR. DOWERS: Canadian. There's some
18 Canadian.

19 MR. STAPLETON: Canadian.

20 MR. DOWERS: Yes.

21 MR. STAPLETON: Yes, Canadian is a huge
22 factor.

23 MS. MAZUR: I mean, what kind of impact in
24 terms of each of your businesses, and do you at all
25 import other canvas?

1 MR. KANTER: In our case we don't. It's
2 just the business with Tara and the business we
3 import.

4 MS. MAZUR: From China?

5 MR. KANTER: Yes.

6 MR. DOWERS: The same here. I know it's
7 available, but I can't specifically comment on the
8 purchase of it because we have not historically and we
9 don't now.

10 MS. MAZUR: Okay. All right. Well, thank
11 you. That was the only question I had.

12 MR. CARPENTER: That was my question
13 actually, but if I could just follow up on that a
14 little bit.

15 I got the impression just from listening to
16 this discussion all day that imports from countries
17 other than China, excluding Mexico, which is obviously
18 Tara, but that non-subject sources had a fairly small
19 presence in the market.

20 If that's the case, what I was wondering is
21 if this is true why is it that until a year or two ago
22 that this particular market was dominated by the
23 domestic industry and that there was essentially, you
24 know, very little import competition?

25 MR. STAPLETON: I mean, I really can only

1 speak from our point of view. I think that there
2 really wasn't an idea out there that a lot of people
3 were driving towards that would say gee, let's have
4 our existing supplier expand the capability.

5 As I sort of mention in my notes, it's
6 really a difficult position to be as dominant in a
7 marketplace as Tara was and is. I think from the
8 standpoint of how they've operated their business they
9 really have been driven towards things like
10 efficiencies in their production, which I think
11 ultimately pinches back their willingness or their
12 interest in inputs from the outside world.

13 You know, why is it that all of a sudden
14 this stuff is happening from China in particular? I
15 mean, it started, in my opinion, from a frustration
16 that the people here had that made them more receptive
17 to other possibilities.

18 Also, you know, originally the very original
19 idea that came from The Art Stores, it was sourced
20 from a little, undocumented worker factory in southern
21 California called California Canvas and very custom
22 made. I don't think it was any mystery that Tara was
23 not interested in that business to begin with because
24 you really needed somebody who was willing to nurture
25 a concept and develop it.

1 Now, we're way beyond that now. You know,
2 this thing has a lot of momentum. It has wheels and
3 it's headed down the highway at 90 miles an hour, but
4 in those days, going back to that start, for somebody
5 like the guys at The Art Store who wanted to create
6 something on their own, flexible with differentiation
7 that hadn't been there in the past without a brand
8 name on it that they had to worry about kind of a
9 margin structure that didn't really fit into what they
10 were trying to do, you wouldn't have had that. I
11 know. We tried. We couldn't get that kind of
12 interest from a Tara, so what was left really?

13 You know, we had Masterpiece in our area,
14 and they really were headed down another direction.
15 They have done some private label for us at this
16 point, but at that point I think they really were
17 headed in an opposite direction, and we wanted them to
18 head in that opposite direction because that direction
19 was quality made product from the United States aiming
20 at a much more discerning market.

21 You know, why is it that China? I think
22 China just sort of represented or placed themselves,
23 at least for us, for the people here, a really great
24 opportunity to have some flexibility, but I could give
25 you a list of five retailers around the country who

1 chose India or chose Canada to do their sourcing.
2 They weren't as successful I don't think, but they
3 keep doing it.

4 MR. CARPENTER: I was wondering, Mr. Kanter,
5 maybe if you had any thoughts on that? You had
6 indicated earlier I think you sourced about 75 percent
7 domestic and 25 percent from China. Was that right?

8 MR. KANTER: (Off mike.)

9 MR. CARPENTER: I'm sorry.

10 MR. MAREK: (Off mike.)

11 MR. CARPENTER: Okay. But both of you are
12 domestic and China in different proportions?

13 MR. KANTER: We're basically backwards. He
14 is the majority is domestic, and I'm the majority
15 overseas.

16 MR. CARPENTER: Okay.

17 MR. KANTER: But we used to be both majority
18 domestic.

19 MR. CARPENTER: Okay.

20 MR. KANTER: I might suggest although about
21 the time we made a decision to move our sourcing, and
22 it was about the time I joined the company, I would
23 relate that similar to what Frank described.

24 My last life, if you will, was in the home
25 business category sheets, and no different than the

1 flexibility comment that he made relative to domestic
2 sourcing. We moved business to both Israel and
3 Portugal in sheeting specifically, mostly because of
4 just the manufacture there being much more flexible
5 with respect to their capacities to execute and their
6 willingness to do so.

7 It's kind of a similar conversation. I
8 don't want to project because, as I said, the decision
9 pretty much was made when I arrived, but the
10 commentary about why moving offshore, if you will. It
11 doesn't necessarily mean it's Asia or for that matter
12 India. Companies/countries have capacity to do things
13 and then just a different business model, which they
14 executed in these two categories I mentioned.

15 MR. CARPENTER: I mean, I've heard a lot of
16 discussion this afternoon about marketing strategies
17 and business models and that Tara wasn't particularly
18 receptive to the direction that your companies wanted
19 to go in and so that's why you turned to China, but I
20 guess I'm more interested in for this particular
21 product why did you turn to China as opposed to other
22 possible sources of imports? Are they simply not out
23 there?

24 MR. URNES: Being a manufacturer, I think
25 one of the reasons why we went to China is we have

1 another factory in China not making canvas, but making
2 paint. You know, it could be to do with knowledge of
3 the players and the market and just basically feeling
4 comfortable in the operating environment, you
5 understand.

6 I mean, for us in terms of setting of the
7 factory it was an easy decision because culturally
8 whether you go to India or to Norway or to England or
9 to the U.S. it's very, very different, but once you
10 understand the cultural parameters it would be my take
11 then it's easier to start.

12 You know, you can be more efficient in the
13 way you procure and the way you work with people. I
14 mean, it's simplistic, but I think to some extent
15 true.

16 MR. CARPENTER: Thank you.

17 Yes, sir?

18 MR. MAREK: Mr. Carpenter, when I was
19 traveling to international trade fairs, whether that
20 be in India or in Thailand or in the Philippines, Hong
21 Kong, China, I saw a number, as I stated in my
22 testimony, of canvas sources in the China fairs, but I
23 didn't see the product very prevalent anywhere else.

24 To me, when I was first looking at it, you
25 know, it's one of those things that a merchant, it

1 catches his eye. You start looking around and asking.
2 You begin to find out that the production, the
3 manufacturing has got stability, capacity and they do
4 a good product.

5 We looked at it. It was a high quality. We
6 checked it, and it in fact proved to be true. That's
7 why we went to China because when we brought it back
8 and showed it to the buyers it was something that they
9 got excited about, but I didn't see that in other
10 places.

11 MR. CARPENTER: I see. That's very helpful.
12 Thank you.

13 MR. STAPLETON: This is going to sound a
14 little hokey, but how we got into the canvas was I got
15 a direct mail piece catalog from a Chinese supplier.
16 I had this in the back of my mind that I really wanted
17 to do something in canvas, but I didn't have a way to
18 execute it.

19 I imagine that if I'd gotten this same
20 brochure or catalog from India or from Canada I
21 probably would have gone that way too.

22 MR. CARPENTER: Okay. Thank you.

23 Just one housekeeping matter. The various
24 charts and pictures that you provided to us we'll
25 incorporate in the record as an attachment to the

1 transcript.

2 If there are no other questions from the
3 staff -- Megan?

4 MS. SPELLACY: This is very quick. I
5 realize you don't have any industry representatives
6 here from China, but as you are representing several
7 foreign manufacturers we would be interested in
8 anything you might have to say on the industry in
9 China or the growth or lack of growth of demand in
10 China for artists' canvas.

11 Just feel free. Yes, sir? If you have
12 something to say, please.

13 MR. URNES: I mean, I'm obviously a
14 manufacturer miles away, but we've had our first joint
15 venture in China makes paints. We started up in 1996.
16 The strategic reason for going in was that, you know,
17 a billion people are going to use a lot of paint type
18 of approach, so I have a much better feeling on the
19 paint side. In terms of number of tubes, I mean, we
20 sell more tubes in China than we do in the whole of
21 continental Europe with very, very rapid growth.

22 I also know that our paint making joint
23 venture, which is in China, has bought canvas from our
24 canvas joint venture to sell in the Chinese market.
25 The whole debate about market economy might not be

1 relevant now, but in my almost 10 years of experience,
2 you know, my CEO said Eric, I don't think I've seen
3 any market that is so truly capitalistic as you see in
4 China in terms of producers of paint and also to the
5 accessories.

6 It's a very, very dynamic market, but very
7 price sensitive given the economic development levels.
8 I don't know whether that's useful or not, but that's
9 at least my sort of miles away perspective.

10 MS. SPELLACY: Thank you.

11 MR. STAPLETON: We collected all these
12 samples over here, and there was a lot of interesting
13 questions about qualities and varieties and whatnot.
14 Would you all like to have the canvas that we
15 collected over here to examine?

16 MR. CARPENTER: If you want to leave some
17 samples with us, that would be fine. We would accept
18 them as samples, and then I'll return them to you at
19 the end of the case --

20 MR. STAPLETON: Okay.

21 MR. CARPENTER: -- if that's all right.

22 Once again I want to thank this panel for
23 coming here today, for your testimony and for your
24 responses to our questions. It's all very helpful.

25 At this point we'll take a short break again

1 for about five or 10 minutes to allow each side to
2 prepare their closing statements. At the end of the
3 break we'll have the closing statements from each side
4 beginning with the Petitioners.

5 Thank you.

6 (Whereupon, a short recess was taken from
7 2:42 p.m. to 2:43 p.m.)

8 MR. CARPENTER: Welcome again. Please
9 proceed.

10 MR. THOMPSON: Well, because many of the
11 assertions from Respondents were factual in nature,
12 rather than me doing a summation I would prefer to
13 have some factual comments from Tara itself.

14 MR. CARPENTER: That's fine.

15 MR. BENATOR: I'd like to first say I don't
16 know how you do this without a lunch break. We've
17 been going pretty strong here. I've had a cup of
18 coffee since breakfast.

19 We're going to start with Paul Straquadine.

20 MR. STRAQUADINE: Again, thank you for your
21 time. I thank the Respondents for their testimony and
22 the issues that they brought forth. From a sales
23 perspective it's great to hear your customers and
24 great to hear what you do good and what you do bad in
25 the industry.

1 I don't believe in essence that we're quite
2 as bad as what was portrayed. I appreciate the
3 samples that they chose to supply you of our product,
4 and I certainly appreciate that that was I'm sure a
5 random sample and that our random samples of Chinese
6 canvas can look equally bad, if not worse. That's
7 just a window dressing issue.

8 I'd like to take a couple points, the first
9 being the concept, this wonderful concept of
10 merchandising artists' canvas. The retailer that
11 Frank mentioned, The Art Store, is the retailer that
12 ironically I worked for for eight years, the parent
13 company, Standard Brands.

14 I worked for them for eight years as a store
15 clerk, as a store manager and as a buyer. I was
16 closely related to the gentleman who started The Art
17 Store, and it is a great concept, and it is a good,
18 strong merchandising concept.

19 There are a few flaws, and I think they're
20 evidenced in the financials, which caused Standard
21 Brands to eventually go bankrupt and completely close
22 down, and the subsequent company that purchased The
23 Art Store has also gone bankrupt and had to sell that
24 business off to Dick Blick, so using them as a classic
25 business model may not in essence be the best.

1 I know in both cases that MacPherson's was
2 damaged by those bankruptcies. I never like to see
3 anyone hurt by a bankruptcy. I don't ethically care
4 for them, but using that as a model, yet having been
5 stung twice by that model, may not be the best thing.

6 I again apologize to the Commission, to our
7 current customers and former customers that there have
8 been issues in the past that have caused us to part
9 ways. I believe in these instances they've been good
10 business judgments on our part to part ways with
11 customers, whether us being fired or us ending a
12 relationship with a distributor.

13 In the case of the quality issue at Utrecht
14 which caused us to lose the business last year, we
15 were familiar with the issues. We had tried on
16 several occasions to work with them. One of the
17 pluses of Utrecht is that they have very good buyers.
18 They are very strong. They understand their position,
19 and they have been very successful at driving price
20 down and not accepting price increases.

21 In essence, all the burden being on Tara
22 Materials to reduce cost in order to maintain price
23 and not being able to pass on price increases does
24 affect the quality, and I believe that that is what
25 stung us toward the end of our relationship with them.

1 I also take responsibility that when Mike
2 Stone, his new buyer in November of 2003 took his
3 position and did not get contacted by Tara Materials
4 until late December of 2003, I take that
5 responsibility myself.

6 Our director of national accounts -- her
7 name is Maxine Harnish -- who handles that account was
8 recovering from life threatening breast cancer during
9 that period. I was trying to cover her desk and my
10 desk at the same time, and I failed to welcome Mike
11 Stone, and that certainly added quite a wedge in the
12 relationship, which helped catalyze in the quality
13 issues and the subsequent change.

14 I again apologize to Utrecht, Mike Stone and
15 to the Commission that that took place. I am pleased
16 to say that Maxine has returned to work. She's on her
17 feet and doing very, very well.

18 The final issue in my mind is that this does
19 relate back to price, that the opportunity to
20 reengineer or specify a product, as several of the
21 members mentioned the luxury they received of going to
22 China and saying these are my specs. You've got to
23 hit them.

24 This is the weight, the quality, the exact
25 specification that meets my customers', my discerning

1 customers' demands is a luxury when in fact you've got
2 a 60 or 70 percent price difference. Yes, you can
3 accept a 50 percent price savings and engineer up by
4 doing that, and I believe that's what has taken place
5 in the case of several of the Respondents.

6 That I believe is the core and the issue.
7 Had Tara Materials been able to pass price increases
8 on and stay commensurate with the price of raw
9 materials I do believe that our quality would not have
10 been an issue with any of these people, but I again
11 thoroughly believe that quality has a price and that
12 people, whether they're willing to pay that price or
13 not, are going to be highly influenced by the
14 availability of ultra low-priced products.

15 Thank you.

16 MR. BENATOR: Is this limited to 10 minutes?
17 Is that correct? Please pardon me if I speak fast.
18 What I would like to address is factual issues, not
19 opinions at this point.

20 Mr. Klett, the economist, stated that we did
21 not move to Mexico or discuss it until 2004 when the
22 Chinese imports were aggressively entering the United
23 States. That is not true. We first saw it with Jo-
24 Ann's in 2001 and were having major discussions and
25 presentations in 2002 and lost significant business in

1 2003. We did start seriously contemplating it back in
2 2002.

3 As a long-term leading artists'
4 manufacturer, we try to look ahead, and we saw what
5 was happening. We were reacting and discussing our
6 plans. We didn't start implementing them until 2003,
7 but that's because we valued all of our operations,
8 all the investments we made, and wanted to keep it in
9 the U.S. as long as we could.

10 As far as breadth of the line, if you look
11 at the Frederick's catalog compared to the Chinese
12 catalog you'll see that almost all products we have
13 the capacity or have made. The only one that I can
14 think of right now is Masterpiece came up with a three
15 inch triple deep, and we never chose to make that, but
16 that has been knocked off, and that has been replaced
17 by China. He's lost business on that.

18 Also, Masterpiece is one of the major U.S.
19 manufacturers, and Mr. Stapleton stated that
20 Masterpiece has 30 to 40 percent more SKUs than does
21 his Art Alternatives Chinese brand. Let's get the
22 facts. Ask what the volume and the dollar sales of
23 the Masterpiece products are by MacPherson's versus
24 the Art Alternatives Chinese brand. I think you'll
25 see significant volume differences with the lower

1 priced Chinese products.

2 Next is Aaron Brothers. They've stated that
3 they have had great success with their penny sale.
4 They started with frames. That penny sale is done
5 twice a year for two months. They promote it buy one,
6 get one at a penny.

7 Sixteen percent of the time or two months
8 out of the year they sell 66 percent of their volume.
9 The other 10 months out of the year or 84 percent of
10 the time they only sell 33 percent of volume, so I
11 pretty much state that it is a price issue, and that's
12 where we're getting hurt because Chinese products are
13 being entered into this country at extremely unfair
14 prices.

15 As far as the MacPherson's issue and our
16 cutting them off, that was a difficult issue. We did
17 offer them a price. They gave us three choice to
18 quote on this, and we did quote. We believe the
19 reason we did not win that business again was price.

20 As far as all these specific other issues,
21 we do not want to go into that at this point. We
22 would like to do that privately in rebuttal. Our
23 quote, and I have to look at the files, but I think it
24 was 1999 or 2000.

25 Regarding ColArt and about their many

1 factories and one of the reasons they went to China
2 was because they already had a presence there with
3 paint, ColArt is truly the leading brand name in the
4 art materials industry. We were supplying them at one
5 time. They also had many factories in Europe, and if
6 you look at the chart from Mr. Klett you'll see that
7 Europe has had the most or significant imports of
8 Chinese products.

9 The main reason they located in China to
10 canvas was to take business away from their Poland
11 factory or their Poland source and to get it at unfair
12 prices so they could compete.

13 MR. STRAQUADINE: Also considering the
14 schedule that was produced that shows the amount of
15 product imported into Europe, I think it's evidence if
16 in fact you agree, which most of us do, that the
17 European market is a year to two years ahead of the
18 U.S. market, if you look at that steep incline in
19 European purchases or imports of Chinese canvas and
20 then extrapolate that to the U.S. we're dead.

21 We're dead. We're gone and the rest of the
22 industry is gone because that spike will continue,
23 much like it has in Europe over the next three years.

24 MR. FREEMAN: I just wanted to make one
25 statement. There was a statement made about the

1 differentiation about the finishes on the canvas in
2 single prime, double prime, triple prime.

3 We do exactly the same thing. There is no
4 differentiation. I mean, it's primed. We have
5 single, double, triple and pretty much can make any
6 size anybody wanted, but it is a cost issue. If you
7 build small quantities, the cost escalates. I wanted
8 to make a statement on that.

9 MR. THOMPSON: Thank you very much. That
10 concludes our presentation.

11 MR. CARPENTER: Okay. Thank you for those
12 comments. I appreciate it.

13 Welcome, Mr. Gallas and Mr. Klett.

14 MR. GALLAS: Thank you. To start with, I
15 want to go back to The Art Store. My clients inform
16 me The Art Store went bust because they expanded too
17 quickly, but their canvas program per se was
18 successful.

19 Moreover, when my client in this group, Dick
20 Blick, purchased Art Store out of bankruptcy Dick
21 Blick doubled their selection of canvas because of the
22 success of Art Stores' program.

23 Tara points to China as the cause of its
24 problems, but Tara need look no further than itself.
25 You heard from our clients. Frank Stapleton said that

1 Tara frustrated these substantial importers/retailers.
2 Tara offshored its production to Mexico. You know,
3 there's all kinds of question of the chronology. I
4 think it was Michael Benator who said starting in
5 September 1990 -- 1990 -- they went there.

6 You know, whenever they went there you, Mr.
7 Carpenter, put your finger on the button that Tara has
8 a real timing issue because China was not even a blip
9 in the period that they're talking about. There was
10 not competition from China when they offshored their
11 production to Mexico.

12 Tara as the dominant player in this market
13 has lost its market share because of its own business
14 decisions. You've heard about their inflexibility
15 through the testimony of my clients, Aaron Brothers,
16 Utrecht and MacPherson's, their problems with quality,
17 their slowness in correcting the problems and doing
18 all kinds of strange things, giving damage allowance
19 to Utrecht, taking it back, giving them a bizarre
20 volume discount based on two years before to make it
21 an even higher level to reach that volume discount.
22 This is not a good faith business relationship.

23 My clients, and you listened to Frank
24 Stapleton and the others, Utrecht, they all were
25 trying to grow the business mutually with Tara, and it

1 was with great reluctance that they had to depart from
2 Tara, but they had no choice.

3 Did John Dowers of Utrecht take all his
4 business to China? No. He went to another domestic
5 producer in Kansas City, my hometown, Signature. It
6 was Tara's own fault that they lost that business.
7 Utrecht gave them a detailed agenda to correct and
8 address these problems, and all this time went by.
9 Nothing was done.

10 You know, they're pointing the finger at the
11 Chinese imports, but they fired a \$1.5 million a year
12 account, MacPherson's. Is that a sound business
13 practice? By doing so they cut themselves off, Tara,
14 from the hundreds of mom and pop stores that relied
15 upon getting their supply at MacPherson's because it
16 was a very subtle point, but MacPherson's told you
17 about the great cost of freight and that Tara has
18 minimum orders and there's a freight charge and so
19 forth.

20 So these customers, these mom and pops,
21 relied upon MacPherson's to be able to keep their
22 shelves constantly stocked. Otherwise their shelves
23 would go empty. Their inventory would have to be
24 depleted before it would be financially feasible to
25 order from Tara so there was a real reason why, Tara's

1 inflexibility and improperly dealing with customers.
2 They cut themselves off, cut themselves off from their
3 customers and potential customers.

4 We talked about the inattention of quality
5 by Aaron Brothers and Utrecht. I won't go back
6 through all of that. Michael's witness, Alan Marek,
7 said that still 75 percent of their total 2004 retail
8 sales were still with Tara, and they intend to
9 continue to source domestically with Chinese products
10 side-by-side.

11 The market has grown, as ColArt's story in
12 Europe has been related. I don't remember if it was
13 Ms. Bryan or Ms. Spellacy, but you alluded to the fact
14 that, you know, where has the market grown? Well, the
15 market has grown through customers who normally would
16 never buy canvas, these mothers who buy for their
17 children now to fingerpaint on or to just paint upon.
18 That avenue was never available to them before.

19 Or these young couples in start-up
20 apartments who can just slap paint on a canvas and put
21 it on the wall like in Trading Spaces. The market has
22 grown, and my clients have grown the market. It has
23 not been grown by the people on the other side of the
24 room.

25 My clients have been the innovators here.

1 They have turned the canvas outward so people like me
2 who are really impulse buyers who would never dream of
3 buying a canvas would do so. My wife would. She's an
4 artist. You know, they have grown their own business.

5 The customer base of Tara has eroded due to
6 its own stubbornness to adapt to the market and to
7 take my clients' offers up to mutually try to grow the
8 market with Tara.

9 You know, Mr. Straquadine -- I'm
10 mispronouncing his name -- stretched his claim of Tara
11 as an innovator, while we're talking about stretching
12 things. If he has concerns of infringement knock-offs
13 I would refer him to the proper government agency, the
14 Office of Copyright here in Washington, D.C.

15 Dan Klett showed you the pie chart
16 illustrating Tara's myopic view of the canvas market
17 as a commodity when non-price factors also are
18 extremely important. I urge you to look at that pie
19 chart, our view of the market, and look at all of
20 those other non-price factors and the other things
21 I've mentioned because they are key.

22 Tara has failed to provide the Commission
23 the true reason for the erosion of its grasp of the
24 market, and you see from the dearth of producers'
25 questionnaires that have been received, as Mr. Jee

1 observed, that other producers obviously have not
2 rallied behind Tara's cause. Their non-responsiveness
3 to the Commission speaks volumes, you know.

4 With that, I will give my remaining time to
5 Mr. Klett.

6 MR. KLETT: I just want to make one point
7 and that is price is always important in these
8 investigations. We are not denying that price is a
9 factor, but I think the important distinction is
10 whether price competition from China has displaced
11 domestic sales, which is the position of Tara.

12 To a certain extent there may have been some
13 of that, but I think a much more important dimension
14 of price is that the price that has been offered by
15 the Chinese has expanded the market and grown the
16 market, and I think even Tara in their testimony this
17 morning admitted to that, that essentially being able
18 to offer the Chinese product at retail through
19 innovative promotional techniques at an attractive
20 price point has opened the market to customers that
21 would not otherwise have purchased, the consumer off
22 the street as Mr. Gallas referred to.

23 On that same note, when you look at the
24 exports from China to Europe, the point made that if
25 China exports to Europe are a precursor of what will

1 come into the U.S., you have to keep in mind that the
2 growth in imports from China has created a significant
3 growth in demand that would not otherwise have
4 occurred, so you cannot assume that that growth is
5 going to displace domestic production. I think that's
6 an important element of price in this market
7 recognized by Tara as well.

8 Thank you.

9 MR. GALLAS: And with that we thank the
10 Commission for your great patience in today's hearing.
11 Thank you.

12 MR. CARPENTER: Well, thank you. Thank you,
13 gentlemen, for those remarks. I want to thank
14 everyone for coming here today to share your wisdom on
15 this industry with us.

16 Before concluding let me just mention a few
17 dates to keep in mind. The deadline for both the
18 submission of corrections to the transcript and for
19 briefs in the investigation is Wednesday, April 27.
20 If briefs contain business proprietary information, a
21 public version is due on April 28.

22 The Commission has not yet scheduled its
23 vote on the investigation. It will report its
24 determination to the Secretary of Commerce on May 16.
25 Commissioners' opinions will be transmitted to

1 Commerce a week later.

2 Thank you for coming. This conference is
3 adjourned.

4 (Whereupon, at 3:05 p.m. the preliminary
5 conference in the above-entitled matter was
6 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Artists' Canvas From China
INVESTIGATION NO.: 731-TA-1091 (Preliminary)
HEARING DATE: April 22, 2005
LOCATION: Washington, D.C.
NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: April 22, 2005

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Renee Katz
Signature of Court Reporter