OIL COUNTRY TUBULAR GOODS FROM CANADA AND TAIWAN

Determination of the Commission in Investigation No. 701-TA-255 (Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigation

Determinations of the Commission in Investigations Nos. 731-TA-276 and 277 (Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigations

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CONTENTS

Page

Determinations---------- 1
Views of Chairwoman Stern, Commissioner Eckes, Commissioner Lodwick, and Commissioner Rohr---------- 3
Views of Vice Chairman Liebeler---------- 15
Views of Commissioner Brunsdale---------- 35
Information obtained in the investigations:
  Introduction---------- A-1
  Nature and extent of the subsidies and LTFV sales:
    Subsidies---------- A-3
    LTFV sales:
      Argentina---------- A-4
      Canada---------- A-4
      Taiwan---------- A-4
  The products:
    Description and uses---------- A-5
    U.S. tariff treatment---------- A-8
  U.S. producers---------- A-10
  U.S. importers---------- A-11
    Argentina---------- A-11
    Canada---------- A-11
    Taiwan---------- A-12
  Apparent consumption:
    The United States---------- A-12
    Foreign drilling activity---------- A-16
  Consideration of alleged material injury to an industry in the United States---------- A-17
    U.S. producers' capacity, production, and capacity utilization-- A-20
    U.S. producers' shipments---------- A-21
    U.S. producers' inventories---------- A-22
    Employment---------- A-22
    Financial experience of U.S. producers---------- A-23
      Overall establishment operations---------- A-23
      Operations on oil country tubular goods---------- A-25
      Capital expenditures---------- A-27
      Investment in productive facilities---------- A-28
      Research and development expenses---------- A-28
      Capital and investment---------- A-29
  The question of the threat of material injury---------- A-29
    U.S. importers' inventories---------- A-29
    The foreign industries and their capacity to generate exports:
      Argentina---------- A-30
      Canada---------- A-30
      Taiwan---------- A-31
  Consideration of the causal relationship between alleged material injury or the threat thereof and the subsidized and LTFV imports:
    U.S. imports---------- A-32
    U.S. imports from--
      Argentina---------- A-34
      Canada---------- A-34
      Taiwan---------- A-35

Contents

Page

Information obtained in the investigations--Continued
Consideration of the causal relationship between alleged material injury or the threat thereof and the subsidized and LTFV imports--Continued
Voluntary restraint agreements-- A-35
Market penetration by the allegedly subsidized and LTFV imports- A-36
Prices--- A-37
Price trends-- A-38
Price comparisons-- A-39
Argentina-- A-39
Canada--- A-39
Taiwan--- A-40
Exchange rates--- A-41
Lost sales--- A-44
Argentina-- A-45
Canada--- A-45
Taiwan--- A-47
Appendix A. Other Commission investigations------------------------------ A-49
Appendix B. The Federal Register notices--------------------------------- A-53
Appendix C. List of witnesses-- A-79
Appendix D. Additional reporting facility-------------------------------- A-85
Appendix E. Statistical tables--- A-87
Appendix F. Weighted-average net f.o.b. selling prices and quantities reported by U.S. producers of oil country tubular goods and by importers of the Argentine, Canadian, and Taiwan oil country tubular goods--- A-93
Appendix G. Capacity, production, capacity utilization, domestic shipments, export shipments, and yearend inventories, by company, for selected Canadian producers of oil country tubular goods--------- A-95

Tables

1. Oil country tubular goods: U.S. rates of duty as of January 1, 1986 and January 1, 1987-- A-9
2. Oil country tubular goods: U.S. producers' domestic and intra-company shipments, imports, and apparent consumption, 1983-85----- A-13
3. Oil country tubular goods: U.S. production, capacity, and capacity utilization, 1983-85--- A-20
4. Oil country tubular goods: U.S. producers' shipments, 1983-85------ A-21
5. Oil country tubular goods: U.S. producers' inventories and shipments, 1983-85--- A-22
6. Average number of production and related workers engaged in the manufacture of oil country tubular goods, hours worked by such workers, wages paid, and total compensation, 1983-85-------------- A-22

Contents

Page

7. Income-and-loss experience of U.S. producers on the overall operations of their establishments within which oil country tubular goods are produced, accounting years 1982-85 ---------- A-24
8. Income-and-loss experience of U.S. producers on their operations producing oil country tubular goods, accounting years 1982-85 ---------- A-25
9. Income-and-loss experience of U.S. producers on their operations producing oil country tubular goods, by nonintegrated producers and integrated producers, accounting years 1982-85 ---------- A-26
10. Income-and-loss experience of U.S. producers on their operations producing oil country tubular goods, current and past producers, accounting years 1982-85 ---------- A-27
11. Oil country tubular goods: U.S. producers' capital expenditures, 1983-85 ---------- A-28
12. Oil country tubular goods: U.S. producers' end-of-period valuation of fixed assets, 1983-85 ---------- A-28
13. Oil country tubular goods: Importers' end-of-period inventories and shipments of the product imported from Argentina, Canada, and Taiwan, 1983-85 ---------- A-30
14. Oil country tubular goods: Dalmine Siderca's exports to principal markets, 1983-85 ---------- A-30
15. Oil country tubular goods: Industry and trade data for Canada, 1983-85 ---------- A-31
16. Oil country tubular goods: Industry and trade data for Taiwan, 1983-85 ---------- A-31
17. Oil country tubular goods: U.S. imports for consumption, from selected sources, 1983-85 ---------- A-33
18. Oil country tubular goods: Shares of U.S. consumption supplied by Argentina, Canada, Taiwan, all other countries, and U.S. producers, 1983-85 ---------- A-36
19. API oilfield casing--4-1/2-inch outside diameter: Average margins of underselling (overselling) for prices reported by domestic producers and importers, by product categories and by quarters April 1983-December 1985 ---------- A-40
20. API oilfield tubing--2-3/8-inch outside diameter: Average margins of underselling (overselling) for prices reported by domestic producers and importers, by product categories and by quarters, January 1983-December 1985 ---------- A-40
21. API oilfield casing--5-1/2-inch outside diameter: Average margins of underselling (overselling) for prices reported by domestic producers and importers, by product categories and by quarters, July 1983-September 1985 ---------- A-40
22. API oilfield casing--5-1/2-inch outside diameter: Average margins of underselling (overselling) for prices reported by distributors, by product categories and by quarters, April 1984-June 1985 ---------- A-40
23. API oilfield 4-1/2-inch casing and 2-3/8-inch tubing: Average margins of underselling (overselling) reported by distributors, by product categories and by quarters, Jauary 1984-June 1985 ---------- A-40
24. API oilfield casing 5-1/2-inch outside diameter: Average margins of underselling (overselling) reported by end users, by product categories and by quarters, January 1984-December 1984 ---------- A-41

Contents

Page

25. API oilfield tubing 2-3/8-inch outside diameter: Average margins of underselling (overselling) reported by distributors, by product categories and by quarters, April 1985-December 1985--------------- A-41
26. Indexes of producer prices in the United States and Argentina, and indexes of the nominal and real exchange rates between the U.S. dollar and the Argentine peso, by quarters, January 1983-December 1985--- A-42
27. Indexes of producer prices in the United States and Canada, and indexes of the nominal and real exchange rates between the U.S. dollar and the Canadian dollar, by quarters, January 1983-December 1985--- A-43
28. Indexes of producer prices in the United States and Taiwan, and indexes of the nominal and real exchange rates between the U.S. dollar and the New Taiwan dollar, by quarters, January 1983-December 1985--- A-44

Note.--Information that would reveal the confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Investigations Nos. 701-TA-255 (Final)
and 731-TA-276-277 (Final)

OIL COUNTRY TUBULAR GOODS FROM CANADA AND TAIWAN

Determinations

On the basis of the record 1/ developed in the subject investigations, the Commission determines, 2/ pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)), that an industry in the United States is materially injured by reason of imports from Canada of oil country tubular goods, 3/ provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized by the Government of Canada.

Further, the Commission determines, 2/ pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)), that an industry in the United States is materially injured by reason of imports from Canada and Taiwan of oil country tubular goods, 3/ provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

1/ The record is defined in sec. 207.2(i) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(I)).

2/ Vice Chairman Liebeler and Commissioner Brunsdale determine that an industry in the United States is not materially injured or threatened with material injury by reason of imports from Canada which are being subsidized, or by reason of imports from Canada and Taiwan which are being sold in the United States at LTFV.

3/ For purposes of these investigations, the term "oil country tubular goods" includes drill pipe, casing, and tubing for drilling oil or gas wells, of carbon or alloy steel, whether such articles are welded or seamless, whether finished or infinished, and whether or not meeting American Petroleum Institute (API) specifications, provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States.

Background

The Commission instituted these investigations effective December 30, 1985, following preliminary determinations by the Department of Commerce that imports of oil country tubular goods from Canada were being subsidized within the meaning of section 701 of the Act (19 U.S.C. § 1671) and that imports of oil country tubular goods from Canada and Taiwan were being sold at LTFV within the meaning of section 731 of the Act (19 U.S.C. § 1673). Notices of the institution of the Commission's investigations and of a public hearing to be held in connection therewith was given by posting copies of the notices in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notices in the Federal Register of January 24, 1986 (51 FR 3270) and of March 19, 1986 (51 FR 9540). The hearing was held in Washington, DC, on May 6, 1986, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF CHAIRWOMAN STERN, COMMISSIONER ECKES, COMMISSIONER LODWICK, AND COMMISSIONER ROHR

We determine that an industry in the United States is materially injured by reason of subsidized imports of oil country tubular goods from Canada. We also determine that an industry in the United States is materially injured by reason of imports of oil country tubular goods from Canada and Taiwan, which are being sold at less than fair value (LTFV). 1/

These determinations are based primarily on the poor financial performance of the domestic industry, the significant and increasing market penetration of cumulated imports, and the adverse effect of imports on the prices of the domestic product during the period under investigation. 2/

Like product/domestic industry

The statutory framework under which the Commission conducts title VII investigations requires the Commission first to determine the domestic industry against which to assess the impact of unfairly traded imports. 3/

1/ Although Vice Chairman Liebeler and Commissioner Brunsdale find in the negative for these investigations, they join in the discussion of the like product/domestic industry and the condition of the domestic industry. Commissioner Brunsdale also joins in the discussion of cumulation. See their separate views for their reasons for reaching negative determinations.
2/ Material retardation of the establishment of an industry in not at issue in these investigations and will not be discussed further.
3/ Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" as "the domestic producers as a whole of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." 19 U.S.C. § 1677(4)(A). "Like product" is defined in section 771(10) as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation . . . ." 19 U.S.C. § 1677(10). The "article subject to an investigation" is defined by the scope of the investigation as set forth by the Department of Commerce.

The imported product in these final investigations is oil country tubular goods (OCTG), which includes casing, tubing, and drill pipe for use in drilling oil and gas wells and for transporting oil and gas to the surface. In the preliminary investigations, as well as other recent investigations on the same product, the Commission determined that seamless and welded OCTG were one like product. 4/ The Commission further determined that green tubes and finished OCTG were the same like product, and that drill pipe was a separate like product from casing and tubing. 5/ 6/ No evidence was presented in these investigations that would change our prior determinations as to the like product. We therefore conclude that seamless and welded OCTG are one like

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4/ Oil Country Tubular Goods from Israel, Invs. Nos. 701-TA-271 and 731-TA-318 (Preliminary), USITC Pub. 1840 (Apr. 1986); see also, Oil Country Tubular Goods from Brazil, Korea, and Spain, Invs. Nos. 701-TA-215-217 (Final), USITC Pub. 1633 (Jan. 1985); Oil Country Tubular Goods from Austria, Romania, and Venezuela, Invs. Nos. 701-TA-240-241 and 731-TA-249-251 (Preliminary), USITC Pub. 1679 (Apr. 1985); Oil Country Tubular Goods from Argentina and Spain, Invs. Nos. 731-TA-191, 195 (Final), USITC Pub. 1694 (May 1985).
5/ Data in these investigations are for all oil country tubular goods, including drill pipe, which accounted for less than one-half of one percent of U.S. producers' domestic shipments in 1985. Were drill pipe excluded from these investigations, the trends in the economic indicators the Commission considers would be the same. Report to the Commission (Report) at A-17. Thus, the available data do not permit the identification of drill pipe production as a separate industry. Therefore, under section 771(4)(D) of the Tariff Act of 1930, the effect of the unfairly traded imports are to be assessed by examining the narrowest group that includes drill pipe and for which the necessary information can be provided, that is all OCTG. 19 U.S.C. § 1677(4)(D).
6/ In the current investigations, as in previous investigations, Commissioner Eckes and Commissioner Lodwick do not find that drill pipe is a separate like product. Therefore they find one domestic OCTG industry.

product. We therefore have examined the impact of the subject imports on the domestic OCTG industry producing seamless and welded casing, and tubing, including green tubes, and drill pipe. 7/

Condition of the domestic industry

The Commission makes its findings on the condition of the domestic industry by considering, among other factors, U.S. consumption along with the production, capacity, capacity utilization, shipments, employment, and financial data of the domestic industry. 8/

In previous investigations, the Commission found that 1981 was an extremely prosperous year for the domestic OCTG industry. However, during the next two years, the industry's condition declined dramatically. 9/ As sales and profits fell, plants and whole firms shut down. The industry showed some improvement in 1984, but its general decline continued in 1985. The domestic industry is still operating at low levels and is suffering considerable financial losses.

In 1982, after a record sales year, a number of domestic OCTG producers developed programs to expand their capacity to produce OCTG. However, as sales dropped in 1982 and 1983, some firms abandoned or delayed their planned

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7/ Sections 771(4)(A) and (4)(D) of the Tariff Act of 1930 (19 U.S.C. § 1677(4)(A) and (4)(D)).
8/ 19 U.S.C. § 1677(7)(C)(iii).
9/ Oil Country Tubular Goods from Argentina, Canada, and Taiwan, Invs. Nos. 701-TA-255-256 and 731-TA-275-277 (Preliminary), USITC Pub. 1747 at 5-6 (September 1985).

expansions. This trend has continued, with domestic producers' capital expenditures falling from $4.8 million in 1984 to $1.9 million in 1985. 10/

Apparent U.S. consumption decreased by 66 percent from 1982 to 1983, increased in 1984, and then declined by 23 percent in 1985. The 1985 consumption level was 31 percent below that for 1982. 11/

Domestic production also decreased sharply from 1982 to 1983. 12/ It rose in 1984, but then declined in 1985, ending up 22.2 percent below the 1982 level. Capacity declined between 1983 and 1984 and then improved slightly in 1985, but to a level below that of 1983. 13/ As production fell, capacity utilization also declined to 9.6 percent in 1983. Capacity utilization rose to 31.6 percent in 1984, as some firms shut down oil country tubular goods facilities, but then fell to 27.3 percent in 1985. Shipments increased from 1983 to 1984 but then declined in 1985. 14/

The number of workers fluctuated during the period of investigation, but in 1985 was 41.9 percent below the 1982 level. 15/

Domestic OCTG producers' net sales fell from $2.0 billion in 1982 to $365 million in 1983. Net sales rose in 1984, and declined slightly in 1985, with their value reaching approximately half of the 1982 level. 16/

10/ Report at A-28.
11/ Id. at A-12.
12/ Id. at A-21.
13/ Id. at A-20-A-21.
14/ Id. at A-21.
15/ Id. at A-22. Total hourly compensation fell from $19.41 in 1983 to $17.77 in 1984, then increased to $19.98 in 1985.
16/ Report at A-25, table 8.

The domestic OCTG industry was profitable in 1982. However, in 1983, operating losses replaced profits and this trend continued in 1984 and 1985. Operating income in 1982 was $342.1 million. The domestic OCTG industry incurred operating losses of $217.1 million in 1983, $144.4 million in 1984 and $110.7 million in 1985. The number of firms reporting operating losses rose from four out of twelve firms in 1982 to seven out of twelve firms in 1984-85. 17/

We therefore determine that the domestic OCTG industry is experiencing material injury. 18/ 19/

Cumulation

The Trade and Tariff Act of 1984 mandates that the Commission cumulatively assess the volume and effect of imports if they satisfy three requirements. The imports must (1) be subject to investigation, (2) compete

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17/ Id.
18/ Chairwoman Stern does not regard it as analytically useful or appropriate to consider the question of material injury completely separate from the question of causation. See Additional Views of Chairwoman Stern in Cellular Mobile Telephones and Subassemblies Thereof from Japan, Inv. No. 731-TA-207 (Final), USITC Pub. 1786 at 18-19 (Dec. 1985).
19/ Commissioner Eckes believes that the Commission is to make a finding regarding the question of material injury in each investigation. See, Cellular Mobile Telephones and Subassemblies Thereof from Japan, supra at 20-21.

with both other imports and the domestic like product, and (3) be marketed within a reasonably coincidental period. 20/

For the purposes of our determination in this countervailing duty investigation, we have cumulatively assessed the volume and effect of imports from Canada and Israel. For the purposes of our determinations in these antidumping investigations, we have cumulatively assessed the volume and effect of imports from Canada, Taiwan, and Israel. 21/

Imports from Canada and Israel are subject to current countervailing duty investigations. Imports from Canada, Taiwan, and Israel are subject to current antidumping investigations.

20/ 19 U.S.C. § 1677(7)(c)(iv). Among the factors which the Commission has considered to reach a determination on cumulation are:

--the degree of fungibility between imports from different countries and the domestic like product, including consideration of specific customer requirements and other quality related questions;

--the presence of sales or offers to sell in the same geographical markets of imports from different countries and the domestic like product;

--the existence of common or similar channels of distribution for imports from different countries and the domestic like product;

--whether the imports are simultaneously present in the market.

This list is not exhaustive and no single factor is determinative.

21/ Chairwoman Stern and Commissioner Rohr find it unnecessary to "cross cumulate" subsidized imports from Canada and Israel with imports from Taiwan sold at less than fair value to reach their affirmative determinations in these investigations.

Commissioner Eckes and Commissioner Lodwick did cross cumulate, but note that they would have made the same determinations had they not cross cumulated.

Commissioner Brunsdale does not cross cumulate in this case.

We determine that OCTG are essentially fungible. 22/ Also, we determine that imports from all of the countries and the domestic like product compete with one another. Virtually all imports from Taiwan and Israel enter the U.S. through the port of Houston and are sold in the Gulf Coast and Southwest area. Although Canadian OCTG enters mostly through northern ports such as Detroit and Buffalo, two Canadian firms maintain sales offices in Houston and inventory in the Houston area, and a significant amount of Canadian seamless product has been sold in the Southwest. 23/

OCTG from Argentina are subject to a final countervailing duty order dating back to November 1984. Because this order is remote in time, we decline to cumulate imports from Argentina in this countervailing duty investigation.

The Taiwan respondent argued against cumulation with Israel, because Taiwan imports stopped in early 1985 and Israeli imports began in late 1985. Even if the Taiwan respondents are correct in their calculation of dates of entry, the time between the entry of the Taiwan and the Israeli imports is very short, a matter of one or two months, and thus not a proper basis for declining to cumulate.

22/ We have made the same determination in previous cases. See Oil Country Tubular Goods from Israel, Invs. Nos. 701-TA-271 and 731-TA-318 (Preliminary), USITC Pub. 1840 at 8 (Apr. 1986); Oil Country Tubular Goods from Argentina, Canada, and Taiwan, Invs. Nos. 701-TA-255-256 and 731-TA-275-277 (Preliminary), USITC Pub. 1747 at 9 (September 1985).
23/ Report at A-19.

Material injury by reason of subsidized imports from Canada

In making a determination of material injury by reason of unfair imports, section 771(7)(B) of the Tariff Act of 1930 directs the Commission to consider, among other factors, the volume of imports of the merchandise under investigation, the effect of such imports on domestic prices, and the impact of such imports on the relevant domestic industry. 24/

The combined volume of imports of OCTG from Canada and Israel accounted for a substantial and growing market share of OCTG imports. Over the period of investigation, aggregate imports from the two countries steadily increased. In addition, the aggregate share of U.S. consumption supplied by imports from the two countries also increased over the period of investigation. 25/ 26/

The market share for imported OCTG supplied from all sources increased from 1983 to 1984 and then declined from 1984 to 1985. In contrast, during the 1983-1985 period, the aggregate market share for the imports cumulated in this countervailing duty investigation rose from 1983 to 1984, and increased by a higher percentage from 1984 to 1985.

We note that several countries from which OCTG is imported have reduced their import levels because of voluntary restraint agreements (VRA's). Because of this, we would expect the domestic industry's condition to have

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24/ 19 U.S.C. § 1677(7)(B).
25/ Report at A-34 and A-36.
26/ The figures relating to volume of imports and market share for both Canada and Taiwan are confidential, therefore our discussion here must be in general terms.

improved more than it has. Its continuing difficulties may in part be due to the entry of imports from countries such as the ones in these investigations which have not signed VRA's and whose increased market share may be replacing that of restrained countries and inhibiting U.S. producers' sales. 27/

We further note that the domestic industry's market share fell from 54.8 percent in 1983 to 40.3 percent in 1984, and increased in 1985, but not up to the 1983 levels. 28/

During the period under investigation, the Commission obtained pricing data for 10 domestic OCTG categories. Prices fell from 1983 to 1985 for nine of the categories. 29/ This depression of domestic prices and profitability has resulted in part from the presence of the unfairly traded imports in the market.

Comparisons of relative prices for domestic and imported OCTG from the countries cumulated in the countervailing duty investigation showed close pricing with mixed underselling and overselling. 30/

We recognize that there have been several causes of injury to the domestic OCTG industry during the period of investigation, including decreased demand for the product. However, the Commission is not to weigh causes in an antidumping or countervailing duty investigation at either the preliminary or

27/ Report at A-51-A-52.
28/ Id. at A-36. Although the domestic market share rose in 1985 to 48.7 percent, the volume of domestic shipments did decline.
29/ Id. at A-38.
30/ Id. at A-39-A-40. Oil Country Tubular Goods from Israel, supra at 11.

final stage. It is possible for both declining demand and unfairly traded imports to materially injure an industry. In fact, the imports might result in relatively greater injury to an industry facing a downturn in demand. In this instance, the domestic OCTG industry not only experienced decreased sales and profits, but also lost market share as the unfair imports gained market share during the period of investigation.

Based upon the foregoing considerations, we determine that the domestic industry is materially injured by reason of subsidized OCTG imports from Canada.

Material injury by reason of LTFV imports from Canada and Taiwan

The combined volume of imports of OCTG from Canada, Taiwan, and Israel accounted for a substantial and growing market share of OCTG imports. Over the period of investigation aggregate imports from the three countries steadily increased. [31/] In addition, the aggregate share of U.S. consumption supplied by imports from the three countries also increased over the period of investigation.

The market share for imported OCTG supplied from all sources increased from 1983 to 1984 and then declined from 1984 to 1985. In contrast, during the 1983-1985 period, the aggregate market share for the imports cumulated in these antidumping investigations rose from 1983 to 1984, and increased by a higher percentage from 1984 to 1985.

31/ Report at A-33.

Comparisons of relative prices for domestic and imported OCTG from the countries cumulated in the LTFV investigations showed close pricing with mixed underselling and overselling. 32/

Again we note the existence of VRA's, which limit some imports but not the imports subject to these investigations. We further note that the difficulties of the domestic industry may be due in part to causes other than imports, but that the existence of such causes does not preclude and may exacerbate the harmful effect of unfair imports.

Based upon the foregoing considerations, we determine that the domestic industry is materially injured by reason of LTFV oil country tubular goods from Canada and Taiwan.

32/ Id. at A-39-A-40. Oil Country Tubular Goods from Israel, supra at 11.

VIEWS OF VICE CHAIRMAN LIEBELER

Inv. No. 701-TA-255 (Final) &

Inv. Nos. 731-TA-276 and 277 (Final)

Oil Country Tubular Goods from Canada and Taiwan

I determine that an industry in the United States is not materially injured, or threatened with material injury, by reason of subsidized imports of oil country tubular goods (OCTG) from Canada.[1] I make the same determination with regard to imports of OCTG from Canada and Taiwan sold at less than fair value (LTFV).

Cumulation

Petitioners urge the Commission to cumulate imports of OCTG from Argentina, Canada, Taiwan and Israel. Imports from all these countries (with the exception of Argentina) are subject to current antidumping

[1] Material retardation is not an issue because the industry is well established. I join with my fellow commissioners in their discussion of like product/domestic industry and condition of the domestic industry.

investigations.[2] Imports from Canada and Israel are also subject to current countervailing duty investigations and Argentina is subject to a final countervailing duty order issued in 1984.

A. Canada

Respondents argue against cumulation of imports from Canada with other imports on the ground that OCTG from Canada and other countries are used in distinct geographical markets in the U.S. In a recent OCTG investigation, I did not cumulate imports from Canada with imports from Israel because I concluded that Canadian imports did not compete in the Gulf Coast market.[3] Since that time additional evidence gathered by the staff for this investigation suggests that Canadian imports compete in the Gulf Coast area with those from Israel and Taiwan. Two Canadian firms now maintain sales offices in Houston. Moreover, a significant amount of Canadian OCTG

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2 The Department of Commerce has recently made a final negative determination with regard to Argentina.

3 See Oil Country Tubular Goods from Israel, Inv. No. 701-TA-271 (Preliminary), USITC Pub. No. 1840 (1986), at 13-14 (Views of Vice Chairman Liebeler).

inventory exists in the Houston area.[4] Thus, the Canadian presence is not de minimus.

In the countervailing duty investigation, it is appropriate to cumulate Canadian imports only with those from Israel. Commerce has made a final negative determination in the recent Taiwan countervailing duty case. Imports from Argentina are subject to a final order. I do not cumulate cases subject to final orders with cases under investigation. Imports from countries subject to outstanding countervailing duty or antidumping duty orders cannot be cumulated with imports from countries that are currently the subject of an investigation. The language of the 1984 Act refers to "imports from two or more countries of like products subject to investigation * * *."[5] Thus, the plain meaning of the statute limits a broader application. In addition, it would be contrary to the injury requirement in Title VII to cumulate products from countries subject

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4 Algoma, a major Canadian exporter to the United States, reported that its sales in Texas, Oklahoma, and Louisiana, were significant.

5 19 U.S.C. 1677(7)(C)(iv)(supp. 1985)(emphasis added).

to a final countervailing duty or antidumping order with imports from countries that are currently under investigation. The purpose of the investigation undertaken by the Commission is to determine whether the imports from the countries under investigation are causing or threatening to cause material injury to the domestic industry. Whatever injury was caused or was threatened by imports of the like product already subject to an order have been remedied by that order. Thus, it makes no sense to cumulate imports subject to a final order with those from countries under investigation.

Nor do I cumulate across countervailing duty and dumping statutes. Consequently, in the Canadian countervailing duty case, it is irrelevant that imports from other countries are subject to current antidumping investigations. I believe that the statute is clear on this matter. First, Commission treatment of foreign government subsidization of imports and sales by private firms at LTFV are governed by different sections of Title VII. This raises a presumption that Congress intended to treat the two activities separately. Second, not cross-cumulating is historical Commission practice,

existing prior to the statutory enactment of the existing statutory cumulation provisions. Obviously, Congress could have chosen to alter this practice but did not do so. Third, the wording of the operative sections of Title VII precludes cross-cumulation. For example, the language of the countervailing duty section clearly requires that the injury be by reason of subsidized imports, not subsidized and dumped imports.[6] If the Commission were to cross-cumulate, it would be acting outside its statutory authority. One simply cannot make an affirmative determination in, e.g, a countervailing duty case based on dumped imports.[7]

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6 The Commission is to examine whether an industry in the United States is materially injured or threatened with material injury "by reason of imports of that merchandise * * *." 19 U.S.C. 1671(a)(2) (1980 & 1985 Supp.) (emphasis added).

7 In Bingham and Taylor, Div. Virginia Industries, Slip Op. 86-14 (Feb. 14, 1986), the Court of International Trade stated that cumulation across statutes is required. The Commission has voted to appeal Bingham to the Court of Appeals for the Federal Circuit. Until this issue is resolved I shall not cumulate across statutes because I believe the statutes preclude cross-cumulating. For a complete discussion of my views on cross-cumulation, see Certain Carbon Steel Products from Austria, Czechoslovakia, East Germany, Hungary, Norway, Poland, Romania, Sweden, and Venezuela, Invs. Nos. 701-TA-225-234 (Preliminary) & 731-TA-213-217, 219, 221-226, & 228-235 (Preliminary), USITC Pub. 2642, at 41-50 (1985) (Views of Vice Chairman Liebeler).

Thus, in the Canadian countervailing duty investigation, the market penetration for 1985 is the sum of the Canadian and Israeli market shares, which is less than six and one-half percent.[8]

In the Canadian antidumping investigation, it is appropriate to cumulate Canadian imports with those from Taiwan and Israel. In this investigation, the market penetration is less than six and one-half percent for 1985.[9]

B. TAIWAN

It is appropriate to cumulate imports from Taiwan with those from Israel and Canada since they all compete with each other and the domestic product, and they all are subject to current antidumping investigations. Consequently, the import penetration ratio is less than six and one-half percent for 1985.[10]

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8 These figures are approximated for confidentiality purposes.

9 These figures are approximated for confidentiality purposes.

10 These figures are approximated for confidentiality purposes.

<u>No Injury or Threat Thereof by Reason of Imports from Canada and Taiwan.</u>

In order for a domestic industry to prevail in a final investigation, the Commission must determine that the dumped or subsidized imports cause or threaten to cause material injury to the domestic industry producing the like product. First, the Commission must determine whether the domestic industry producing the like product is materially injured or is threatened with material injury. Second, the Commission must determine whether any injury or threat thereof is by reason of the dumped or subsidized imports. Only if the Commission answers both questions in the affirmative, will it make an affirmative determination in the investigation.

Before proceeding to an analysis of the data, however, the first question is whether the statute is clear or whether one must resort to the legislative history in order to interpret the relevant sections of title VII. The accepted rule of statutory construction is that a statute, clear and unambiguous on its face, need

not and cannot be interpreted using secondary sources. Only statutes that are of doubtful meaning are subject to such statutory interpretation.[11]

The statutory language used for both parts of the two-part analysis is ambiguous. "Material injury" is defined as "harm which is not inconsequential, immaterial, or unimportant."[12] This definition restates the positive in double negative form. As for the causation test, "by reason of" lends itself to no easy interpretation, and has been the subject of much debate by past and present commissioners. Clearly, well-informed persons may differ as to the interpretation of the causation and material injury sections of title VII. Therefore, the legislative history becomes helpful in interpreting title VII.

The ambiguity arises in part because it is clear that the presence in the United States of additional foreign supply will always make the domestic industry worse off.

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11 Sands, Sutherland Statutory Construction Sec. 45.02 (4th Ed.)

12 19 U.S.C. sec. 1977(7)(A)(1980).

Any time a foreign producer exports products to the United States, the increase in supply, ceteris paribus, must result in a lower price of the product than would otherwise prevail. If a downward effect on price, accompanied by a Department of Commerce dumping or subsidy finding and a Commission finding that financial indicators were down were all that were required for an affirmative determination, there would be no need to inquire further into causation.

But the legislative history shows that the mere presence of LTFV imports is not sufficient to establish causation. In the legislative history to the Trade Agreements Acts of 1979, Congress stated:

> [T]he ITC will consider information which indicates that harm is caused by factors other than the less-than-fair-value imports.[13]

The Finance Committee emphasized the need for an exhaustive causation analysis, stating, "the Commission must satisfy itself that, in light of all the information presented, there is a sufficient causal link between the

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13 Report on the Trade Agreements Act of 1979, S. Rep. No. 249, 96th Cong. 1st Sess. 75 (1979).

less-than-fair-value imports and the requisite injury."[14]

The Senate Finance Committee acknowledged that the causation analysis would not be easy: "The determination of the ITC with respect to causation, is under current law, and will be, under section 735, complex and difficult, and is matter for the judgment of the ITC."[15] Since the domestic industry is no doubt worse off by the presence of any imports (whether LTFV or fairly traded) and Congress has directed that this is not enough upon which to base an affirmative determination, the Commission must delve further to find what condition Congress has attempted to remedy.

In the legislative history to the 1974 Act, the Senate Finance Committee stated:

> This Act is not a 'protectionist' statute designed to bar or restrict U.S. imports; rather, it is a statute designed to free U.S. imports from unfair price discrimination practices. * * * The Antidumping Act is designed to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a

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14 Id.

15 Id.

United States industry.[16]

Thus, the focus of the analysis must be on what constitutes unfair price discrimination and what harm results therefrom:

> [T]he Antidumping Act does not proscribe transactions which involve selling an imported product at a price which is not lower than that needed to make the product competitive in the U.S. market, even though the price of the imported product is lower than its home market price.[17]

This "difficult and complex" judgment by the Commission is aided greatly by the use of economic and financial analysis. One of the most important assumptions of traditional microeconomic theory is that firms attempt to maximize profits.[18] Congress was obviously familiar with the economist's tools: "[I]mporters as prudent businessmen dealing fairly would be interested in maximizing profits by selling at prices as high as the

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16 Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

17 Id.

18 See, e.g., P. Samuelson & W. Nordhaus, Economics 42-45 (12th ed. 1985); W. Nicholson, Intermediate Microeconomics and Its Application 7 (3d ed. 1983).

U.S. market would bear."[19]

An assertion of unfair price discrimination should be accompanied by a factual record that can support such a conclusion. In accord with economic theory and the legislative history, foreign firms should be presumed to behave rationally. Therefore, if the factual setting in which the unfair imports occur does not support any gain to be had by unfair price discrimination, it is reasonable to conclude that any injury or threat of injury to the domestic industry is not "by reason of" such imports.

In many cases unfair price discrimination by a competitor would be irrational. In general, it is not rational to charge a price below that which is necessary to sell one's product. In certain circumstances, a firm may try to capture a sufficient market share to be able to raise its price in the future. To move from a position where the firm has no market power to a position where the firm has such power, the firm may lower its price below that which is necessary to meet competition. It is this

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[19] Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

condition which Congress must have meant when it charged us "to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a United States industry."[20]

In Certain Red Raspberries from Canada, I set forth a framework for examining what factual setting would merit an affirmative finding under the law interpreted in light of the cited legislative history.[21]

> The stronger the evidence of the following . . . the more likely that an affirmative determination will be made: (1) large and increasing market share, (2) high dumping margins, (3) homogeneous products, (4) declining prices and (5) barriers to entry to other foreign producers (low elasticity of supply of other imports).[22]

The statute requires the Commission to examine the volume of imports, the effect of imports on prices, and the

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[20] Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

[21] Inv. No. 731-TA-196 (Final), USITC Pub. 1680, at 11-19 (1985) (Additional Views of Vice Chairman Liebeler).

[22] Id. at 16.

general impact of imports on domestic producers.[23] The legislative history provides some guidance for applying these criteria. The factors incorporate both the statutory criteria and the guidance provided by the legislative history. Each of these factors is evaluated in turn.

Examining import penetration data is relevant because unfair price discrimination has as its goal, and cannot take place in the absence of, market power. In these investigations, market penetration of imports was less than six and one-half percent for 1985, up slightly from the prior two years.[24] These market shares are in a low range and are not growing rapidly. Thus, this first indicator is not at all suggestive of unfair price discrimination conditions.

The second factor is a high margin of dumping or subsidy. The higher the margin, <u>ceteris</u> <u>paribus</u>, the

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23 19 U.S.C. 1677(7)(B)-(C) (1980 & cum. supp. 1985).

24 These figures are approximated for confidentiality purposes.

more likely it is that the product is being sold below the competitive price[25] and the more likely it is that the domestic producers will be adversely affected. In this case, the weighted-average dumping margin was 26.32 percent for Taiwan. As to Canada, the Department of Commerce found that the estimated net subsidy was 0.72 percent ad valorem, and the dumping margin was 19.38 percent. I find that the Canadian subsidy margin is so low as to strongly weigh against an affirmative determination. The dumping margins do not weigh against such a finding.

The third factor is the homogeneity of the products. The more homogeneous the products, the greater will be the effect of any allegedly unfair practice on domestic producers. In general, domestically produced and foreign OCTG are physically almost identical.

As to the fourth factor, prices fluctuated but

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[25] *See* text accompanying note 17, *supra*.

generally decreased for most products.[26] Over the period January-March 1983 to October-December 1985, no consistent patterns or cycles were discernable in the fluctuation of prices for ten categories of OCTG.[27] However, one pattern did arise with respect to magnitude of changes. The greatest percentage decrease in prices occurred for the OCTG used in deep wells.[28] This information is consistent with the character of recent oil industry conditions, i.e., the first wells to be closed with the drop in oil prices would be the costlier deep wells. No strong conclusions can be drawn from the pricing information in this case.

The fifth factor is barriers to entry (foreign supply elasticity). If there are barriers to entry (or low foreign elasticity of supply) it is more likely that a producer can gain market power. In this case, voluntary restraint agreements (VRA's)

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[26] Staff Report at A-38.

[27] Id.

[28] Id.

affect the subject imports from 17 countries, including all major foreign suppliers except Canada. Although the VRA's constrain foreign supply, the economic diversity of the countries producing OCTG suggests there are low entry barriers (e.g., technological barriers) and other countries not currently subject to VRA's could enter the market. Altogether, the evidence under this factor is somewhat conducive to price discrimination behavior.

These factors must be balanced in each case to reach a sound determination. As noted earlier, however, market share plays a key role in determining whether unfair price discrimination could be occurring. In this case, the market penetration figures indicate that what we are observing is not related to unfair price discrimination. The other factors in this case may suggest some conditions conducive to unfair price discrimination, but do not outweigh the low market share. Thus, the factors when viewed together are inconsistent with a finding of unfair price discrimination.

This conclusion is buttressed by an examination of the market share of imports of OCTG and the consumption patterns for OCTG in the United States. As I have stated previously, the declines that the domestic OCTG industry has experienced are the result of a sharp drop in demand for OCTG, and not the result of dumped or subsidized imports.[29] The consumption of OCTG is strongly correlated with the level of domestic drilling for oil and natural gas. The level of domestic oil and gas drilling is in turn determined by the world prices for oil and natural gas, state and federal regulations, and the available reserves of oil and natural gas.

I conclude that there is nothing on the record from which to conclude that cumulated imports of OCTG from the countries under investigation are a cause of material injury or threaten to cause material injury to the domestic OCTG industry. This is because

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29 See, e.g., Oil Country Tubular Goods from Brazil, Korea and Spain, Inv. Nos. 701-TA-215-217 (Final), USITC Pub. 1633 (1985); OCTG from Austria, Romania and Venezuela, Inv. Nos. 701-TA-240-241, 731-TA-249-251 (Preliminary), USITC Pub. 1679 (1985); OCTG from Argentina and Spain, Inv. Nos. 731-TA-191, 195 (Final), USITC Pub. 1694 (1985); & OCTG from Argentina, Canada and Taiwan, 701-TA-255 and 256 (Preliminary) and 731-TA-275-277 (Preliminary) (1985).

although cumulated imports from the countries under investigation have increased over the period of investigation, both in volume and as a share of domestic consumption, they have increased at the expense of other imports, and not at the expense of the domestically produced OCTG. For example, imports from Canada, Taiwan, and Israel increased annually from 1983 through 1985 respectively.[30] Total imports from all countries for those years were 661,000, 2,307,000 and 1,539,000 tons respectively. In market share terms, imports from Canada, Taiwan and Israel increased slightly between 1983-85.[31] The share of all imports was 45.1 percent, 59.7 percent, and 51.3 percent. U.S. consumption ranged from 1,462,000 tons in 1983 to 3,870,000 tons in 1984 and 2,999,000 tons in 1985. Two things are apparent from these numbers. First, imports generally tracked the rise and fall in domestic consumption. Second, the imports from the countries under investigation

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30 Staff Report at A-33, Table 17. The exact figures cannot be revealed because the information is confidential.

31 The exact figures cannot be revealed because the information is confidential.

took away market share from other imports, not from U.S. producers' market share. In fact, U.S. producers' market share increased significantly between 1984 and 1985. Quite simply, a declining market for OCTG, not the imports under investigation, are the cause of U.S. producers' problems.

As to threat of material injury, importers' 1985 inventories for Canadian imports as a percentage of yearly shipments were down sharply from 1983. Inventories of Taiwanese product are insignificant. I have not relied on capacity utilization figures here because they have little relevance when the base of market penetration is so low in the first place. Thus, there is no real and imminent threat of material injury to the U.S. industry.

Conclusion

Therefore, I conclude that an industry in the United States is not materially injured or threatened with material injury by reason of subsidized or dumped imports from the countries under investigation.

DISSENTING VIEWS OF COMMISSIONER BRUNSDALE

Based on the record in this case, I determine that no domestic industry in the United States is materially injured, or threatened with material injury, by reason of subsidized imports of oil country tubular goods from Canada or from less-than-fair-value (dumped) imports of oil country tubular goods from Canada and Taiwan that have been the subject of affirmative subsidy and antidumping determinations by the Department of Commerce. Material retardation of the establishment of an industry in the United States is not an issue in this case and will not be discussed.

While I dissent from the affirmative decisions reached by my esteemed colleagues in the majority on this case, I do nonetheless concur with several of their findings. Specifically, I agree with the following: (1) like product -- the like product is seamless and welded oil country tubular goods (OCTG); (2)

domestic industry -- the domestic industry consists of the producers of OCTG;[1] (3) cumulation -- in analyzing the effects of subsidized imports from Canada, I cumulate the imports of Canada and Israel, and in analyzing the effects of dumped imports from Canada and Taiwan, I cumulate the imports of these two

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However, I have reservations about whether the data relied on by the majority are appropriate to analyze the condition of the industry. My concern stems from the fact that the producers of OCTG also make other products using the same facilities and equipment. These products include not only drill pipe, but also, e.g., standard and line pipes and tubes. Transcript at 42-31 (Tr.), Report at A-20, and Posthearing Briefs by Lone Star Steel and CF&I (at appendices 2 and 3), by Maverick Tube, Cyclops, Copperweld (in Response to written questions from Commissioner Brunsdale at 1 and 2), and by U.S. Steel (in Response to Questions from the Commission at 6). This means that there is a commonality of inputs in the production of several products, including the like product. As I have argued previously, it is necessary in such conditions to apply a product line analysis, pursuant to 19 U.S.C. sec. 1677(4)(D), when analyzing the effect of imports. See Certain Welded Carbon Steel Pipes and Tubes from India, Taiwan, and Turkey, Invs. Nos. 731-TA-271 through 273 (Final), USITC Pub. No. 1986 at 34 (Views of Vice Chairman Liebeler and Commissioner Brunsdale), and Certain Welded Carbon Steel Pipes and Tubes from Turkey and Thailand, Invs. Nos. 701-TA-253 (Final) and 731-TA-252 (Final), USITC Pub. No. 1986 at 49 (Additional Views of Commissioner Brunsdale). In spite of my concern about this issue, I note that it does not affect my determination in this case.

countries and also Israel;[2] and (4) material injury -- the domestic industry is materially injured.

In determining whether there is material injury to the domestic industry "by reason of" the imports subject to the investigation, the Commission must consider, among other factors, the volume of imports, the effect of the subsidized or dumped imports on prices for the like product in the United States, and the impact of such imports on the relevant domestic industry.[3] My decision that there is no material injury by reason of the subject imports rests mainly on the finding that cumulated import penetrations remained very low over the entire period of investigation, 1983-85.[4] Moreover, the condition of the industry improved somewhat even though the subject imports increased. This indicates that the requisite causal link between the injury and imports is not present.

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[2] For my general views on cumulation, see Certain Welded Carbon Steel Pipes and Tubes from India, Taiwan, and Turkey, supra, at 46-9. I do not cross cumulate in this case.

[3] 19 U.S.C. sec. 1677(7)(C) (1982).

[4] The discussion here relies on publicly available import penetration data because the penetration ratios for subsidized and dumped imports in this case are confidential. The confidential ratios are somewhat smaller.

The cumulative import penetration for Canada and Israel was 5.9 percent in 1985 while that for Canada, Israel, and Taiwan was slightly in excess of 5.9 percent.[5] Such small import penetrations have at most a de minimis effect on the condition of an industry with the characteristics of this one. Generally speaking, a small penetration ratio for an imported product means that the imports will have little effect on the price of the domestic product. A small ratio cannot have a disproportionately large effect on price unless two conditions are present -- that is, unless both the domestic demand for the product and the domestic supply of the product are highly insensitive to price changes.[6] In this case, demand may be fairly insensitive to changes in price because the products in question are intermediate products on the demand side. There is no evidence, however, to indicate that domestic supply is inelastic.

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[5] Staff Report at A-13.

[6] The sensitivity of demand or of supply to price is measured by the concept of elasticity. For example, elasticity of demand measures the responsiveness of quantity demanded to price changes. It is expressed as the percentage change in quantity demanded divided by the percentage change in price. Inelastic demand means that the quantity demanded changes by a smaller percentage than does price. The elasticity of supply measures the responsiveness of supply to price changes in the same manner. P. Samuelson and W. Nordhaus, Economics 380-84 (12th ed., 1985).

During the period of investigation, the world-wide downturn in oil prices caused a severe decline in demand for OCTGs and contributed to a large stock of OCTG inventories in relation to domestic consumption.[7] For example, in 1985 OCTG inventories were at least equal to a full year's consumption.[8] By contrast, cumulated imports in 1985 were less than 6 percent of annual consumption.[9] I find it difficult to believe that imports could have a significant depressing effect on domestic prices under these conditions.

Moreover, during the period when the cumulated imports increased, the condition of the industry showed signs of improvement. Between 1983 and 1985, production, shipments, capacity utilization, and net sales were all up.[10] In addition, the financial condition of the industry improved

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7 These points were made by Dr. Leone in his testimony at the hearing. Tr at 138. See also the Posthearing Brief by Algoma Steel, Ferrum, and Christianson Pipe, at 5. While I do not necessarily agree with all of Dr. Leone's conclusions, I found his presentation to be very useful in this case.

8 Staff Report at A-13 and A-20.

9 Id. at 13.

10 Id. at A-20, A-21, and A-25.

markedly.[11] For example, while gross profits and operating profits were negative throughout the period, the losses steadily diminished. The ratio of gross profits and operating profits to sales were a negative 44.8 percent and 59.4 percent respectively in 1983; both measures improved to negative 7.0 percent and 11.4 percent in 1985.[12] The fact that the industry's condition strengthened as imports rose does not prove that imports did not cause material injury, but it does mean that very strong evidence would be required to establish a causal link. No such evidence is present. Instead, the record shows a severe deterioration in demand and an extraordinarily large inventory overhang. In my view these factors explain substantially all of the material injury suffered by the domestic industry. The influence of the imports covered by this investigation was insignificant at best, since we have small import penetration ratios and a negative correlation with the improving condition of the domestic industry.[13]

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Id. at A-38

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Id. at A-25.

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Note also that the subsidy margin in this case is extremely low -- 0.72 percent. Report at A-4. This means
(Footnote continued on next page)

As to threat of material injury, the low base of penetration achieved by the cumulated countries makes it improbable that there could be any real threat of material injury or imminent actual injury. Moreover, for Canada, which had the largest import share in 1985 (5.0 percent), it should be noted that capacity utilization was moderately high that year, and information about inventories does not suggest a recent buildup of stocks.[14] In view of these facts, I find no support for the argument that there is a threat of material injury.

(Footnote continued from previous page)
that the effect of subsidized imports on the domestic industry is insignificant. The dumping margins in this case are moderate -- 19 percent for Canada and 26 percent for Taiwan. Report at A-4. However, given the other evidence discussed above (e.g,, the low import penetration, the serious drop in industry demand, and the substantial inventory overhang in the domestic market) I find that these margins did not have a significant effect on the domestic industry.

[14] Report at A-30-1 and A-96.

INFORMATION OBTAINED IN THE INVESTIGATIONS

Introduction

On July 22, 1985, Lone Star Steel Co. and CF&I Steel Corp. filed antidumping and countervailing duty petitions with the U.S. International Trade Commission and the U.S. Department of Commerce. The petitions allege that an industry in the United States is materially injured and is threatened with material injury by reason of imports from Canada and Taiwan of oil country tubular goods 1/ provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States (TSUS), that are alleged to be subsidized by the governments of those countries, and by reason of imports of oil country tubular goods from Argentina, Canada, and Taiwan that are alleged to be sold at less than fair value (LTFV) 2/. Accordingly, the Commission instituted preliminary investigations under the provisions of the Tariff Act of 1930 to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of such imports into the United States. On September 5, 1985, the Commission determined that there is a reasonable indication that an industry in the United States is materially injured by reason of such imports.

On December 6, 1985, Commerce published in the Federal Register its preliminary determination that manufacturers, producers, or exporters of oil country tubular goods from Taiwan do not receive subsidies (50 F.R. 49977). On December 16, 1985, Commerce published a notice postponing its preliminary antidumping determination on oil country tubular goods from Argentina from December 30, 1985, to January 20, 1986 (50 F.R. 51275). On December 30, 1985, Commerce published in the Federal Register its preliminary affirmative determination that the manufacturers, producers, or exporters of oil country tubular goods in Canada receive subsidies (50 F.R. 53172). On December 31, 1985, Commerce informed the Commission of its preliminary determination that oil country tubular goods from Taiwan are being sold at LTFV in the United States. This finding was published in the Federal Register of January 7, 1986 (51 F.R. 663). On January 2, 1986, the Commission received notification of Commerce's preliminary determination that oil country tubular goods from Canada are being, or are likely to be, sold in the United States at LTFV. This finding was also published in the Federal Register of January 7, 1986 (51

1/ For purposes of these investigations, the term "oil country tubular goods" includes drill pipe, casing and tubing for drilling oil or gas wells, of carbon or alloy steel, whether such articles are welded or seamless, whether finished or unfinished, and whether or not meeting American Petroleum Institute (API) specifications, provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States.

2/ On May 30, 1986, the Commission was informed that Commerce, in its final determination, found that imports of the subject merchandise from Argentina are not being, and not likely to be, sold at LTFV in the United States. The Commission terminated the investigation concerning Argentina on June 2, 1986. This report was distributed to the Commission prior to Commerce's final antidumping determination on Argentina and therefore includes information on imports of Argentine oil country tubular goods.

F.R. 660). The Commission, effective December 30, 1985, instituted final countervailing duty investigation No. 701-TA-255 (Final) and final antidumping investigations Nos. 731-TA-276 and 277 (Final).

On January 22, 1986, the Commission received notification of Commerce's preliminary determination that oil country tubular goods from Argentina are being sold in the United States at LTFV and instituted, effective that date, final antidumping investigation No. 731-TA-275. Commerce published its preliminary determination on imports from Argentina in the Federal Register of January 27, 1986 (51 F.R. 3387).

On January 27, 1986, Commerce also published notices extending the deadline for its final countervailing duty determination on oil country tubular goods from Taiwan until March 17, 1986 (51 F.R. 3377), and postponing its final antidumping determination on imports from Canada until April 16, 1986 (51 F.R. 3389). On March 3, 1986, Commerce published a notice postponing its final antidumping determination on articles from Taiwan until May 21, 1986, and extending its deadline for the final countervailing duty determination on oil country tubular goods from Taiwan to the same date (51 F.R. 7308). On March 4, 1986, Commerce informed the Commission that it was extending its deadline for the final countervailing duty determination on oil country tubular goods from Canada to correspond to the date of the final determination in the oil country tubular goods antidumping investigation for that country, April 16, 1986. This notice was published in the Federal Register of March 7, 1986 (51 F.R. 7977). Also on March 7, 1986, Commerce published a notice postponing its final antidumping determination on Argentina until May 21, 1986 (51 F.R. 7977).

On April 18, 1986, Commerce notified the Commission of its final determinations that manufacturers, producers, or exporters of oil country country tubular goods from Canada receive subsidies, and that oil country tubular goods from Canada are being sold in the United States at LTFV. These notices were published in the Federal Register of April 22, 1986 (51 F.R. 15037 and 15029). On May 22, 1986, the Commission received notification of Commerce's final determination that oil country tubular goods from Taiwan are being sold in the United States at LTFV. In its final countervailing duty determination on Taiwan, Commerce found that manufacturers, producers, or exporters of oil country country tubular goods from Taiwan do not receive subsidies. On May 30, 1986, Commerce notified the Commission of its final determination that oil country tubular goods from Argentina are not being, and not likely to be, sold in the United States at LTFV.

These countervailing duty and antidumping investigations were instituted under the provisions of the Tariff Act of 1930 to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry is materially retarded, by reason of imports of such merchandise into the United States. The statute directs that the Commission make its final determinations within 45 days after receiving formal notification of Commerce's final determinations or, in the cases involving Canada, by June 2, 1986. The Commission also notified Commerce of its determination in the case involving Taiwan by June 2, 1986, although the statutory deadline for this investigation is July 7, 1986.

This is the second antidumping investigation conducted by the Commission concerning oil country tubular goods from Argentina. In investigation No. 731-TA-191 (Final), the Commission unanimously determined that imports of the subject product from Argentina were not a cause of material injury or threat thereof to a U.S. industry, citing a small and stable level of imports, declining margins of underselling, declining inventories of the subject product held by importers in the United States, and the high rate of capacity utilization reported by the foreign producer during the period covered by the investigation, 1982-84. 1/

Notice of the current Commission investigations and of the hearing to be held in connection therewith was given by posting copies of the notices in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notices in the Federal Register of January 24, 1986 (51 F.R. 3270), of February 6, 1986 (51 FR 4663), and of March 19, 1986 (51 F.R. 9540). 2/ The hearing was held in Washington, DC, on May 6, 1986. 3/ The briefing and vote on these investigations was held on June 2, 1986.

Nature and Extent of the Subsidies and LTFV Sales

Subsidies

Commerce found, in its final determination on April 16, 1986, that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Canada of oil country tubular goods. This finding applies to two firms, IPSCO, Inc. (IPSCO) and Siegfried Kreiser Pipe and Tube. The estimated net subsidy was 0.72 percent ad valorem. IPSCO *** and accounted for *** of the subject exports to the United States in 1985. 4/ Information is not available on the production and exports of Siegfried Kreiser Pipe and Tube. Commerce determined that subsidies are being provided to IPSCO under the following three programs:

1/ Oil Country Tubular Goods From Argentina and Spain, Determinations of the Commission in Investigations Nos. 731-TA-191 and 195 (Final) . . ., USITC Publication 1694, May 1985. A summary of previous countervailing duty and antidumping investigations with respect to oil country tubular goods is presented in app. A.

2/ Copies of the Commission's and Commerce's Federal Register notices are presented in app. B.

3/ A list of the witnesses who appeared at the hearing is presented in app. C.

4/ Based on information provided by counsel on behalf of the Canadian producers. Does not include exports by Welded Tube of Canada.

Canadian subsidy programs	Percent ad valorem
Investment Tax Credits for machinery and equipment------------------------	0.01
Regional Development Incentives Program and General Development Agreement/ Canada-Saskatchewan Subsidiary Agreement on Iron, Steel, and Other Related Metal Industries----	0.71
	0.72

LTFV sales

Argentina.--Commerce found, in its final antidumping determination on imports from Argentina, that oil country tubular goods from Argentina are not being, and are not likely to be, sold in the United States at LTFV.

Canada.--Commerce found, in its final antidumping determination on imports from Canada on April 16, 1986, that oil country tubular goods from Canada are being, or are likely to be, sold in the United States at LTFV. Commerce made fair-value comparisons on sales made by four producers that accounted for approximately 83 percent of Canadian sales of oil country tubular goods to the United States during the period of investigation. Comparisons were based on the U.S. price, the foreign-market value, and the constructed value. The company-specific margins were determined to be as follows: Algoma Steel Corp., Ltd. (Algoma), 14.26 percent; IPSCO, Inc. (IPSCO), 40.85 percent; Sonco Steel Tube, Ltd. (Sonco), 3.35 percent; and Welded Tube of Canada, Ltd. (Welded Tube), 0 percent. The overall antidumping margin for all products is 19.38 percent.

Exports by Welded Tube have been found by Commerce to be neither subsidized nor sold at LTFV; they are therefore not subject to investigation and all information presented in this report for Canada will exclude data for that firm unless otherwise noted. The exports reported by Welded Tube have been subtracted from import statistics obtained from the Department of Commerce. *** has been the largest exporter of oil country tubular goods from Canada to the United States during the period of these investigations, accounting for *** of the subject imports in 1985. *** accounted for ***, and *** for *** in the same year. 1/

Taiwan.--Commerce found, in its final antidumping determination on imports from Taiwan on May 21, 1986, that oil country tubular goods from Taiwan are being, or are likely to be, sold in the United States at less than fair value. Commerce did not find that critical circumstances exist with respect to imports of the subject product from Taiwan. Commerce examined all sales of the class or kind of merchandise during the period of investigation, comparing the U.S. purchase price and the constructed value of the Taiwan product. The weighted-average margin was calculated to be 26.32 percent. The

1/ Based on information provided by counsel for the Canadian respondents.

Far East Machinery Company (FEMCO) is the only exporter of Taiwan oil country tubular goods to the United States.

The Products

Description and uses

The term "oil country tubular goods" refers to casing, tubing, and drill pipe for use in drilling oil and gas wells and for transporting oil and gas to the surface.

Casing is used in the drill hole to provide a firm foundation for the drill string by supporting the walls of the hole to prevent caving in, both during drilling and after the well is completed. After the casing is set, concrete is pumped between the outside of the casing and the wall of the hole to provide a secure anchor. Casing also serves as a surface pipe to prevent contamination of the recoverable oil and gas by surface water, gas, sand, or limestone. The casing must be sufficiently strong to resist both external pressure and pressure within the well. Because the amount of open hole that can be drilled at any one time is limited, a string of concentric layers of casing is used for larger wells.

Tubing is used within the casing to conduct the oil or gas from the subsurface strata to the surface either through natural flow or through pumping. Casing is often substituted for tubing in high-volume wells. Tubing must be strong enough to support its own weight, that of the oil or gas, and that of any pumping equipment suspended on the drill string.

Drill pipe is used to transmit power from ground level to below the surface in order to rotate the bit, and it is also used to conduct drilling fluid (mud) down to the bit to flush drill cuttings to the surface, where they can be removed. Drill pipe must have sufficient tensile strength to support its own weight and that of drill collars and the drill bit.

In 1985, according to data received in response to Commission questionnaires in these investigations, casing accounted for 84.1 percent of U.S. producers' shipments (on a tonnage basis), tubing accounted for 13.8 percent, and drill pipe for 0.3 percent. Other products (including "green tubes" 1/ and reject material) accounted for 1.8 percent of U.S. producers' shipments. Based on questionnaire responses from importers, U.S. shipments of Argentine oil country tubular goods in 1985 were ***. U.S. shipments of the subject product from Canada in 1985 were ***. U.S. shipments of Taiwan oil country tubular goods in 1985 were ***. U.S. shipments of Israeli oil country tubular goods were *** in 1985.

Oil country tubular goods are generally produced according to standards and specifications established by the American Petroleum Institute (API). The API is a trade organization involved in writing basic minimum design standards for materials used in the oil and gas industries to ensure interchangeability of parts and reliability. The API has worked to standardize dimensions and

1/ An industry term referring to an unfinished seamless hollow steel product with low carbon content that will be further processed and upgraded.

properties in oil country tubular goods specifications for casing, tubing, and drill pipe (API STD 5A), high-strength casing, tubing, and drill pipe (API STD 5AX), and casing and tubing with restricted yield strengths (API STD 5AC). These standards, which are sometimes used by the Government as Federal standards, were adopted by API after careful research and industry consensus. They offer oil country tubular goods purchasers a guide for selecting products with proper outside diameters, wall thicknesses, and steel grades to perform under every combination of stresses. The vast majority of oil country tubular goods in use today meet API specifications for such articles. However, there are articles for use in specialized applications that do not carry an API rating because these oil country tubular goods have not been sufficiently used or tested for API to write standards for this equipment. Firms also produce goods to their own proprietary specifications, and these products compete with products made to API specifications.

Oil country tubular goods are inspected and tested at various stages during production to ensure strict conformity to API or proprietary specifications. A certain percentage of production from every oil country tubular goods facility fails to meet these specifications; the reject rate has been estimated to be as much as 25 percent for the products of seamless mills and closer to 10 percent for those of welded facilities. 1/ This material may be categorized only as scrap, sold as "structural tubing" not suited for down hole use, or marketed as "limited service" material for use in shallow wells under drilling conditions where high-strength and high-quality pipe are not required. Typically, limited service tubular products are sold without any warranty. Parties in these investigations disagree on the extent to which prime and limited service oil country tubular goods compete.

According to responses to Commission questionnaires in these investigations, 80 percent of total shipments by U.S producers in 1985 conformed to API specifications, 11 percent were seconds, rejects, and down graded products, and 9 percent were products made to proprietary specifications. Imports of Argentine oil country tubular goods in 1985 were ***. Subject imports from Canada in the same year were ***. Oil country tubular goods imported from Taiwan in 1985 were ***. Israeli oil country tubular goods imported into the United States in 1985 were ***.

Oil country tubular goods exist in a wide range of API and proprietary grades, reflecting the strength of the product and the conditions under which it has been tested for use. Lower strength grades are used where less pressure will be encountered in drilling and production. Conversely, higher grades of tubes are used when more strength is required. Most oil country tubular goods are of carbon steel. A higher strength product (typically casing) can be obtained by heating a carbon steel tubular product, rapidly cooling it with water, and then slightly reheating and slowly recooling it. This "quench and temper" process raises minimum yield strength and increases hardness of a green tube or "green shell." 2/ A similarly strong tubular product can also be produced by using more expensive metal alloys.

1/ Information on the market for reject material was obtained from ***.

2/ There are no allegations in the current investigations regarding imports of green tubes as defined by TCA.

According to responses to Commission questionnaires in these investigations, 67 percent of U.S. producers' shipments in 1985 were of the lower carbon grades (comparable to K55 and below), 27 percent were of the higher grades (comparable to C75 and above), and the rest were seconds or rejects. U.S. shipments of Argentine oil country tubular goods in 1985 were ***. U.S. shipments of subject oil country tubular goods from Canada in 1986 were ***. U.S. shipments of Taiwan oil country tubular goods in 1985 were ***. U.S. shipments of the Israeli product in 1985 were all lower grade.

Oil country tubular goods are of either welded or seamless construction. API specifications for most grades of casing and tubing specify that either seamless or welded pipe is acceptable. Exceptions include drill pipe and extremely thick casings, which API specifies must be seamless. In 1985, slightly less than one-half of all shipments of U.S.-produced casing and tubing, and virtually all drill pipe, were of seamless construction. Argentine oil country tubular goods are seamless, slightly less than one-half of the subject imports from Canada were seamless, and the Taiwan and Israeli products are welded seam-annealed.

Welded oil country tubular goods are formed by passing flat-rolled products through a series of forming rollers that form the products into cylindrical shapes to be seam welded. The most commonly used process for welding oil country tubular goods is electric resistance welding (ERW), in which the cylinder edges are heated to a very high temperature with an electric resistance welder and are forced together under pressure exerted by rolls. Although most of the welded oil country tubular goods are seam-annealed electric resistance welded, some large-diameter (over 24 inches) material, which is used in offshore drilling, is submerged arc welded. Under this process, the cylinder edges are connected using molten metal from a welding rod. Some welded products then undergo a process called "full-body normalizing", where the entire tube is heated to a very high temperature to make the molecular structure of the weld identical to that of the rest of the tube. Regardless of welding process, the wall thicknesses of all welded oil country tubular goods are uniform, whereas the wall thicknesses of seamless oil country tubular goods are less uniform.

According to oil country tubular goods end users, seam-annealed welded products are more commonly used when high strength is not required, whereas seamless products are more typically used where greater pressures or hostile environments will be encountered in drilling and production. Full-body normalized welded oil country tubular goods are considered to be stronger than other welded products.

Seamless oil country tubular goods are produced by forming a central cavity in solid steel stock. The central cavity may be formed either through the rotary piercing and rolling process or through extrusion. Most seamless oil country tubular goods are produced through the rotary piercing method, the more traditional method for producing such material. Rotary piercing is described by the American Iron & Steel Institute (AISI) in its publication, Steel Products Manual: Steel Specialty Tubular Products, as follows:

> Rotary Piercing and Rolling operations produce the great bulk of seamless steel tubular products. A conditioned steel round of proper grade, diameter and weight is heated

> to a suitable forging temperature and rotary pierced in one of several available types of mills which work the steel and cause it to flow helically over and around a so-called piercer-point yielding a seamless hollow billet. This billet is then roller elongated either in a succession of plug mills or in one of several mandrel mills. Finally the elongated steel is sized by further rolling without internal support in one or more of the sizing mills. . . the tension mill stretches the material between stands and actually makes wall reduction possible; the rotary sizing mill frequently is used in conjunction with one of the other mills to make final precision sizing of the outside diameter.

The extrusion process is described in the same AISI publication as follows:

> Extrusion process also starts with a conditioned steel round of desired grade, diameter and weight. This billet may be cold drilled and hot expanded, or hot punched-pierced either separately or in the extrusion process. The drilled or punched billets are hot extruded by axially forcing the material through a die and over a mandrel.

The ends of almost all oil country tubing are processed through an operation known as upset ending. Upset ending is a forging process under which the end of the tubing is flared and thickened by heating and forcing it through a die and over a mandrel. This process adds tensile strength to the tubing walls, thereby compensating for the tensile strength that is lost when the material is threaded. Other finishing operations for oil country tubular goods may include threading, coupling, and application of a rust-preventive coating.

U.S. tariff treatment

The imported oil country tubular goods that are the subject of these investigations are classified under items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the TSUS. Table 1 presents the rates of duty for imports of oil country tubular goods from countries afforded most-favored-nation treatment (col. 1 duty rates) 1/, from least developed developing countries (the final or 1987 rates), and designated Communist countries (col. 2 rates) 2/. These articles are not eligible for duty-free entry under the Generalized System of Preferences (GSP). Oil country tubular goods that are the product of Israel or of designated beneficiaries of the Caribbean Basin Economic Recovery Act enter free of duty.

1/ Col. 1 rates of duty are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(d) of the TSUS. However, such rates do not apply where preferential treatment is afforded to products of developing countries under the GSP or the Caribbean Basin Economic Recovery Act, or to products of Israel or of LDDC's under the Special rates of duty column.

2/ Col. 2 rates of duty apply to imported products from those Communist countries and areas enumerated in general headnote 3(d) of the TSUS.

Table 1.--Oil country tubular goods: U.S. rates of duty as of January 1, 1986 and January 1, 1987

(percent ad valorem)

TSUS item No.	Oil country tubular goods covered	Col. 1		Col. 2
		Jan. 1, 1986	Jan. 1, 1987	
	Pipes and tubes and blanks therefor of iron (except cast iron) or steel:			
	Welded, jointed or seamed, with walls not thinner than 0.065 inch and of circular cross section:			
610.32	0.375 inch or more in outside diameter, other than alloy steel--	1.9%	1.9%	5.5%
610.37	0.375 inch or more in outside diameter, of alloy iron or steel--	4.9% 1/	4.9% 1/	10% 1/
	Other:			
	Steel pipe conforming to API specifications for oil well casing, whether welded or seamless, having a wall thickness not less than 0.156 inch:			
	Not threaded and not otherwise advanced:			
610.39	Other than alloy steel----------	0.5%	0.5%	1%
610.40	Alloy steel---------------------	3.5% 1/	3.3% 1/	8.5% 1/
	Threaded or otherwise advanced:			
610.42	Other than alloy steel----------	6.3%	6%	20%
610.43	Alloy steel---------------------	7% 1/	6.2% 1/	28% 1/
	Other:			
	Not suitable for use in the manufacture of ball or roller bearings:			
610.49	Other than alloy iron or steel, except hollow bars-----	8.4%	8%	25%
610.52	Alloy iron or steel, except hollow bars------------------	8.4% 1/	7.5% 1/	35% 1/

1/ Additional duties are assessed on imports under this item depending on the content of chromium, molybdenum, tungsten, and vanadium, as provided for in headnote 4, schedule 6, part 2, subpart B of the TSUS.

U.S. Producers

There are 24 firms that are known to have produced oil country tubular goods in the United States during the period of these investigations. The largest producers include ***, as shown in the following tabulation (in percent):

Firm and plant locations	Share of U.S. producers' shipments, 1985
Producers in support of the petition:	
Petitioners:	
CF&I Steel Corp	***
Pueblo, CO	
Lone Star Steel Co	***
Fort Collins, CO	
Lone Star, TX	
Committee on Pipe and Tube Imports:	
Copperweld Tubing Group	***
Baltimore, MD	
Maverick Tube Corp	***
Union, MO	
Quanex Oil Country Tubular Group	***
Belville, TX	
Sawhill Tubular Division, Cyclops Corp	***
Sharon, PA	
Tex-Tube Division, Cyclops Corp	***
Houston, TX	
Other:	
KPC Inc	***
Fontana, CA	
LTV Steel Corp.	***
Aliquippa, PA	
Campbell, OH	
U.S. Steel Corp.	***
Duquesne, PA	
Fairfield, AL	
Gary, IN	
Lorain, OH	
Subtotal	***
Other producers:	
Armco	***
Ambridge, PA	
Newport	***
Newport, KY	
Other firms	***
Total	100.0

Note.--Because of rounding, figures may not add to the totals shown.

A-10

A number of these firms have ceased production of oil country tubular goods during the period under investigation: National Pipe & Tube Co. as of

January 1983, Bethlehem Steel Corp. in March 1983, Wheeling-Pittsburgh Steel Corp. in July 1984, Quanex Corp. in October 1984, Central Steel Tube Co. and North American Pipe Corp. in November 1984, American Seamless Tubing, Inc. in August 1985, and Armco, Inc. in November 1985. These firms together accounted for 18 percent of U.S. producers' shipments in 1982. 1/ Wheeling-Pittsburgh, Quanex, Central, American Seamless, and Armco accounted for *** percent of reported 1985 capacity. As of April 15, 1986, *** reported that they had suspended operations, and all other producers contacted reported low levels of production. 2/ Several of the remaining firms have shut down production in one or more of their oil country tubular goods plants, and most have idled facilities for some part of the period under investigation. Maverick Tube Corp. has filed for reorganization under the provisions of the bankruptcy laws.

U.S. Importers

There are dozens of firms which import oil country tubular goods into the United States. In general, two types of concerns--independent trading companies and U.S. subsidiaries of foreign producers--import the product. Importers frequently act as distributors, warehousing the product and filling orders from inventory. In these investigations, questionnaires were sent to all importers, as identified by U.S. Customs data, of an aggregate total during 1983-85 of 500 short tons or more of the products which enter the United States under the TSUS items which include oil country tubular goods. For each country, the largest percentage of the questionnaires sent were returned indicating that no oil country tubular goods were imported; many importers explained that they imported the other tubular products which are categorized under the TSUS items which include oil country tubular goods.

Argentina--The response rate for questionnaires sent to importers of oil country tubular goods from Argentina was 100 percent; completed questionnaires were received from three importers. ***. Imports in 1985, as reported in questionnaire responses, accounted for *** percent of imports from Argentina as identified by the corrected official statistics of the Department of Commerce, *** of imports from Argentina as identified by Special Steel Summary Invoice (SSSI) data obtained from Commerce, and *** those reported by the Argentine producer. This report presents official statistics, corrected by errata data obtained from the U.S. Census Bureau.

Canada--Questionnaires were sent to 36 potential importers of oil country tubular goods from Canada; 26 responses were received. Fourteen U.S. and Canadian firms responded that they did not import oil country tubular goods into the United States from Canada, some specifying that they imported other tubular products. Eleven completed questionnaires were received. These include responses from *** Canadian producers that export directly to the United States: ***. These Canadian producers accounted for *** percent of 1985 imports as reported in questionnaire responses. Completed responses were

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1/ According to data submitted in the preliminary investigations on oil country tubular goods from Argentina, Canada, and Taiwan. For purposes of comparison in this report, data will occasionally be presented from 1982, which spokesmen consider to be a relatively good year for the industry, whereas they state that 1983 was a year of severe depression.

2/ Phone survey by the Commission staff.

also received from *** importers of primarily reject material. Among those not responding were eight firms with Canadian addresses, three of which could not be verified by the staff, and two companies with U.S. addresses, which also could not be verified. None of these firms has been named, either by parties in support of the petition or by industry representatives with whom the staff has met, as an importer of Canadian oil country tubular goods. To the extent that questionnaire responses may not account for all U.S. imports of Canadian oil country tubular goods, it is likely that reject, rather than prime, material is excluded. 1/

Imports from Canada in 1985, as reported in questionnaire responses, accounted for *** percent of imports as identified by the estimated revised official statistics of the Department of Commerce, *** percent of imports from Canada as identified by SSSI data obtained from Commerce, and exceeded by *** percent those reported by counsel for the Canadian producers. The Commerce Department recently revised its official statistics for oil country tubular goods imports from Canada based on a review of SSSI data; this report presents the revised official 1984 figure and an estimated revised official 1985 figure for Canada in lieu of other import statistics.

Taiwan--The response rate for questionnaires sent to importers of oil country tubular goods from Taiwan was 100 percent; completed questionnaires were received from two importers. The Taiwan producer has no U.S. subsidiary or sales office; both importers were unrelated trading companies. Imports in 1985, as reported in questionnaire responses, accounted for *** percent of imports from Taiwan as identified by the official statistics of the Department of Commerce, *** of imports from Taiwan as identified by SSSI data obtained from Commerce, and *** those reported by the Taiwan producer. Commerce officials acknowledge that the official statistics for imports for Taiwan are unreliable; they state that SSSI data for Taiwan is also misrepresentative. This report will present imports of oil country tubular goods from Taiwan according to questionnaire data, believed to be the best available information.

Apparent consumption

The United States

The United States accounts for an estimated 65 percent of worldwide consumption of oil country tubular goods. On the basis of information obtained in questionnaires, apparent U.S. consumption (U.S. domestic and intracompany shipments plus imports) dropped from 4.4 million tons 2/ in 1982 to 1.5 million tons in 1983, or by 66 percent (table 2). Apparent consumption subsequently increased by 165 percent from 1983 to 1984 and then fell by 23 percent from 1984 to 1985. Apparent consumption in 1985 remained 31 percent below the level of imports in 1982.

1/ According to discussions with officials at the Department of Commerce.
2/ Unless otherwise noted, the term "ton" refers to a short ton (2,000 pounds).

Table 2.--Oil country tubular goods: U.S. producers' domestic and intracompany shipments, imports, and apparent consumption, 1983-85

(In thousands of tons)

Item	1983	1984	1985
U.S. producers' domestic and intracompany shipments	801	1,563	1,460
Imports from--			
Argentina	16	20	25
Canada 1/	29	145	150
Taiwan	***	***	***
Subtotal	***	***	***
Israel	2/	4	26
All other countries	615	2,097	1,306
Total imports 3/	661	2,307	1,539
Apparent consumption	1,462	3,870	2,999

1/ To compute U.S. consumption, imports from Canada include exports by Welded Tube, which are not subject to investigation.
2/ Less than 500 tons.
3/ Figures do not sum to totals because different sources were used.

Source: U.S. producers' shipments and imports from Taiwan, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; other imports, compiled from the official statistics of the U.S. Department of Commerce, as corrected and revised.

Throughout 1981, market analysts were projecting higher levels of oil and gas well drilling; domestic production and imports of oil country tubular goods reached record high levels as distributors bought all the product they could in order to be able to supply the anticipated demand. Imports greatly increased their market share as U.S. producers were unable to satisfy demand. A large portion of U.S. producers' shipments and imports of oil country tubular goods were not actually used in oil and gas well drilling in 1981. Instead, these shipments and imports were held in inventory by the distributors. Inventories held by distributors rose more than 70 percent during the year. 1/

By late 1981, it became apparent that demand for oil and gas was not going to increase as anticipated and, as a consequence, exploration for oil and gas dropped sharply. The level of drilling dropped to such an extent, and distributors' inventories had grown so large, that producers' inventories of oil country tubular goods continued to increase in 1982. In 1983, distributors of oil country tubular goods began to draw down their inventories and producers' inventories also decreased. Thus, in 1983, although drilling activity was higher than in 1982, U.S. producers' shipments and imports

1/ Information on distributors was obtained in part in investigations Nos. 701-TA-215 through 217 (Final).

decreased as distributors supplied more of consumption from inventory. In 1984, both domestic shipments and imports increased considerably, with imports maintaining a large market share. Some of the distributors' and producers' inventories were worked off during this period; however, excess inventories are still blamed for depressed market conditions.

Respondents assert that oil country tubular goods prices are depressed by a huge inventory overhang, currently representing some 23 to 30 months of consumption. 1/ The current consumption rate, upon which this figure is based, is extremely low. Petitioners estimate that the threading area of oil country tubular goods in inventories generally begins to deteriorate after 8 to 10 months, and after only 3 to 4 months in coastal areas. 2/ A portion of the product in inventories is aging, some 15 percent according to the most recent Lone Star Steel Yard Survey, and cannot be expected to compete with prime oil country tubular goods for down hole use; "the end user will be very reluctant to run less than prime pipe into an oil or gas well." 3/ Nevertheless, industry spokesmen agree that inventory liquidation, primarily by major oil companies like ***, has depressed oil country tubular goods prices in the market. 4/

Producers' yearend inventories of oil country tubular goods, as reported in questionnaire responses, are shown in the following tabulation (in thousands of tons):

	Yearend inventories
1982	393
1983	189
1984	270
1985	230

Producers' inventories, however, do not represent the majority of industry inventories. Producers hold mostly prime oil country tubular goods in inventory. 5/ Three estimates 6/ of industry yearend inventory levels are presented in the following tabulation (in thousands of tons):

As of yearend--	Lone Star Steel Yard Survey	Pipe Logix	Preston Pipe Report
1983	3,975	2,872	4,073
1984	4,000 (est.)	3,286	4,123
1985	3,000 (est.)	3,469	3,354

1/ Transcript of the public hearing at p. 139.
2/ Ibid, p. 48.
3/ Id. p. 52.
4/ Information regarding inventories was also obtained in staff discussions with distributors.
5/ Transcript of the public hearing at pp. 47-55.
6/ The Lone Star Steel Yard Survey calculates inventories by actually adding up stocks reported by companies contacted, and includes an estimated 90 percent of all inventories held by the industry. Pipe Logix uses apparent consumption and footage drilled to arrive at its estimate. Preston Pipe Report monitors shipment and footage drilled for its figure. Data obtained from Lone Star Steel and counsel for respondents.

These figures suggest that total industry inventories rose slightly from 1983 to 1984 and two of three studies show them falling by almost a quarter from 1984 to 1985. By including changes in total industry inventory levels in the calculation of oil country tubular goods consumption, the average trend of the above studies indicates that consumption of oil country tubular goods approximated 3.5 million tons in 1983, rose to 3.7 million tons in 1984, and fell back to 3.5 million tons in 1985. The discrepancy between consumption figures derived from producers' questionnaires and those based on these published estimates can be explained by the changes in distributors' and end users' inventories, which is reflected in the latter.

Drilling declined near the end of 1985, and industry spokesmen predict a sharp decrease in exploration in 1986. They feel that depressed energy prices and potential tax reforms will reduce economic incentives for investment in the domestic oil and gas industry. According to Hughes Tool Co., a producer of oil-drilling equipment and supplies that gathers information on oil-drilling rigs worldwide, the number of active rigs in the United States as of March 24, 1986, was 45 percent below the level of 1 year previously. 1/ The trend in estimated consumption of oil country tubular goods has usually followed the trend in the level of U.S. oil and gas drilling fairly closely. In discussions with the Commission staff, industry representatives have indicated that consumption of oil country tubular goods is down sharply so far in 1986. The Preston Pipe Report predicts that U.S. 1986 consumption of oil country tubular goods will be less than one-half of the 1985 level. 2/

Shallow wells are generally considered to be those that are 5,000 feet or less in depth. 3/ Shallow wells are less expensive to develop and they are much more numerous than deep wells; this is reflected in the average well depth figure, which appear to be relatively shallow. Information on the depth of oil and gas wells is collected by the Oil and Gas Journal. This information shows that the average depth of the wells drilled in the United States varied slightly during 1983-85, as shown in the following tabulation:

	Average depth 1/
1983	4,147
1984	4,155
1985	4,182

1/ Based on a telephone conversation with a statistician for the Oil and Gas Journal, Tulsa, OK, March 28, 1986.

U.S. oil drilling and, hence, U.S. consumption of oil country tubular goods, is concentrated in Texas, Louisiana, and Oklahoma. According to Hughes Tool Co., these three States accounted for 61 percent of total active rigs in the United States in December 1985, as shown in the following tabulation (in percent): 4/

1/ Oil and Gas Journal, March 31, 1986, p. 107.
2/ Preston Pipe Report, February 15, 1986, p. 1.
3/ Posthearing brief of the petitioners in investigations Nos. 701-TA-215 through 217 (Final), exhibit E, LTV Steel Tubular Division Response, p. 4.
4/ Oil and Gas Journal, January 27, 1986, p. 80.

State	Number of active rigs, 1985	Share of total
Texas	680	34
Louisiana	283	14
Oklahoma	251	13
Subtotal	1,214	61
Wyoming	93	5
Kansas	92	5
California	81	4
New Mexico	71	4
All other	429	22
Total	1,980	100

Note.--Figures do not total because of rounding.

Oil country tubular goods are sold by domestic mills most frequently to distributors (83.5 percent of total sales in 1985), which in turn sell the pipes to the end users in the oil drilling industry, or directly to the end users (15.9 percent of total sales in 1985); the remainder were reported as sold to processors. Distributors are middlemen that buy large quantities of oil country tubular goods, typically at a 6 percent discount, warehouse the product, and sell smaller quantities to end users. The distributor buys either unfinished or finished oil country tubular goods from the mill and finishes the product, if necessary, before selling it. The finishing operations performed by distributors include threading, upsetting, testing, and cutting the material to length.

Foreign drilling activity

Home-market demand for oil country tubular goods in Argentina, Canada, and Taiwan is dependent upon the level of oil and gas drilling. Drilling activity in these countries has not suffered the declines experienced in the United States during the period of investigation. The rig count information for each of the countries is compiled by Hughes Tool Co. and published in the Oil and Gas Journal. Argentine drilling activity, as measured by the number of active rigs, is presented in the following tabulation:

As of December	Active rigs
1983	73
1984	75
1985	77

Information on the number of meters drilled in Canada is based on data supplied by counsel for IPSCO, as published by the Canadian Petroleum Association and in Oilweek Magazine. Canadian drilling activity, as measured by average number of active rigs and number of meters drilled, is presented in the following tabulation:

Year	Average rig activity	Thousands of meters drilled
1983	120	8,166
1984	259	10,936
1985	313	12,655

Taiwan had eight active rigs as of December 1984 and seven as of December 1985.

Consideration of Alleged Material Injury to an Industry in the United States

The information presented in this section of the report was obtained from responses to questionnaires of the U.S. International Trade Commission. All known U.S. producers of oil country tubular goods in 1985 responded to the questionnaire. Complete information was not available for the facilities of ***. *** did not supply data for ***. *** supplied partial data for ***. Inclusion of that data in this report does not significantly alter the trends and ratios presented and would require suppressing all industry data to maintain confidentiality; thus, the data for *** is presented separately, in appendix D. Some other firms did not complete all sections of the questionnaire.

Data in this section are for all oil country tubular goods, including drill pipe, which accounted for less than 0.5 percent of U.S. producers' shipments in 1985. Should drill pipe be excluded from these data, the trends in capacity, production, shipments, inventories, employment, and financial experience would be the same. Data are presented for welded oil country tubular goods and for seamless oil country tubular goods in appendix E.

In these investigations and in previous investigations on oil country tubular goods, the domestic industry has argued that seamless and welded oil country tubular goods are one like product. They state that in 98 percent of the applications, API specifications state that either the seamless or welded product is acceptable, the prices of high-quality welded products are the same as the prices of comparable seamless products, and customers make no distinction between the seamless and welded product. In addition, the industry asserts that U.S. producers of seamless oil country tubular goods make significant sales of low-grade oil country tubular goods, which "compete in the same market in which low-grade welded [imported product] is sold." 1/

Counsel for foreign producers in prior investigations on oil country tubular goods have argued that the Commission find that seamless and welded pipes and tubes were distinct like products. In these investigations, respondents emphasize more specifically the differences between seamless oil country tubular goods on one hand and welded seam-annealed oil country tubular goods on the other. Counsel for respondents argue that seamless imports do not compete with seam-annealed imports and that these products should not be cumulated with each other. The seam-annealed product, they state, is potentially weaker than the seamless product. In addition, seamless and seam-annealed oil country tubular goods are produced and finished by different

1/ Posthearing brief of the petitioners in investigations Nos. 701-TA-215 through 217 (Final), pp. 2-4.

processes. As a consequence, according to counsel for the foreign producers in these and in prior investigations, the seamless product is used in certain special applications, such as drill pipe, offshore drilling, and deep wells, whereas seam-annealed oil country tubular goods are used in shallow wells. Another indication that seamless and seam-annealed oil country tubular goods are two distinct like products, according to counsel, is the difference in prices--the prices of seamless oil country tubular goods are higher than the prices of seam-annealed oil country tubular goods. 1/

According to selling price data of oil country tubular goods obtained by the Commission in its questionnaires, seamless oil country tubular goods sold at price levels comparable with those of the full-body normalized oil country tubular goods (a high-quality welded product). Reported selling prices of the seam-annealed welded oil country tubular goods were significantly less than prices of the seamless or full-body normalized oil country tubular goods. The reported price data are shown in appendix F and discussed in the price section of this report.

According to staff discussions with producers, importers, distributors, a processor, and purchasers concerning the comparability of the two forms of oil country tubular goods, all but the most conservative drillers prefer the lower cost seam-annealed welded goods in shallow wells, and the higher quality and greater strength of seamless and full-body normalized oil country tubular goods are required only in deep wells and offshore. An official at *** compared seamless and welded products to "apples and oranges" in the shallow well Appalachian market, indicating that there is a strong preference for the seam-annealed welded product because of its lower price. Also, not all end users consider even the higher quality full-body normalized welded tubulars to be comparable with seamless tubulars of the same grade. ***. End users generally report, however, that welded and seamless products are substitutable in the majority of applications. In such cases, it is full-body normalized tubulars that are most frequently used interchangeably with seamless tubulars of the same grade. Also, welded and seamless tubulars are manufactured in completely different facilities and by very different processes. An official at *** estimated that the cost for his firm of producing seamless oil country tubular goods is *** than the cost of producing welded seam-annealed oil country tubular goods.

Respondents in these investigations also maintain that oil country tubular goods of differing quality do not compete in the market place. For example, spokesmen for Algoma, a Canadian producer of high-quality tubular products, emphasize that their product is distinct from lower quality domestic and imported products in both market and price, and therefore does not compete with them. Algoma's principle customers are ***, that require high-quality oil country tubular goods. This type of end user typically purchases high-quality domestic and imported products, both seamless and full-body normalized. Foreign and domestic producers of lower quality seam-annealed oil country tubular goods are not generally accepted source mills for such

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1/ These arguments regarding the distinction between seamless and full-body normalized oil country tubular goods on one hand, and seam-annealed products on the other, can be found in the prehearing brief of IPSCO, pp. 13-17, the prehearing brief of Dalmine-Siderca, p. 18, and the prehearing brief of FEMCO, pp. 9-10.

purchasers. Also, Algoma customers have submitted letters to, and appeared in testimony before, the Commission, stating that Algoma's prices are such that their product cannot even compete in the market against domestic price leaders of similar products, much less compete against lower quality oil country tubular goods.

At the other end of the range of oil country tubular goods, Canadian respondents assert that the markets for prime oil country tubular goods and reject material differ to such an extent that they should be considered different industries. Reject material is generally sold by the producer directly to a separate company that specializes in selling structural and limited service products; IPSCO and, reportedly, Maverick are exceptions to this rule because they market their own reject material. 1/ Structural tubing serves primarily in construction whereas limited use reject material can be used down hole in shallow wells. There appears to be no clear distinction between structural and limited use material. Reject tubular products are sold without any warranty; producers and secondary market pipe handlers cannot determine the end use of these products. Officials at *** estimated that, of the products *** in sizes suitable for down hole use, about one-half are in fact put to that end use. Several importers of reject material alleged, in questionnaire responses, that the U.S. industry does not adequately supply the market for structural and limited service pipe in the United States. Distributors and end users of *** products have indicated that, if U.S. and Canadian pricing and quality differ for limited service material, it is the domestic product that is preferable in terms of pricing and the imported product that is preferable in terms of quality. Also, a domestic source of limited service named in these statements is ***, which has now ceased production of oil country tubular goods. *** also reported that Canadian law prohibits the down hole use of noncertified tubular products; thus the market for limited use oil country tubular goods in Canada is restricted legally.

Finally, petitioners and respondents dispute the extent to which oil country tubular goods compete when primary market areas are distinct. Argentine products enter through Houston and are sold from there. 2/ In investigation No. 731-TA-191 (Final), however, a lost sale was confirmed involving Argentine oil country tubular goods in ***. Canadian oil country tubular goods enter through northern ports of entry and a large quantity is marketed in the northern and central areas of the United States. IPSCO, although maintaining a Houston sales office, reported that in 1984-85 *** percent of its sales were to distributors or end users in Texas, Oklahoma, and Louisiana. IPSCO receives numerous purchase inquiries from companies located in those states but the only known inventories of IPSCO's oil country tubular goods there consist of ***. 3/ Algoma reported that its sales in Texas, Oklahoma, and Louisiana represented *** of its 1984 U.S. shipments and *** of its 1985 U.S. shipments. Sonco reported that it sold *** oil country tubular goods in Texas, Oklahoma, and Louisiana in 1984-85. Based on this information, at least *** of 1984, and *** of 1985, total U.S. sales of Canadian oil country tubular goods, as reported in questionnaire responses, were marketed in Texas, Oklahoma, and Louisiana. These sales were ***

1/ Prehearing brief of IPSCO at pp. 35-38.
2 Transcript of the public hearing at p. 205.
3/ Affidavit of S. Benton Vinzant, app. D. and transcript of the public hearing at p. 171.

seamless Canadian products. Taiwan oil country tubular goods enter the United States through *** and counsel reports that they are marketed ***. Israeli products enter via Houston and are all sold to distributors and end users in the gulf coast area. 1/

U.S. producers' capacity, production, and capacity utilization

Oil country tubular goods are produced in the same facilities as other standard and line pipes and tubes and the downtime required to switch to and from production of these other pipes and tubes, and oil country tubular goods is considered by the industry to be minimal--often less than 1 hour. The capacity reported by U.S. producers, therefore, includes facilities used not only for oil country tubular goods, but for other pipe and tube products also. This results in capacity utilization rates for oil country tubular goods that appear to be very low because the rates have been computed on the basis of employing total tubular productive capacity exclusively in the manufacture of oil country tubular goods; in fact, these facilities can be and are employed for the production of other tubular products.

U.S. capacity to produce oil country tubular goods fell by 4.1 percent during 1983-85, from around 5.8 million to 5.5 million tons per year (table 3). In 1981, several firms initiated programs to expand their capacity to produce oil country tubular goods. Many then either abandoned or delayed their planned expansions in 1982 and 1983, when their shipments of oil country tubular goods plummeted and they drastically cut back production. Capacity fell by 8.5 percent from 1983 to 1984 as several firms shut down tubular product production facilities. Capacity then rose 4.8 percent from 1984 to 1985. Most of the increase is due to the expansion of productive capacity by ***. Capacity was not greatly reduced by closures during the period.

Table 3.--Oil country tubular goods: U.S. production, capacity, and capacity utilization, 1983-85

Year	Production 1/	Capacity	Capacity utilization 1/
	1,000 tons		Percent
1983	554	5,777	9.6
1984	1,672	5,288	31.6
1985	1,471	5,540	27.3

1/ Does not include data on ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

1/ Transcript of the public conference in investigations Nos. 701-TA-271 (Preliminary) and 731-TA-318 (Preliminary) at p. 32.

U.S. production of oil country tubular goods decreased dramatically from 1982 to 1983. Production increased by 201.8 percent from 1983 to 1984 but remained 17.7 percent below production in 1982. Production then decreased by 12.0 percent from 1984 to 1985, remaining 22.2 percent below 1982 production levels.

With the decrease in production, utilization of productive capacity devoted to the manufacture of oil country tubular goods fell to 9.6 percent in 1983 and then increased to 31.6 percent in 1984 as *** shut down oil country tubular goods facilities. Capacity utilization declined again between 1984 and 1985 to 27.3 percent. Most U.S. producers reported that their U.S. oil country tubular goods production facilities were closed for a portion of 1983-85.

CF&I, Lone Star, and U.S. Steel reported capacity utilization, based on total production in their facilities in which oil country tubular goods are produced, as shown in the following tabulation (in percent):

	1983	1984	1985
CF&I 1/	2/	42	31
Lone Star 3/	***	***	***
U.S. Steel 4/	***	***	***

1/ Transcript of the public hearing at p. 43.
2/ Not available.
3/ Posthearing brief at app. 2.
4/ Response to questions from the Commission, p. 7

U.S. producers' shipments

U.S. producers' shipments of oil country tubular goods followed the same trend as production (table 4). Total shipments increased by 93.7 percent from 1983 to 1984 and then declined by 5.9 percent from 1984 to 1985. Total shipments were 82.2 percent higher in 1985 than in 1983.

Table 4.--Oil country tubular goods: U.S. producers' shipments, 1983-85

(In thousands of tons)

Year	Intracompany shipments	Domestic shipments	Export shipments	Total
1983	***	***	13	814
1984	***	***	15	1,578
1985	***	***	24	1,484

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

U.S. producers' inventories

U.S. producers' yearend inventories of oil country tubular goods were equivalent to 25 percent of total annual shipments in 1983 (table 5). Inventories fell to 17 percent of shipments in 1984 and decreased again to 15 percent in 1985.

Table 5.--Oil country tubular goods: U.S. producers' inventories and shipments, 1983-85

Year	Inventories	Total shipments	Ratio of inventories to shipments
	1,000 tons		Percent
1983 1/	189	757	25
1984	270	1,578	17
1985	230	1,484	15

1/ Excludes data for ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Employment

Firms accounting for an average of over 96 percent of production and shipments during 1983-85 provided information on employment in the production of oil country tubular goods. The number of workers decreased from 12,897 in 1982 to 3,876 in 1983. Employment then increased by 92.5 percent from 1983 to 1984 and by another 0.5 percent from 1984 to 1985 (table 6). However, employment in 1985 remained 41.9 percent below the level of employment in 1982. The producers reported that all of the decrease in employment can be attributed to lack of orders. Most of these workers belong to the United

Table 6.--Average number of production and related workers engaged in the manufacture of oil country tubular goods, hours worked by such workers, wages paid, and total compensation, 1983-85

Year	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	Per hour	
1983	3,876	7,212	$12.80	$19.41
1984	7,462	14,576	13.07	17.77
1985	7,498	13,768	14.07	19.98

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Steelworkers of America. Their total compensation decreased by 8.5 percent, from $19.41 per hour in 1983 to $17.77 per hour in 1984. This decrease is due in part to the fact that a number of large, higher wage, integrated steel companies ceased production of oil country tubular goods in 1983-84; it can also be attributed to wage concessions negotiated between the unions and the employers. Total compensation increased to $19.98 per hour in 1985.

Financial experience of U.S. producers

Twelve firms supplied usable income-and-loss data concerning their overall establishment operations and their operations producing oil country tubular goods during accounting years 1982-85. These 12 firms accounted for 88 percent of all U.S. shipments of oil country tubular goods in 1985. In the aggregate, the reporting firms were profitable in 1982, both in their overall operations and in their operations producing oil country tubular goods. In 1983, operating losses occurred for both the overall establishments and in the production of oil country tubular goods, and these losses continued in 1984 and 1985.

Overall establishment operations.--Net sales of all products produced in the establishments within which oil country tubular goods are produced dropped from $3.5 billion to $1.8 billion, or by 50.4 percent, from 1982 to 1983 (table 7). Net sales rose 58.7 percent to $2.8 billion in 1984, then fell to $2.7 billion in 1985. The 12 reporting firms earned an operating income of $240.4 million, or 6.8 percent of net sales, in 1982. Operating losses totaled $470.3 million in 1983, $213.3 million in 1984, and $219.5 million in 1985. The operating loss margins were 26.8 percent in 1983, 7.7 percent in 1984, and 8.2 percent in 1985. Of the 12 firms, 6 reported operating losses in 1982, 10 suffered such losses in 1983, 7 did so in 1984, and 6 reported operating losses in 1985. The companies achieved a net income before taxes of $215.3 million in 1982, or 6.1 percent of sales. Net losses before taxes were $584.5 million in 1983, $313.4 million in 1984, and $407.8 million in 1985. The net loss margins were 33.4 percent in 1983, 11.3 percent in 1984, and 15.3 percent in 1985. Nine firms reported net losses in 1982, ten firms in 1983, nine firms in 1984, and seven firms in 1985.

Several of the companies that produce oil country tubular goods also manufacture various pipes and tubes in the same establishments. Some of these products have been the subject of other International Trade Commission investigations and they generally revealed a recent history of unprofitability. On the basis of information received by the Commission, the allocation methods for oil country tubular goods appear to be reasonable.

Table 7.--Income-and-loss experience of U.S. producers 1/ on the overall operations of their establishments within which oil country tubular goods are produced, accounting years 1982-85

Item	1982	1983	1984	1985 2/
Net sales 3/----1,000 dollars--	3,535,234	1,752,585	2,782,021	2,666,737
Cost of goods sold---------do--	3,141,760	2,109,537	2,892,557	2,789,307
Gross profit or (loss)-----do--	393,474	(356,952)	(110,536)	(122,570)
General, selling, and administrative expenses-------do--	153,054	113,353	102,828	96,972
Operating income or (loss)-do--	240,420	(470,305)	(213,364)	(219,542)
All other income or (expense) 4/------------do--	(25,081)	(114,226)	(100,083)	(188,272)
Net income or (loss) before income taxes 5/----------do--	215,339	(584,531)	(313,447)	(407,814)
Depreciation and amortization expense-----------do--	85,267	117,915	123,111	132,967
Cash flow or (deficit) from operations---------------do--	300,606	(466,616)	(190,336)	(274,847)
Ratio to net sales of--				
Cost of goods sold--percent--	88.9	120.4	104.0	104.6
Gross profit or (loss)---do--	11.1	(20.4)	(4.0)	(4.6)
General, selling, and administrative expenses--do--	4.3	6.5	3.7	3.6
Operating income or (loss) percent--	6.8	(26.8)	(7.7)	(8.2)
Net income or (loss) before income taxes----do--	6.1	(33.4)	(11.3)	(15.3)
Number of firms reporting:				
Operating losses--------------	6	10	7	6
Net losses------------------	9	10	9	7

1/ These firms are ***.
2/ ***.
3/ Data for *** are for their operations producing oil country tubular goods only.
4/ These include the nonrecurring charges indicated in the section on investment in productive facilities.
5/ *** firms, accounting for *** percent of reported 1985 sales, did not provide the Commission with data on interest expense and other income or expenses. Hence, net income (loss) before taxes may be overstated or understated.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

<u>Operations on oil country tubular goods</u>.--The income-and-loss experience of the 12 U.S. producers on their operations producing oil country tubular goods is presented in table 8. Net sales plunged from $2.0 billion in 1982 to $365 million in 1983, or by of 81.7 percent. Net sales rose 165.6 percent to $970 million in 1984; however, the sales value remained approximately one-half of that in 1982. Net sales totaled $968 million in 1985. In 1982, the 12 reporting producers earned an operating income of $342.1 million, or 17.2 percent of net sales. Operating losses totaled $217.1 million in 1983, $144.4 million in 1984, and $110.7 million in 1985. The operating loss margins were 59.4 percent in 1983, 14.9 percent in 1984, and 11.4 percent in 1985. Of the 12 firms, 4 reported operating losses for 1982, 10 firms sustained operating losses in 1983, and 7 firms did so in both 1984 and 1985.

Table 8.--Income-and-loss experience of U.S. producers 1/ on their operations producing oil country tubular goods, accounting years 1982-85

Item	1982	1983	1984 2/	1985 3/
Net sales-------1,000 dollars--	1,994,989	365,210	970,165	968,495
Cost of goods sold---------do--	1,558,633	528,954	1,057,386	1,035,975
Gross profit or (loss)-----do--	436,356	(163,744)	(87,221)	(67,480)
General, selling, and administrative expenses-------do--	94,276	53,330	57,201	43,233
Operating income or (loss)-do--	342,080	(217,074)	(144,422)	(110,713)
Depreciation and amortization expense-----------do--	36,440	32,068	57,287	57,474
As a share of net sales:				
Cost of goods sold--percent--	78.1	144.8	109.0	107.0
Gross profit or (loss)---do--	21.9	(44.8)	(9.0)	(7.0)
General, selling, and administrative expenses--do--	4.7	14.6	5.9	4.4
Operating income or (loss) ----------------------do--	17.2	(59.4)	(14.9)	(11.4)
Number of firms reporting operating losses-------------	4	10	7	7
Number of firms reporting data-	12	12	12	11

1/ These firms are ***.
2/ ***.
3/ ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

After a profitable year in 1982, both the nonintegrated and integrated producers generally experienced operating losses from 1983 to 1985 (table 9).

Table 9.--Income-and-loss experience of U.S. producers on their operations producing oil country tubular goods, by nonintegrated producers and integrated producers, accounting years 1982-85

Item	1982	1983	1984	1985
	Value (1,000 dollars)			
Net sales:				
Nonintegrated firms	381,400	147,944	314,173	251,189
***	***	***	***	***
Total	1,994,989	365,210	970,165	468,495
Gross profit or (loss):				
Nonintegrated firms	60,660	(24,058)	(13,794)	5,018
***	***	***	***	***
Total	436,356	(163,744)	(87,221)	(67,480)
Operating income or (loss):				
Nonintegrated firms	38,563	(35,688)	(24,788)	(4,596)
***	***	***	***	***
Total	342,080	(217,074)	(144,422)	(110,713)
	Percent of net sales			
Gross profit or (loss):				
Nonintegrated firms	15.9	(16.3)	(4.4)	2.0
***	***	***	***	***
Weighted average	21.9	(44.8)	(9.0)	(7.0)
Operating income or (loss):				
Nonintegrated firms	10.1	(24.1)	(7.9)	(1.8)
***	***	***	***	***
Weighted average	17.1	(59.4)	(14.9)	(11.4)

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Several large integrated producers closed down their oil country tubular goods operations during 1983-85. 1/ A summary of these operations is shown in the following tabulation (in million of dollars):

	1982	1983	1984	1985
Net sales	$383	$92	***	***
Cost of goods sold	392	182	***	***
Gross loss	(9)	(90)	***	***
General, selling, and administrative expenses	24	10	***	***
Operating loss	(33)	(100)	***	***

1/ These firms are ***. ***.

The data for these companies, obtained from questionnaires in previous investigations, are combined with questionnaire responses in the current investigations (table 8) and summarized in table 10.

Table 10.--Income-and-loss experience of U.S. producers on their operations producing oil country tubular goods, current and past producers, accounting years 1982-85

Item	1982	1983	1984	1985
Net sales--------1,000 dollars--	2,378,492	456,701	***	***
Cost of goods sold----------do--	1,951,121	710,771	***	***
Gross profit or (loss)------do--	427,371	(254,070)	***	***
General, selling, and administrative expenses--------do--	118,304	63,614	***	***
Operating income or (loss)-do--	309,067	(317,684)	***	***
As a share of net sales:				
Cost of goods sold--percent--	82.0	155.6	***	***
Gross profit or (loss)---do--	18.0	(55.6)	***	***
General, selling, and administrative expenses--do--	5.0	13.9	***	***
Operating income or (loss) percent--	13.0	(69.6)	***	***
Number of firms reporting operating losses--------------	7	14	***	***
Number of firms reporting data-	16	16	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

According to information developed by the Commission, 1/ for the year ending June 30, 1985, the U.S. carbon and alloy steel producers sustained losses of 6.1 percent on their plate operations, 0.6 percent on their sheet and strip operations, and 5.5 percent on their bar operations. In comparison, they sustained a loss of 19.5 percent on their oil country tubular goods operations.

Capital expenditures.--Seven firms supplied data concerning their capital expenditures on oil country tubular goods during the reporting period. In 1982, following a year of record sales, several U.S. producers of oil country tubular goods completed expansion programs that increased their capacity to produce oil country tubular goods. These expenditures dropped to $3.1 million in 1983, increased to $4.8 million in 1984, and fell again in 1985 to $1.9 million (table 11).

1/ Annual Survey Concerning Competitive Conditions in the Steel Industry . . ., USITC Publication 1729, August 1985, p. 10.

Table 11.--Oil country tubular goods: U.S. producers' capital expenditures, 1983-85

(In thousands of dollars)

Item	1983	1984	1985
Land and land improvements	1	0	75
Buildings and leasehold improvements	195	68	160
Machinery, equipment, and fixtures	2,922	4,705	1,655
Total	3,118 1/	4,773	1,890

1/ ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Investment in productive facilities.--Six firms supplied data concerning their investment in productive facilities employed in the production of oil country tubular goods. As shown in table 12, their aggregate investment in facilities employed in the production of oil country tubular goods, valued at cost, rose from $139.1 million as of the end of 1983 to $154.2 million as of the end of 1985. The book value of such assets was $74.1 million as of yearend 1983, $78.1 million as of yearend 1984, and $74.3 million as of yearend 1985.

Table 12.--Oil country tubular goods: U.S. producers' end-of-period valuation of fixed assets, 1983-85

(In thousands of dollars)

Item	1983	1984	1985
Original cost	139,121	151,472	154,216
Book value	74,096	78,119	74,253

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

The following companies reported nonrecurring charges to their operations:

* * * * * * *

Research and development expenses.--Three firms supplied data concerning their research and development expenses incurred in the production of oil country tubular goods. Such expenditures declined annually from *** 1983 to *** 1984 to *** 1985, as shown in the following tabulation (in thousands of dollars):

	Value
1983	***
1984	***
1985	***

Capital and investment.--Pursuant to section 771(7)(C)(iii)(III) of the Trade Act, the Commission asked U.S. producers to describe and explain the actual and potential negative effects, if any, of imports of oil country tubular goods from Argentina, Canada, and Taiwan on their firm's growth, investment, and ability to raise capital. The reply of *** is included below:

> Imports of tubular goods products have reduced the tubular goods market demand for *** products. This reduced demand has resulted in decreased sales, profitability, and employment for ***. The decrease in profitability has resulted in a decreased ability to raise capital, either through equity or debt financing.

*** noted that the subject imports have caused the postponement of a *** expansion and modernization plan. Elsewhere in its questionnaire response, *** listed *** in projects that have been deferred because of conditions in the oil country tubular goods industry.

The Question of the Threat of Material Injury

In its examination of the question of threat of material injury to an industry in the United States, the Commission may take into consideration, among other relevant factors, increases of inventories of the subject merchandise in the United States, any increases in productive capacity or existing unused capacity in the exporting country likely to result in an increase in exports of the subject merchandise to the United States, any rapid increase in imports of the subject merchandise to the United States, an increase in U.S. market penetration, any substantial increase in inventories of the merchandise in the exporting country, the probability that the price of the subject imported product will have a depressing or suppressing effect on the domestic prices of the merchandise, and the potential for product shifting, if production facilities owned or controlled by the foreign manufacturers, which can be used to produce products subject to investigation under section 701 or section 731, or to final orders under section 706 or section 736, are also used to produce the merchandise under investigation.

Information on the market penetration and price effects of the subject products is presented in the market penetration and pricing sections of this report. Information on the other factors listed above is discussed in this section of the report.

U.S. importers' inventories

Yearend inventories reported by U.S. importers of oil country tubular goods from Argentina, as a percent of their U.S. shipments of oil country tubular goods, were *** percent in 1983, *** percent in 1984, and *** percent in 1985 (table 13). This is mainly because of ***. For Canadian imports,

yearend inventories were ***. Yearend inventories of Taiwan oil country tubular goods represented ***.

Table 13.--Oil country tubular goods: Importers' end-of-period inventories and shipments of the product imported from Argentina, Canada, and Taiwan, 1983-85

* * * * * * *

The foreign industries and their capacity to generate exports

Argentina.--Dalmine Siderca is the only known Argentine exporter of oil country tubular goods to the United States, according to the final determination by the Department of Commerce. The firm has a seamless tubular mill which, counsel states, operated at ***. ***. Dalmine Siderca exports approximately *** of its oil country tubular goods production. The U.S. market accounted for *** (table 14).

Table 14.--Oil country tubular goods: Dalmine Siderca's exports of oil country tubular goods to principal markets, 1983-85

Item	1983	1984	1985
Exports to:			
China----------1,000 tons	***	***	***
Latin America----------do	***	***	***
United States----------do	***	***	***
U.S.S.R.----------do	***	***	***
All other markets----------do	***	***	***
Total----------do	***	***	***
Exports to the United States as a share of total exports----------percent	***	***	***

Source: Derived from data submitted by counsel for Dalmine Siderca.

Note.--Because of rounding, figures may not add to the totals shown.

Canada.--Production of oil country tubular goods in Canada by Algoma, IPSCO, Sonco, and Stelco increased from *** 1983 to *** 1984, and then fell *** in 1985 (table 15). Production increased *** from 1983 to 1985. Home-market shipments by these producers totaled ***. Exports to the United States by these producers and Christianson Pipe, Ltd., ***, rose from *** 1983 to *** 1984 and then fell *** 1985; these accounted for ***. This information is presented by company in app. G. Also, Prudential Steel Ltd. (Prudential) exported *** tons of oil country tubular goods to the United States in 1985; this accounted for *** of total shipments. The facility operated at *** percent of capacity. Comparable data are not available for 1983-84. *** also sell reject material to companies that export to the United States; these exports are not included in the data supplied on behalf of the Canadian respondents.

Table 15.--Oil country tubular goods: Industry and trade data for Canada, 1/ 1983-85

Item	1983	1984	1985
Capacity----------1,000 tons------	***	***	***
Production----------do------	***	***	***
Capacity utilization----------percent------	***	***	*** 2/
Domestic shipments----------1,000 tons------	***	***	***
Exports to:			
United States----------1,000 tons------	***	***	***
Others----------do------	***	***	***
Total----------do------	***	***	***
Yearend inventories----------do------	***	***	***

1/ Includes Algoma, IPSCO, Sonco, and Stelco. This information is presented by company in app. G. Also includes Christianson Pipe in exports to the United States.

2/ This figure is based on production only of oil country tubular goods in facilities in which other tubular products are also manufactured; comparable U.S. figures are presented in the section on U.S. producers' capacity, production, and capacity utilization. Capacity utilization including total production by *** in their facilities in which oil country tubular goods are manufactured would be ***.

Source: Compiled from data submitted by counsel for the producers in Canada.

Taiwan.--The Far East Machinery Company is the only producer of oil country tubular goods in Taiwan and is responsible for all exports of the subject products to the United States, according to Commerce in its final determination. Production of oil country tubular goods in Taiwan, as reported by counsel for the foreign producer, amounted to *** (table 16). The company produced ***. ***. In a recent investigation, the Commission determined that an industry in the United States is injured by imports of welded carbon steel standard pipe from Taiwan. Counsel for FEMCO reports that the Taiwan producer can manufacture standard pipe in the same facilities as oil country tubular

Table 16.--Oil country tubular goods: Industry and trade data for Taiwan, 1983-85

Item	1983	1984	1985
Capacity----------tons----	***	***	***
Production----------do----	***	***	***
Capacity utilization----------percent----	***	***	***
Domestic shipments:----------tons----	***	***	***
Exports to the United States----------do----	***	***	***

Source: Compiled from data submitted by counsel for the Far East Machinery Co., Ltd.

goods but the inverse is not possible. FEMCO's standard pipe facilities reportedly lack the finishing and testing operations that oil country tubular goods production requires.

Consideration of the Causal Relationship Between Alleged Material Injury or the Threat Thereof and the Subsidized and LTFV Imports

U.S. imports

Four sources of data have been considered during the course of this investigation in an attempt to accurately quantify U.S. imports of oil country tubular goods for presentation in this report. The primary souce of data has been the official import statistics of the U.S. Department of Commerce. During 1983-85, oil country tubular goods, both those meeting and those not meeting API specifications, frequently entered the United States under the same TSUS items as tubular goods not under investigation. The Department of Commerce has compiled a concordance of the TSUS items for several broad categories of steel pipes and tubes. This concordance was based on an analysis in 1984 of information contained in Special Steel Summary Invoices (SSSI's), special customs documents completed for all imports of steel products. One of the pipe and tube categories in the concordance is oil country tubular goods. For each TSUS item, the concordance is used to allocate the quantity that is oil country tubular goods and the quantity that is other types of steel pipes and tubes. The concordance was determined using imports from all countries and Commerce officials acknowledge that it may be less accurate when applied on a country-specific basis. Respondents in these investigations question the accuracy of the concordance with respect to their individual countries, maintaining that it overestimates actual imports. Errata information has been used to correct the published official figures for Argentina; this report presents official 1983, and corrected official 1984 and 1985 statistics for Argentina. In the case of Canada, the 1984 and January-June 1985 import statistics for oil country tubular goods were revised by Commerce. A revised full-year 1985 figure has been estimated, in consultation with Commerce officials. This report presents the official 1983, the revised official 1984, and the estimated revised official 1985 figures for Canada. Commerce officials acknowledge that the official statistics for Taiwan are unreliable.

Another set of import figures is totals taken directly from the SSSI's themselves. These data are country specific but may also be flawed because of the way that the information is compiled and reported. ***. Commerce officials feel that the SSSI data for imports of oil country tubular goods from Argentina, Canada, and Taiwan are not more accurate than official Commerce statistics.

Import data are also available from questionnaire responses. The preparation of, and response rate for, importers' questionnaires is detailed in the section on U.S. importers. This report will present imports from Taiwan based on questionnaire responses as the best available source of import data for oil country tubular goods from Taiwan.

A-32

Finally, foreign producers have submitted information regarding their exports of oil country tubular goods to the United States. These data, which

are also presented in this report, may differ from U.S. sources because of transportation time. Also, complete information regarding the exports of all Canadian producers of oil country tubular goods was not made available to the Commission. The data are known to exclude one exporter of reject material.

U.S. imports of oil country tubular goods from all countries, based on official statistics, declined from 2.5 million tons in 1982 to 661,000 tons in 1983, or by 74 percent. Imports then rose to 2.3 million tons in 1984, or by 249 percent and fell by 33 percent to 1.5 million tons in 1985 (table 17).

Table 17.--Oil country tubular goods: U.S. imports for consumption, from selected sources, 1983-85

Source	1983	1984	1985
	Quantity (1,000 tons)		
Argentina	16	20	25
Canada 1/	***	***	***
Taiwan	***	***	***
Subtotal	***	***	***
Japan	267	662	571
Korea	49	286	183
Italy	140	295	126
West Germany	51	336	122
Israel	2/	4	26
All other	108	512	303
Total 3/	661	2,307	1,539
	Value (million dollars)		
Argentina	8	10	13
Canada	***	***	***
Taiwan	***	***	***
Subtotal	***	***	***
Japan	156	387	390
Korea	16	109	72
Italy	86	126	76
West Germany	26	160	69
Israel	4/	1	10
All other	56	218	148
Total 4/	371	1,126	882

1/ Excludes exports as reported by Welded Tube.
2/ Less than 500 tons.
3/ Figures do not sum to totals because different sources were used and Welded Tube data were omitted from the Canadian statistics.
4/ Less than $500,000.

Source: Imports from Taiwan based on questionnaire data; other imports, compiled from official statistics of the U.S. Department of Commerce, corrected and revised as previously noted.

The principal sources of these 1985 imports were Japan, the Republic of Korea (Korea), Canada, Italy, and the Federal Republic of Germany (West Germany), as shown in the following tabulation:

Source	Share (percent)
Argentina	1.6
Canada	***
Taiwan	***
Subtotal	***
Japan	37.0
Korea	11.9
Italy	8.2
West Germany	7.9
Israel	1.7
All other	19.8
Total 1/	100.0

1/ Figures do not sum to the totals because different sources were used and Welded Tube data were omitted from the Canadian statistics.

Argentina.--According to official statistics, corrected as previously noted, imports of oil country tubular goods from Argentina increased from 16,000 tons in 1983 to 20,000 tons in 1984 and to 25,000 tons in 1985. Imports therefore increased 58 percent from 1983 to 1985. As a share of total imports, those from Argentina fell from 2.4 percent in 1983 to 0.9 percent in 1984 and then rose to 1.6 percent in 1985. Over 99 percent of the imports from Argentina entered through the ports of Houston, TX, and New Orleans, LA.

Counsel argues that the Department of Commerce import statistics for oil country tubular goods from Argentina include misclassified material that is not, and will not be used as, oil country tubular goods. The respondents maintain that, in 1985, the Commerce statistics overestimate imports of the subject material from Argentina by *** percent. Dalmine Siderca has the only API-certified mill in Argentina. Also, Dalmine is a seamless producer; however, *** percent of 1985 Argentine oil country tubular goods imports entered under a welded TSUS item. According to the foreign producer, Argentine exports of oil country tubular goods to the United States ***. Counsel for the respondents also argues that the rise in imports from Argentina in 1985 is due in part to ***.

Canada.--According to the official statistics, revised as noted and excluding shipments as reported by Welded Tube, imports of oil country tubular goods from Canada increased from ***. As a share of total imports, those from Canada rose ***. Imports of Canadian oil country tubular goods by port of entry are shown in the following tabulation (in percent):

Port of entry	1985
Detroit, MI	51.1
Buffalo, NY	23.0
Great Falls, MT	17.1
Anchorage, AL	4.0
All other	4.8
Total	100.0

Counsel on behalf of the Canadian producers allege that Commerce statistics greatly misrepresent imports of the subject material from Canada. Respondents maintain that four major Canadian mills and Christianson Pipe shipped ***. Exports to the United States by these companies increased by 365 percent during the period under investigation. In addition, Prudential exported *** to the United States in 1985; comparable data are not available for 1983-84.

Imports of Canadian oil country tubular goods as reported in questionnaire responses are slightly higher than the figures provided on behalf of the Canadian respondents. No known significant importer of Canadian oil country tubular goods failed to respond to the questionnaire. These data show that imports increased *** for a total increase of 206 percent during the period under investigation.

Based on conversations with Commerce officials and industry representatives, the data obtained in questionnaires is believed to represent the vast majority of prime oil country tubular goods imported from Canada. The discrepancy between questionnaire data and revised official Commerce statistics is therefore largely because of reject material from Canada that may be marketed as limited service oil country tubular goods. Commerce spokesmen explain that non-API-certified tubular products may be classified by Customs as oil country tubular goods based on the fact that documentation shows that they are being purchased by a distributor or end user of oil country tubular goods, even though their eventual end use is not known.

Taiwan.--According to questionnaire responses, imports of oil country tubular goods from Taiwan ***. Based on these figures, as a share of total imports, those from Taiwan were ***. FEMCO is the only producer and exporter of Taiwan oil country tubular goods, and the Department of Commerce has verified that Taiwan exports from January 1-August 1, 1985, equaled the exports that FEMCO reported to the Commission for all of 1985, as included in this report. According to counsel for the foreign producer, ***. According to questionnaire responses, Taiwan oil country tubular goods entered the United States through ***.

Voluntary restraint agreements

On January 11, 1985, the Office of the United States Trade Representative announced an agreement with the European Community (EC) on imports of steel pipes and tubes. The agreement, effective from January 1, 1985, through

A-35

December 31, 1986, was designed to reduce the EC's share of the U.S. pipe and tube market from 14.6 percent held during January-October 1984 to 7.6 percent in 1985 and 1986. In 1985, imports from the EC (not including Spain and Portugal) accounted for 11.0 percent of U.S. apparent consumption of oil country tubular goods. Since the announcement of the agreement with the EC, voluntary restraint agreements (VRA's) have been signed with Australia, Austria, Brazil, Czechoslovakia, East Germany, Finland, Hungary, Japan, Korea, Mexico, Poland, Portugal, Romania, South Africa, Spain, Venezuela, and Yugoslavia.

Market penetration by the allegedly subsidized and LTFV imports

The share of the market for oil country tubular goods supplied by imports from all sources increased from 45.1 percent in 1983 to 59.6 percent in 1984, and then declined to 51.3 percent in 1985 (table 18).

The share of the U.S. market supplied by oil country tubular goods from Argentina declined from 1.1 percent in 1983 to 0.5 percent in 1984 before rising to 0.8 percent in 1985. The share of the U.S. market supplied by the subject imports from Canada increased from ***. The share of the U.S. market supplied by the subject imports from Taiwan ***. Using consumption computations that include adjustments in total industry inventories, presented in this report in the section on apparent consumption, the shares of consumption supplied by imports from all three countries in 1983 would be sharply reduced. In 1984, the shares would be insignificantly greater, and in 1985 they would be very slightly smaller.

Table 18.-- Oil country tubular goods: Shares of U.S. consumption supplied by Argentina, Canada, Taiwan, all other countries, and U.S. producers, 1983-85

Item	1983	1984	1985
U.S. consumption--------------1,000 tons--	1,462	3,870	2,999
Share of U.S. consumption supplied by:			
Argentina----------------------percent--	1.1	0.5	0.8
Canada 1/------------------------do-----	***	***	***
Taiwan---------------------------do-----	***	***	***
Israel---------------------------do-----	2/	0.1	0.9
Subtotal-----------------------do-----	***	***	***
All other------------------------do-----	42.2	55.6	44.8
U.S. producers-------------------do-----	54.8	40.3	48.7
Total--------------------------do-----	100.0	100.0	100.0

1/ Excludes the shipments of Welded Tube.
2/ Less than 0.05 percent.

Source: Consumption figures and imports from Taiwan, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission. Other import figures, compiled from the official statistics of the U.S. Department of Commerce, as corrected and revised.

Note.--Figures do not add to total because of rounding.

Prices

U.S. producers of oil country tubular goods generally quote their prices on an f.o.b. mill basis, with some publishing price lists. U.S. producers often equalize freight with the domestic mill nearest to the specific customer. 1/ Importers generally quote prices on an f.o.b. port-of-entry or U.S. warehouse basis. The price of a given oil country tubular goods product depends on several factors including wall thickness, outside diameter, method of production 2/, grade of steel, and the extent and type of end finishing. 3/

Producers and importers were asked to provide their selling prices for the following three representative size categories of oil country tubular goods:

API oil field casing, 4-1/2-inch outside diameter by 10.23 pounds per foot for P/E and 10.5 pounds per foot for T&C, seamless and welded;

API oil field casing, 5-1/2-inch outside diameter by 16.87 pounds per foot for P/E and 17 pounds per foot for T&C, seamless and welded;

API oil field tubing, 2-3/8-inch outside diameter by 4.43 pounds per foot for P/E and 4.7 pounds for T&C, external upset end, seamless and welded.

Ten U.S. producers of oil country tubular goods, 2 importers of Argentine oil country tubular goods, 3 importers of Canadian oil country tubular goods and 3 importers of Taiwan oil country tubular goods reported some price data as requested, but not necessarily for each product or each period. The weighted-average net selling prices and quantities based on price data reported by U.S. producers and importers are shown by product categories in appendix tables F-1 through F-7. 4/

In addition to the price data requested from producers and importers, questionnaires were also sent to purchasers of oil country tubular goods in four market areas. These market areas were (1) Houston, TX; (2) Tulsa, OK; (3) New Orleans, LA; and (4) Columbus, OH. The market areas were defined as encompassing a 200-mile radius for each of the cities. Responses were

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1/ In the practice of freight equalization, a U.S. producer supplying a customer located closer to a competing producer will absorb any differences in freight. The more distant producer charges the customer's account for freight costs as if the product were shipped from the closer producer.

2/ The major methods of production are welded and seamless. Within the welded category there are two major types of welding processes--ERW seam-annealed (seam-annealed) and ERW full-body normalized (full-body normalized).

3/ Oil country tubular goods are sold with either unfinished ends (plain ends-P/E) or finished ends (threaded and coupled-T&C). Finished ends, which can be either upset or nonupset, are threaded with any of a variety of thread configurations (different thread shapes and lengths) and then coupled.

4/ Tables F-1 through F-4 show the reported domestic oil country tubular goods price data and tables F-5 through F-7 show the reported imported oil country tubular goods price data.

received from 12 distributors and 8 end users for the Houston and Columbus market areas. Purchasers reported weighted-average net purchase prices and quantities for the same three categories requested from producers and importers.

The petitioners have stated that transportation costs are generally not a significant sourcing factor for purchasers. Domestic delivery costs as a share of the delivered selling price, reported by eight domestic producers and four importers of the Argentine, Canadian and Taiwan oil country tubular goods, were generally less than 10 percent and averaged 4.75 percent. 1/ Accordingly, U.S. producers' and importers' net f.o.b. selling prices are used for comparing levels of domestic producers' and importers' prices as well as for comparing trends of these prices. Similarly, net f.o.b. purchasing prices reported by distributors and end users were also used for comparing levels of domestic producers' and importers' prices.

The method of production, ERW seam-annealed (seam-annealed), ERW full-body normalized (full-body normalized), or seamless, has a significant effect on price. In the seam-annealed method, the seam is strengthened by heating a 4-inch area along the seam. A full-body normalized tube is completely heated, making the metallurgical qualities more uniform throughout the tube. Seamless oil country tubular goods have the most uniform metallurgical properties. As stated earlier, seam-annealed products are more commonly used in shallow wells where high strength is not required, whereas full-body normalized and seamless products are used in more demanding applications such as deep wells or hostile environments. Therefore, the higher API standards placed on seamless and full-body normalized oil country tubular goods to meet the more demanding conditions are reflected in higher production costs and higher prices.

Price trends.--According to the f.o.b. selling prices reported by U.S. producers, quarterly prices of 14 domestic oil country tubular categories sold to distributors were compiled. However, sufficient information was reported for only 10 categories for the purpose of constructing price trends. In nine of these price trends, prices fluctuated but generally decreased. These eight price decreases ranged from a *** decrease for 4-1/2-inch seam-annealed casing (plain end) to a *** decrease for 4-1/2-inch seamless casing (threaded and coupled). For one of the price trends, prices increased *** for 2-3/8-inch seam-annealed tubing (plain end).

Between January-March 1983 and October-December 1985, no consistent patterns or cycles were discerned in the fluctuation of prices for the 10 categories of domestic oil country tubular goods described above. However, with respect to the magnitude of the price decline, one pattern did arise: the greatest percentage decrease in prices occurred for the full-body normalized and seamless products. The average price decrease for five of the full-body normalized and seamless products was ***, whereas the average price decrease for three of the seam-annealed products was ***. This information appears consistent with the character of recent oil industry conditions

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1/ The median delivery cost as a share of the delivered selling price was approximately 4.5 percent for domestic producers and 5 percent for all importers. The median distance shipped from their U.S. locations was about 781 miles for U.S. producers and 337 miles for the importers.

because the first wells to be closed with the drop in oil prices would be the costlier deep wells. Seamless and full-body normalized products are used almost entirely in deep wells.

Price data were obtained from importers for 14 categories of oil country tubular goods. Based on f.o.b. selling prices reported by the importers, quarterly price series were constructed for four categories of Argentine oil country tubular goods, eight categories of Canadian oil country tubular goods, and two categories of the Taiwan products. However, for purposes of discerning price trends, sufficient data were reported for only two of the categories, *** from Argentina and 4-1/2-inch seam-annealed casing from Canada.

For the *** from Argentina, prices fluctuated but on average *** from January-March 1983 to October-December 1984. For the 4-1/2-inch seam-annealed casing (threaded and coupled) from Canada, prices also fluctuated but on average increased *** from October-December 1983 to October-December 1985.

Price comparisons.--The reported selling price data from producers and importers resulted in 51 direct quarterly price comparisons between domestic and imported oil country tubular goods from Argentina, Canada, and Taiwan sold to distributors during January-March 1983 through October-December 1985 (tables 19-25). Similarly, the reported purchase price data obtained from distributors and end users resulted in 17 direct quarterly price comparisons between domestic and imported oil country tubular goods from Argentina, Canada, and Taiwan. Margins of underselling (overselling) by country and method of production are discussed in detail below.

Argentina.--In total, 28 quarterly price comparisons resulted between domestic and Argentine oil country tubular goods from the data reported by both (1) importers and producers (sale prices), and (2) purchasers (purchase prices). Of these 28 price comparisons, 21 were reported by producers and importers, 3 were reported by distributors, and 4 were reported by end users. Twenty-four of the price comparisons showed margins of underselling, whereas 4 showed margins of overselling. Broken down by the type of questionnaire respondent, producers' and importers' data showed 20 instances of underselling, distributors' data showed *** of underselling, and end users' data showed *** of underselling.

The average margins of underselling for the various product types and for the three types of respondents were as follow: (1) producers and importers, from 27 to 36 percent; (2) distributors, ***; and (3) end users, ***. Broken down by product category, the average margins of underselling were as follow: (1) 4-1/2-inch casing, ***; (2) 2-3/8-inch tubing, ***; (3) 5-1/2-inch casing, ***.

Canada.--In total, 39 quarterly price comparisons resulted from the data reported by importers, producers, and purchasers of Canadian and domestic oil country tubular goods. Of these 39 quarterly price comparisons, 30 were reported by producers and importers, 7 were reported by distributors, and 2 were reported by end users. Seventeen of the price comparisons showed margins of underselling and 21 showed margins of overselling. Broken down by category of questionnaire response, producers' and importers' data showed 14 instances of underselling, distributors' data showed *** of underselling, and end users' data showed *** of underselling.

A-39

The average margins of underselling for various product types and for the three types of questionnaire respondent were as follow: (1) producers and importers, from 6 to 24 percent; (2) distributors, ***; (3) end users, ***. Broken down by product category, the average margins of underselling were as follow: (1) 4-1/2-inch casing, seam-annealed, ***; (2) 4-1/2-inch casing, full-body normalized, ***; (3) 4-1/2-inch casing, seamless, ***; (4) 2-3/8-tubing, seam-annealed, ***; (5) 5-1/2-inch casing, full-body normalized, ***; (6) 5-1/2-inch casing, seamless, ***.

Taiwan.--Only two price comparisons were reported for Taiwan. The price comparison constructed from producer and importer responses showed a margin of *** for ***. The other comparison obtained from end user responses showed a margin of *** for ***.

Table 19.--API oilfield casing--4-1/2-inch outside diameter: Average margins of underselling (overselling) 1/ for prices reported by domestic producers and importers, by product categories and by quarters, 2/ April 1983-December 1985

* * * * * * *

Table 20.--API oilfield casing--2-3/8-inch outside diameter: Average margins of underselling (overselling) 1/ for prices reported by domestic producers and importers, by product categories and by quarters, January 1983-December 1985

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Table 21.--API oilfield casing--5-1/2-inch outside diameter: Average margins of underselling (overselling) 1/ for prices reported by domestic producers and importers, by product categories and by quarters, 2/ July 1983-September 1985

* * * * * * *

Table 22.--API oilfield casing--5-1/2-inch outside diameter: Average margins of underselling (overselling) 1/ for prices reported by distributors, by product categories and by quarters, 2/ April 1984-June 1985

* * * * * * *

Table 23.--API oilfield 4-1/2-inch casing and 2-3/8-inch tubing: Average margins of underselling (overselling) 1/ reported by distributors, by product categories and by quarters, 2/ January 1984-June 1985

* * * * * * *

Table 24.--API oilfield casing--5-1/2-outside diameter: Average margins of underselling (overselling) 1/ reported by end users, by product categories and by quarters, 2/ January 1984-December 1984

* * * * * * *

Table 25.--API oilfield tubing--2-3/8-inch outside diameter: Average margins of underselling (overselling) 1/ reported by distributors, by product categories and by quarters, 2/ April 1985-December 1985

* * * * * * *

Exchange rates.--Tables 26 through 28 present indexes of producers' prices in the United States, Argentina, Canada, and Taiwan, and indexes of the nominal and real exchange rates between the U.S. dollar and the currencies of the subject countries, by quarters, from January-March 1983 (the base period) to October-December 1985. The Argentine peso depreciated by almost 99 percent in nominal terms against the U.S. dollar since the base period. However, because the rate of inflation in Argentina was significantly higher than that in the United States, the value of the peso declined less sharply in real terms. Since the base period, the Argentine peso has fallen in real terms by approximately 8.1 percent. Relative to the U.S. dollar, the Canadian dollar has depreciated by around 11 percent since January-March 1983, but the real value of the Canadian currency declined by only 5.3 percent due to a slightly higher rate of inflation in Canada. The nominal exchange rates of the new Taiwan dollar relative to the United States dollar has shown little change since the base period. Although the New Taiwan dollar has depreciated by less than 1 percent since January-March 1983, the real value of the Taiwan currency has fallen 5.3 percent.

Table 26.--Indexes of producer prices in the United States and Argentina, 1/ and indexes of the nominal and real exchange rates between the U.S. dollar and the Argentine peso, 2/ by quarters, January 1983-December 1985

(January-March 1983=100)

Period	U.S. Producer Price Index	Argentine Producer Price Index	Nominal-exchange-rate index	Real-exchange-rate index
			Dollars per peso	
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	100.3	133.2	73.6	97.7
July-September	101.3	203.1	53.9	107.5
October-December	101.8	338.0	32.9	107.3
1984:				
January-March	102.9	516.8	20.8	103.8
April-June	103.6	858.7	14.0	115.8
July-September	103.4	1,438.4	8.4	115.4
October-December	103.1	2,402.0	4.5	101.4
1985:				
January-March	102.9	4,254.2	2.2	95.5
April-June	102.9	9,551.8	1.0	95.9
July-September	102.2	12,835.7	.8	90.2
October-December	102.9	13,155.1	.8	91.9

1/ Producer price indicators--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

2/ Exchange rates expressed in U.S. dollars per Argentine peso.

Source: International Monetary Fund, International Financial Statistics, June 1985.

Table 27.--Indexes of producer prices in the United States and Canada, 1/ and indexes of the nominal and real exchange rates between the U.S. dollar and the Canadian dollar, 2/ by quarters, January 1983-December 1985

(January-March 1983=100)

Period	U.S. Producer Price Index	Canadian Producer Price Index	Nominal-exchange-rate index	Real-exchange-rate index
			Dollars per Can$	
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	100.3	101.4	99.7	100.9
July-September	101.3	102.3	99.6	100.6
October-December	101.8	102.7	99.1	100.0
1984:				
January-March	102.9	104.4	97.8	99.2
April-June	103.6	105.7	94.9	96.8
July-September	103.4	106.4	93.4	96.2
October-December	103.1	106.6	93.1	96.4
1985:				
January-March	102.9	107.8	90.7	94.9
April-June	102.9	108.5	89.6	94.4
July-September	102.2	108.7	90.2	95.9
October-December	102.9	109.4	88.9	94.7

1/ Producer price indicators--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

2/ Exchange rates expressed in U.S. dollars per Canadian dollars.

Source: International Monetary Fund, International Financial Statistics, June 1985.

Table 28.--Indexes of producer prices in the United States and Taiwan, 1/ and indexes of the nominal and real exchange rates between the U.S. dollar and the New Taiwan dollar, 2/ by quarters, January 1983-December 1985

(January-March 1983=100)

Period	U.S. Producer Price Index	Taiwan Producer Price Index	Nominal-exchange-rate index	Real-exchange-rate index
			Dollars per NT$	
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	100.3	100.7	99.7	100.1
July-September	101.3	101.0	99.5	99.1
October-December	101.8	101.2	99.3	98.6
1984:				
January-March	102.9	101.4	99.4	97.9
April-June	103.6	101.1	100.4	98.0
July-September	103.4	101.4	101.8	99.9
October-December	103.1	100.8	101.5	99.2
1985:				
January-March	102.9	99.9	101.5	98.5
April-June	102.9	99.1	100.5	96.5
July-September	102.2	99.0	99.0	95.3
October-December	102.9	99.3	99.3	94.7

1/ Derived from Taiwan producer price data for October only.
2/ Exchange rates expressed in U.S. dollars per New Taiwan dollars.

Source: Central Bank of China, Financial Statistics, June 1985.

Lost sales

During the final investigation, only one U.S. producer of oil country tubular goods, ***, alleged two instances when it lost sales of oil country tubular goods to imports from Canada. In addition, two U.S. producers of oil country tubular goods, ***, reported eight specific instances during the preliminary investigation when they allegedly lost sales of oil country tubular goods to imports from Canada. All 10 allegations are discussed in the section reporting lost sales to imports from Canada. No lost sales allegations concerning imports from Argentina or Taiwan were reported during either the preliminary or final investigation.

***. At the request of the Commission, *** gave the following explanation concerning *** inability to supply the lost sales information, as requested:

> It is extremely difficult for *** to provide the Commission with instances of lost sales and lost revenues because of their method of pricing and distribution. *** publish their own price lists. *** prices its products by references to *** price lists. Thus, *** actual selling prices, which may reflect a particular percentage discount which is also published, are known to their distributors and all prospective ultimate purchasers. These

distributors and ultimate purchasers, fully aware of *** prevailing prices, are then able to negotiate with foreign producers, including producers in Argentina, Canada, and Taiwan, to obtain an even better price. If and when they are able to negotiate a contract with a foreign producer, it is extremely unlikely that *** will know of its existence, much less know the actual prices or volume involved since they might never have dealt directly with the prospective purchaser. For these reasons, i.e., the use of published prices and discounts and the selling through distributors, *** are unable to provide a significant number of instances of lost sales and revenues.

Argentina. No specific lost sales allegations were reported by domestic oil country tubular goods producers concerning imports from Argentina in these investigations.

Canada.--During the final investigation, *** reported two instances when it lost sales to imports from Canada. Both instances occurred in *** and involved ***. The first alleged lost sale was for *** tons of *** casing with the rejected *** quote being *** and the accepted (Canadian) quote being ***. The second alleged lost sale was for *** of *** casing with the rejected quote being *** and the accepted quote being ***. *** confirmed both allegations of lost sales. Indeed, *** stated that he was the source that provided *** with the information on the lost sales.

* * * * * * *

During the preliminary investigations, *** submitted two instances of lost sales of oil country tubular goods to competing imports from Canada. In the first instance, *** alleged that it was unable to sell *** of various casing products to *** for approximately *** because that company purchased Canadian casing products for *** instead. *** confirmed a sale lost by a U.S. firm in that period, but said that it was *** that lost the bid. ***. He stated that the major factor in his purchasing decisions is the ability of a supplier to satisfy his particular needs in terms of the size, grade, and weight suited to a particular drilling location. Second in importance is quality, with price and availability being the last considerations. In *** was searching for oil country tubular goods for use in ***. In purchasing the product *** usually buys directly from the mill and solicits bids worldwide. *** said that in this instance products of both the domestic suppliers and the foreign suppliers suited his needs. He believed that the Canadian product was of either similar or of higher quality than the domestic product. The reason he bought the products from *** in the final analysis was that he could get a better delivered price *** by doing so because ***.

*** alleged that, in ***, it offered to sell approximately *** of casing to *** for ***, but *** purchased Canadian casing for *** instead. *** stated that, in ***, he bought *** tons of *** casing, which was purchased from ***, and did not purchase *** mentioned by ***. The end user for which *** purchased the casing did not require *** because he needed the product for ***. To *** knowledge, *** casing of this size was not available from a domestic source during this period. The major factor in *** purchasing decisions is consumer acceptance, which varies according to the market segment involved. When he purchases for major oil companies, quality, rather than price, is the primary factor in finding a supplier. According to ***, major

oil companies purchase from their lists of accepted sources, which typically include top-quality seamless products from domestic as well as foreign sources (e.g., Algoma from Canada, Mannesmann from Germany, Dalmine from Italy) and Lone Star's welded products that are marketed as being comparable to seamless. Independent operators, on the other hand, buy primarily on price, although quality is a consideration. When asked if he has ever purchased oil country tubular goods from Argentina and Taiwan, *** explained that although *** occasionally makes spot purchases of products from these countries, it does not usually inventory such product.

The Commission staff investigated all six allegations of lost sales to imports from Canada reported by *** in the preliminary investigation. Each of the six allegations occurred in *** and involved *** casing. 1/ *** alleged that in each instance its casing, at *** per ton, was competing against Canadian casing priced at *** per ton. *** was cited in a lost sales allegation by ***. According to ***, the company is a distributor specializing in sales of oil country tubular goods for use in ***. His company purchases domestically from ***. His Canadian suppliers include ***. The major factors in his purchasing decisions are service and quality, but he stated that you "have to watch price, too." He denied that he has ever bought oil country tubular goods from a Canadian supplier in favor of a U.S. supplier because the foreign price was lower. Further, he stated that he bought no more than *** from either Canadian or U.S. mills in *** because he could not sell it. He indicated that Canadian oil country tubular goods are higher priced than those from ***, but that their quality is very good. He complained that ***.

*** cited ***, in a second alleged lost sale to imports from Canada. *** stated that he did not purchase the Canadian casing during ***, and added that at the time, on an f.o.b. basis, *** price of the *** casing product was *** per ton compared with *** per ton for the Canadian product. *** stated, however, that because the Canadian product is shipped from ***, it would have enjoyed about a *** per ton delivered price advantage over *** casing shipped from its *** plants. *** major suppliers are ***, 1/ which supplies Canadian material, ***, and recently ***, which supply U.S. material. Because of *** limited range of product sizes, however, *** relies on *** for a full range of oil country tubular goods sizes. According to ***, *** follows market price changes but generally only at the insistance of ***. *** stated that earlier in 1985 *** dropped its price for the *** casing product below the then current floor, and, in ***, *** cut its price *** per ton below the then current floor of *** per ton. In both instances, *** informed *** that to keep *** business they would have to meet the new market floor prices set by these *** producers. According to ***, on a delivered price basis, the current price of *** casing is about equal to *** price.

*** cited *** in a third alleged lost sale to imports from Canada. *** reported that the distributor's regular suppliers include ***. He could not specify whether or not he purchased from a Canadian firm in ***, but he denied purchasing anywhere near *** from any source during ***. When asked about the quality of *** products, he stated that he believed they were just as good as U.S. products. Because end users in the *** market typically purchase on a price quote basis, price is the major determinant in his sourcing decisions.

1/ ***. According to ***, the *** casing product is a very popular product in *** because it is "a critical link in the string".

*** cited ***, a distributor that purchases from many companies, in a fourth lost sales allegation involving Canadian imports. Although a spokesman for *** denied purchasing *** casing from a Canadian supplier at this time, the company did reportedly purchase *** tons of *** casing from *** in *** because it was lower priced than similar product from his U.S. suppliers for the same level of quality. This spokesman added that he was experiencing supply problems from ***, one of his regular suppliers, in ***. Apparently, *** would not *** to produce the *** casing for which he was searching because ***. Finally, he complained that *** prices have not been competitive lately.

*** cited ***, in a fifth alleged lost sale to imports from Canada. ***, stated that *** was prepared to purchase the Canadian casing instead of *** casing, largely because the imported material was about *** per ton less on a delivered price basis than the U.S. material. His firm did not buy the Canadian casing, however, because the job was awarded to another distributor, ***. *** did not know the origin of the casing sold by the winning firm.

*** cited ***, in a sixth alleged lost sale to imports from Canada. ***, purchaser for the firm, stated that his firm purchased about *** of *** casing in ***, but sourced this material from ***. According to ***, on a delivered price basis, *** price and the price of the imported Canadian material were about equal.

Taiwan.--No specific lost sales allegations were reported by domestic oil county tubular goods producers concerning imports from Taiwan.

1/ ***.

APPENDIX A

OTHER COMMISSION INVESTIGATIONS

Other Investigations Concerning Oil Country Tubular Goods

On June 12, 1984, in investigation No. TA-201-51, regarding carbon and certain alloy steel products, the Commission determined, under section 201 of the Trade Act of 1974, that increased imports of steel pipes and tubes were not a substantial cause of serious injury, or threat thereof, to the U.S. industry producing articles like or directly competitive with the imported articles. 1/ The steel pipes and tubes that were the subject of the section 201 investigation included the oil country tubular goods that are the subject of the instant investigations, as well as other pipes and tubes that are not covered by these investigations.

On June 13, 1984, countervailing duty petitions were filed with Commerce concerning imports of oil country tubular goods from Argentina and Mexico. Since these countries were not signatories to the General Agreement on Tariffs and Trade, the Commission was not required to make injury determinations concerning imports from these countries which were alleged to be subsidized. On November 27, 1984, and November 30, 1984, Commerce published in the Federal Register its final affirmative determinations that the manufacturers, producers, or exporters of oil country tubular goods in Argentina and Mexico, respectively, receive benefits that constitute subsidies. The subsidy margins were 0.90 percent ad valorem for products from Argentina and 5.84 percent ad valorem for products from Mexico. On July 31, 1985, Commerce published the final results of its changed circumstances administrative review of the order concerning imports from Mexico and revoked the order, effective October 1, 1984. The current subsidy amount for Argentina is still 0.90 percent.

Also on June 13, 1984, countervailing duty petitions were filed with the Commission and Commerce concerning imports of oil country tubular goods from Brazil, Korea, and Spain. On July 23, 1984, the Commission unanimously determined that there was a reasonable indication that an industry in the United States was materially injured by reason of such imports. 2/

Commerce published its final subsidy determinations in these cases on November 27, 28, and 30, 1984, respectively. The subsidy margins for Brazil and Spain ranged from 11.35 to 25.24 percent ad valorem and 11.29 to 24.74 percent ad valorem, respectively. For Korea the net subsidy was 0.53 percent ad valorem. On January 2, 1985, the Commission determined that an industry in the United States was materially injured by reason of imports of oil country tubular goods from Brazil and Spain 3/ and that an industry in the United States was not materially injured or threatened with material injury, and the

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1/ Carbon and Certain Alloy Steel Products: Report to the President on Investigation No. TA-201-51 . . ., USITC Publication 1553, July 1984.

2/ Chairwoman Stern found that there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury by reason of such imports. Oil Country Tubular Goods from Brazil, Korea, and Spain: . . Determinations of the Commission in Investigations Nos. 701-TA-215 through 217 (Preliminary) . . ., USITC Publication 1555, July 1984.

3/ Vice Chairman Liebeler and Commissioner Lodwick dissenting.

"stablishment of an industry in the United States was not materially retarded, by reason of imports from Korea of oil country tubular goods. 1/

On July 31, 1985, and August 21, 1985, Commerce published the final results of its changed circumstances administrative reviews of the countervailing duty orders concerning imports from, respectively, Spain and Brazil, and revoked the orders, effective October 1, 1984.

Also on June 13, 1984, counsel for Lone Star and CF&I filed antidumping petitions with the Commission and Commerce concerning imports of oil country tubular goods from Argentina, Brazil, Korea, Mexico, and Spain. On July 23, 1984, the Commission unanimously determined that there was a reasonable indication that an industry in the United States was materially injured by reason of such imports. 2/ On January 16, 1985, Commerce published in the Federal Register its preliminary affirmative determinations that imports of oil country tubular goods from Argentina, Brazil, Mexico, and Spain were being sold at LTFV with weighted average margins of 104.11 percent, 33.08 percent, 20.77 percent, and 74.0 percent, respectively. Commerce also preliminarily determined that imports from Korea were not being, and were not likely to be, sold in the United States at LTFV.

On April 4, 1985, the Commission received notice of Commerce's final determinations that oil country tubular goods from Argentina and Spain were being sold at LTFV with a weighted average margin of 61.7 percent for imports from Argentina and margins ranging from 70.1 to 83.5 percent for imports from Spain. On May 13, 1985, the Commission unanimously determined that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded by reason of imports from Argentina but that an industry in the United States is materially injured by reason of imports from Spain. 3/ On May 23, and May 31, 1984, the petitioners withdrew their petitions on Korea, Brazil, and Mexico and the investigations were terminated by Commerce before final determinations were announced.

On February 28, 1985, U.S. Steel Corp. filed antidumping and countervailing duty petitions with the U.S. International Trade Commission and the U.S. Department of Commerce; on March 12, and March 25, 1985, Lone Star and CF&I requested that they be added as copetitioners in those investigations. These requests were subsequently granted. The countervailing duty petitions concerned imports of oil country tubular goods from Austria and Venezuela, and the antidumping petitions concerned imports of the subject merchandise from Austria, Romania, and Venezuela. The Commission determined 1/ on

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1/ Oil Country Tubular Goods from Brazil, Korea, and Spain: . . . Determinations of the Commission in Investigations Nos. 701-TA-215 through 217 (Final) . . ., USITC Publication 1633, January 1985. Commissioners Eckes and Rohr dissenting.

2/ Oil Country Tubular Goods from Argentina, Brazil, Korea, Mexico, and Spain: Determinations of the Commission in Investigations Nos. 731-TA-191 through 195 (Preliminary) . . ., USITC Publication 1555, July 1984.

3/ Oil Country Tubular Goods From Argentina and Spain: Determinations of the Commission in Investigations Nos. 731-TA-191 and 195 (Final) . . ., USITC Publication 1694, May 1985.

4/ Vice Chairman Liebeler dissenting.

April 8, 1985, that there was a reasonable indication that an industry in the United States was materially injured by reason of imports of oil country tubular goods from Austria and Venezuela which are alleged to be subsidized by the Governments of Austria and Venezuela and by imports of oil country tubular goods from Austria, Romania, and Venezuela which are allegedly sold at LTFV in the United States. 1/ On June 26, August 12, and December 23, 1985, the petitioners withdrew their petitions on Venezuela, Romania, and Austria, respectively, following the the signing of VRA's with those countries, and the investigations were terminated by Commerce before final determinations were announced.

On July 22, 1985, petitions were filed with the Commission and Commerce concerning imports of oil country tubular goods from Argentina, Canada, and Taiwan. On September 5, 1985, the Commission notified the Department of Commerce of its determination 2/ that there was a reasonable indication that an industry in the United States was materially injured by reason of imports from Canada and Taiwan of oil country tubular goods, which are alleged to be subsidized by the Governments of Canada and Taiwan, and by reason of imports from Argentina, Canada, and Taiwan of oil country tubular goods, which are alleged to be sold in the United States at less than fair value. 3/ On May 21, 1985, in its final determination, Commerce found that manufacturers, producers, or exporters of oil country tubular goods from Taiwan do not receive subsidies. On May 30, 1986, Commerce notified the Commission of its final determination that oil country tubular goods from Argentina are not being, and are not likely to be, sold in the United States at LTFV. The antidumping cases involving oil country tubular goods from Canada and Taiwan, and the countervailing duty case involving oil country tubular goods from Canada are the subject of the present investigations.

On March 12, 1986, countervailing duty and antidumping petitions were filed with the Commission and Commerce by Lone Star Steel Co. and CF&I Steel Corp. concerning imports of oil country tubular goods from Israel. On April 28, 1986, the Commission determined that there is a reasonable indication that an industry in the United States is injured by reason of such imports. 4/ These cases are currently pending before the Department of Commerce.

1/ Oil Country Tubular Goods from Austria, Romania, and Venezuela: . . . Determinations of the Commission in Investigations Nos. 701-TA-240 and 241, and 731-TA-249 through 251 (Preliminary) . . ., USITC Publication 1679, April 1985. Commissioners Eckes and Lodwick did not exclude drill pipe.

2/ Chairwoman Stern found that there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury by reason of such imports. Vice Chairman Liebeler dissenting.

3/ Oil Country Tubular Goods from Argentina, Canada and Taiwan: Determinations of the Commission in Investigations Nos. 701-TA-255 and 256 and 731-TA-275, 276, and 277 (Preliminary) . . ., USITC Publication 1747, September 1985.

4/ Chairwoman Stern found that there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury by reason of such imports. Vice Chairman Liebeler dissenting.

APPENDIX B

THE FEDERAL REGISTER NOTICES

3270 Federal Register / Vol. 51, No. 16 / Friday, January 24, 1986 / Notices

[Investigations Nos. 701-TA-255 (Final) and 731-TA-276 and 277 (Final)]

Import Investigation; Oil Country Tubular Goods From Canada and Taiwan

AGENCY: United States International Trade Commission.

ACTION: Institution of a final countervailing duty investigation and final antidumping investigations and scheduling of a hearing to be held in connection with the investigations.

SUMMARY: The Commission hereby gives notice of the institution of final countervailing duty investigation No. 701-TA-255 (Final) under section 705(b) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)) and of final antidumping investigations Nos. 731-TA-276 and 277 under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from Canada of oil country tubular goods,[1] provided for in items 610.32, 601.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, which have been found by the Department of Commerce, in a preliminary determination, to be subsidized by the Government of Canada, and of oil country tubular goods from Canada and Taiwan which have been found by the Department of Commerce, in a preliminary determination, to be sold in the United States at less than fair value (LTFV). Unless these investigations are extended, Commerce will make its final subsidy determination by March 4, 1986, and its final dumping determinations by March 17, 1986, and the Commission will make its final injury determinations by April 28, 1986 (see sections 705(a) and 705(b) of the act (19 U.S.C. 1671d(a) and 1671d(b)) and sections 735(a) and 735(b) of the act (19 U.S.C. 2673d(a) and 1673d(b))).

For further information concerning the conduct of these investigations, hearing procedures, and rules of general application, consult the Commission's rules of practice and procedure, part 207, subparts A and C (19 CFR Part 207), and part 201, subparts A through E (19 CFR Part 201).

EFFECTIVE DATE: December 30, 1985.

FOR FURTHER INFORMATION CONTACT: Rebecca Woodings (202-523-0282), Office of Investigations, U.S. International Trade Commission, 701 E Street NW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commisison's TDD terminal on 202-724-0002.

SUPPLEMENTARY INFORMATION:

Background.—These investigations are being instituted as a result of affirmative preliminary determinations by the Department of Commerce that certain benefits which constitute subsidies within the meaning of section 701 of the act (19 U.S.C. 1671) are being provided to manufacturers, producers, or exporters in Canada of oil country tubular goods and that imports of oil country tubular goods from Canada and Taiwan are being sold in the United

[1] For purposes of these investigations, "oil country tubular goods" includes drill pipe casing, and tubing for drilling oil or gas wells, of carbon or alloy steel, whether such articles are welded or seamless, whether finished or unfinished, and whether or not meeting American Petroleum Institute (API) specifications.

[Investigations Nos. 701-TA-255 (Final) and 731-TA-276 and 277]

Import Investigations; Oil Country Tubular Goods From Canada and Taiwan

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: March 10, 1986

FOR FUTHER INFORMATION CONTACT: Rebecca Woodings (202-523-0282), Office of Investigations, U.S International Trade Commission, 701 E Street NW., Washington, DC 20436. Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal on 202-724-0002.

SUPLEMENTARY INFORMATION: On December 30, 1985, the Commission instituted the subject investigations and established a schedule for their conduct (51 FR 3270, January 24, 1986). Subsequently, the Department of Commerce extended the dates for its final determinations in the investigations from March 4, 1986 to April 16, 1986 for inv. no. 701-TA-255 (51 FR 3389, January 27, 1986), from March 17, 1986 to April 16, 1986 for inv. no. 731-TA-276, and from March 17, 1986 to May 21, 1986 for inv. no. 731-TA-277. The Commission, therefore, is revising its schedule in the investigations to conform with Commerce's new schedules.

The Commission's new schedule for the investigation is as follows: The prehearing conference will be held in room 117 of the U.S. International Trade Commission Building at 9:30 a.m. on April 28, 1986, the public version of the prehearing staff report will be placed on the public record on April 18, 1986; the deadline for filing prehearing briefs is April 28, 1986, the hearing will be held in room 331 of the U.S. International Trade Commission Building at 10:00 a.m. on May 6, 1986, written submissions directly relating to Commerce's final dumping determination on Taiwan will be due on May 28, 1986; and the deadline for filing all other written submissions, including posthearing briefs, is May 13, 1986.

For further information concerning this investigation see the Commission's notice of investigation cited above and the Commission's Rules of Practice and Procedure, part 207, subparts A and C (19 CFR Part 207), and part 201, subparts A through E (19 CFR Part 201).

Authority: This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.20 of the Commission's rules (19 CFR § 207.20).

By order of the Commission.

Issued: March 12, 1986

Kenneth R. Mason,

Secretary.

[FR Doc. 86-6014 Filed 3-18-86; 8:45 am]

BILLING CODE 7020-02-M

[A-122-506]

Antidumping; Oil Country Tubular Goods From Canada; Final Determination of Sales at Less Than Fair Value

AGENCY: International Trade Administration, Import Administration, Department of Commerce.

ACTION: Notice.

SUMMARY: We have determined that oil country tubular goods (OCTG) from Canada are being, or are likely to be, sold in the United States at less than fair value. Welded Tube of Canada, Ltd., is excluded from this determination. We have notified the U.S. International Trade Commission (ITC) of our determination, and we are directing the U.S. Customs Service to suspend the liquidation of all entries of oil country tubular goods from Canada that are entered, or withdrawn from warehouse, for consumption, on or after April 20, 1986 and to require a cash deposit or bond for each entry in an amount equal to the estimated dumping margin as described in the "Suspension of Liquidation" section of this notice.

EFFECTIVE DATE: April 22, 1986.

FOR FURTHER INFORMATION CONTACT: Steven Lim or Charles E. Wilson, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone (202) 377-1776 or (202) 377-5288.

Final Determination

Based upon our investigation, we have determined that OCTG from Canada are being, or are likely to be, sold in the United States at less than fair value, as provided in section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act). We made fair value comparisons on approximately 83 percent of the sales of the class or kind of merchandise to the United States during the period of investigation. Comparisons were based on the United States price and foreign market value. The company-specific margins are: Algoma Steel Corp., Ltd. (Algoma), 14.26 percent; Ipsco, Inc. (Ipsco), 40.85 percent; Sonoc Steel Tube, Ltd. (Sonco), 3.35 percent; and Welded Tube of Canada, Ltd. (Welded Tube), 0 percent

Since Welded Tube had no sales at less than fair value, that company is excluded from this final determination of sales at less than fair value.

Case History

On July 22, 1985, we received a petition from the Lone Star Steel Company (Lone Star) and CF&I Steel Corporation (CF&I) on behalf of the domestic OCTG industry. In compliance with the filing requirements of § 353.36 of the Commerce Regulations (19 CFR 353.36), the petition alleged that imports of OCTG from Canada are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act, and that these imports are materially injuring, or are threatening material injury to, a U.S. industry. The petition also alleged that sales of the subject merchandise were being made at less than the cost of production and that critical circumstances exist. After reviewing the petition, we determined that it contained sufficient grounds upon which to initiate an antidumping duty investigation. We initiated the investigation on August 19, 1985 (50 FR 33387). On September 11, 1985, the ITC determined that there is reasonable indication that imports of OCTG from Canada are materially injuring a U.S. industry (50 FR 37066).

We presented antidumping duty questionnaires to counsel for Ipsco and to counsel for Algoma, Sonco, and Welded Tube, Canadian producers and exporters of the products under investigation, on September 5, 1985. The responses were received on October 22, 1985.

On January 7, 1986, we published a preliminary determination of sales at less than fair value with respect to this merchandise (51 FR 660). The notice stated that if the investigation proceeded normally, we would make our final determination by March 17, 1986.

On January 15, 1986, counsels for the respondents requested a postponement of the final determination. We granted this request and postponed the final determination until not later than April 16, 1986 (51 FR 3389). In accordance with section 774(a) of the Act, a public hearing was held on March 5, 1986.

Scope of Investigation

The products covered by this investigation are "oil country tubular goods" which are hollow steel products of circular cross section intended for use in the drilling for oil or gas. These products include oil well casing, tubing and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or non-API (such as proprietary) specifications as currently provided for in the *Tariff Schedules of the United States, Annotated* (TSUSA) under item numbers 610.3216, 610.3219, 610.3233, 610.3234, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4210, 610.4220, 610.4225, 610.4230, 610.4235, 610.4240, 610.4310, 610.4320, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, and 610.5244. This investigation includes OCTC that are in both finished and unfinished condition.

Fair Value Comparisons

To determine whether sales of the subject merchandise in the United States were made at less than fair value, we compared the United States price with the foreign market value.

United States Price

Where the merchandise was sold to unrelated U.S. purchasers prior to its importation into the United States, we used the purchase price of the subject merchandise, as provided in section 772(b) of the Act, to represent the United States price. We calculated the purchase price based on the delivered, packed, duty paid price to unrelated U.S. purchasers. We deducted brokerage charges, U.S. duty and inland freight.

We used exporter's sale price (ESP) as the United States price where the merchandise was sold to unrelated purchasers after importation, as provided for in section 772(c) of the Act. We deducted brokerage charges, U.S. duty, inland freight, U.S. processing expenses, credit, warranty, and other selling expenses, where appropriate. With respect to Algoma, we made additions for import duties, paid by Canadian producers on imports of raw materials, which were rebated or not collected by reason of the exportation of the merchandise to the United States, pursuant to section 772(d)(1)(B) of the Act.

Foreign Market Value

The petitioners alleged that sales in the home market were at prices below the cost of production. We examined costs of production which included all appropriate costs for materials, fabrication and general expenses.

In accordance with section 773(a)(1)(A) of the Act, for Algoma, Ipsco and Welded Tube, where we found sufficient sales above the cost of production in the home market, we used home market prices to determine foreign market value. Where there were insufficient sales of such or similar merchandise in the home market, or where there were insufficient sales above the cost of production, we used constructed value as the basis for comparison.

Where foreign market value was based on home market prices, we made comparisons of such or similar merchandise based on type, grade, dimension and end finish as selected by Commerce Department industry experts. Where foreign market value was based on constructed value, we used appropriate production costs for the period under investigation as the basis for the constructed value for each product group.

We calculated the market prices for each product on the basis of delivered prices to unrelated purchasers. From these prices, we deducted foreign inland freight. We made adjustments, where appropriate, for differences in circumstances of sale related to commissions, warranties and credit expenses pursuant to § 353.15 of our regulations. We also made adjustments for differences in the physical characteristics of the merchandise pursuant to § 353.16 of our regulations. We disallowed a claimed adjustment for differences in level of trade between U.S. and Canadian markets.

In addition, when comparing exporter's sales price to the home market price, we deducted indirect selling expenses from the home market price but limited the deduction to the amount of the U.S. indirect selling expenses in accordance with § 353.15 of our regulations. We also allowed quantity discounts in accordance with § 353.14 of our regulations, and we made adjustments, where appropriate, for differences in packing costs.

In accordance with section 773(e) of the Act, we calculated foreign market value for Sonco based on constructed value. For Sonco, there were no sales of such or similar merchandise in the home market or in third country markets.

We calculated the constructed value by totaling the costs of materials used in producing such or similar merchandise, fabrication, general expenses, profit, and packing costs for shipments to the United States. Where the amount for general expenses was less than ten percent of the cost of materials and fabrication, we adjusted it to the statutory minimum of ten percent. Where the amount for profit was less than eight percent of the sum for the costs of materials, fabrication and general expenses, we adjusted it to the

statutory minimum of eight percent. In certain instances, where information in the submissions of respondents was insufficient, the best information available was used. Where appropriate for constructed value, adjustments were made under §353.15 of the Commerce Regulations for differences in circumstances of sale between the two markets. These adjustments were for differences in credit and warranty expenses. Also, where appropriate for exporter's sales price transactions, adjustments were made to foreign market value under § 353.15(c) to account for indirect selling expenses incurred in the home market sales of the "same class or kind of merchandise," up to the amount of indirect selling expenses incurred on U.S. sales.

For comparisons involving purchase price transactions, when calculating foreign market value, we made currency conversions from Canadian dollars to U.S. dollars in accordance with § 353.56(a) of our regulations, using the Federal Reserve certified daily exchange rates. For comparisons involving exporter's sales price transactions, we used the official exchange rate for the date of purchase pursuant to section 615 of the Trade and Tariff Act of 1984 (1984 Act). We followed section 615 of the 1984 Act rather than § 353.56(a) of our regulations, as it supersedes that section of the regulations.

Final Negative Determination of Critical Circumstances

Counsel for petitioners alleged that imports of OCTG from Canada present "critical circumstances" within the meaning of section 733(e)(1) of the Act. Critical circumstances exist when the Department has a reasonable basis to believe or suspect that: (1) There have been massive imports of the merchandise under investigation over a relatively short period; and (2)(a) there is a history of dumping in the United States or elsewhere of the merchandise under investigation, or (b) the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise under investigation at less than its fair value.

We generally consider the following concerning massive imports: (1) Volume and value of imports (2) seasonal trends, and (3) the share of domestic consumption accounted for by the imports.

In considering this question, we analyzed recent trade statistics on import levels, import penetration ratios for OCTG from Canada for equal periods immediately preceding and following the filing of the petition, and seasonal factors. Based on our analysis of recent trade data, we found that imports of OCTG from Canada during the period subsequent to receipt of the petition have not been massive when compared to recent import levels and import penetration ratios. For the reasons described above, we determine that "critical circumstances" do not exist with respect to OCTG from Canada.

Verification

As provided in section 776(a) of the Act, we verified the information provided by the respondents by using standard verification procedures, including examination of relevant sales and accounting records of the company.

Issues

The major issues raised at our public hearing of March 5, 1986, and in the written comments submitted are as follows:

Petitioner's Comments

Comment 1: The petitioner and a domestic interested party (with regard to Sonco) assert that the Department should reject the responses submitted by Algoma, Sonco, and Welded Tube as inadequate and, therefore, should use the best information available.

DOC Position: We have examined the responses in this case and have determined that there are no grounds for disregarding, in total, the responses of Algoma, Sonco and Welded Tube as unresponsive. Generally, the Department will examine a respondent's questionnaire response to determine if it provides a reasonable amount of information upon which a determination can be made. Where such a response is clearly inadequate for such purposes, the Department disregards it and uses best information available. Where responses are deficient in certain areas, respondents are allowed the opportunity to clarify those areas. The Department will use best information available with regard to those areas where clarifications by respondents have not been adequate or timely enough to make an informed determination.

The Department does not feel that the responses submitted in this investigation are so clearly deficient as to warrant disregarding them. We have sought clarification of certain issues and have made our findings and calculations based upon the information available to us which we believe was most dependable for purposes of fair value comparisons. In certain instances, where information in the found to be insufficient, we used the best information available.

Comment 2: The petitioner contends that Algoma failed to provide specific costs for the production costs during the period of investigation in its response. Therefore, the Department should reject the cost data submitted by the producer and use the best information available.

DOC Position: The information in the response reflected the form in which the company's accounting system complies such data. Additionally, more detailed information was presented for one product, as an example of the specific costs included in the total amount. Under these circumstances, the Department concluded that the information presented in the response was reasonable.

Comment 3: Petitioner contends that Algoma submitted data representing cost of goods sold as opposed to production costs and, thus, the Department should use the best information available to determine the cost of production.

DOC Position: The Department concluded, after its review, that the cost of goods sold, as adjusted, included all costs, appropriately valued, related to the production of OCTG.

Comment 4: Petitioner contends that the Department should not deduct interest income from Algoma's selling, general and administrative expenses (SG&A).

DOC Position: The Department followed the usual practice and offset the interest expense with only the interest income from incidental investment related to the ordinary course of business.

Comment 5: Petitioner argues that the Department should not allow Algoma's adjustments to the cost of goods sold. These adjustments depart from Algoma's normal accounting procedures, and violate the Department practice of relying on a respondent's normal accounting practices in calculating the constructed value.

DOC Position: We agree. These adjustments were disallowed.

Comment 6: Petitioner claims that Algoma improperly reclassified certain manufacturing expenses as part of SG&A. Each of these expenses is associated with the production of OCTG and, therefore, properly considered a manufacturing expense.

DOC Position: We agree. The final determination treated the general works expenses as manufacturing overhead.

Comment 7: Petitioner argues that Algoma improperly shifted allocations of certain expenses from regular casing to high strength casing. Furthermore, they argue that Algoma improperly allocated certain expenses based on man-

hours per ton, rather than based on ton produced, their normal accounting practice. The Department should not allow such adjustments.

DOC Position: We agree. Algoma's reallocations were disallowed for the final determination.

Comment 8: Petitioner argues that because Algoma made improper adjustments to its costs, the Department should not rely on Algoma's submitted cost data. However, if the Department does use Algoma's data in its final determination, the Department should adjust that data to properly allocate overhead and depreciation expenses to OCTG.

DOC Position: The submitted cost data was used. Adjustments were made to depreciation and overhead areas.

Comment 9: Petitioner argues Algoma's interest on long-term debt must be included in SG&A expense. The respondent's rationale for excluding the expense ignores that the steel for OCTG is produced in-house and that debt is fungible.

DOC Position: We agree. Interest on long-term debt was included for the final determination.

Comment 10: Petitioner argues that Algoma's depreciation, fixed overhead costs and SG&A expenses should be included in the U.S. manufacturing cost adjustment.

DOC Position: We agree. These costs were included for the final determination.

Comment 11: Petitioner argues that information submitted by Ipsco on March 4, 1986, regarding Ipsco's costs for prime and limited service production costs should be disregarded.

DOC Position: The calculations submitted by Ipsco on March 4, 1986, were not used as the basis for this final determination.

Comment 12: Petitioner claims that Ipsco's bad debt expense adjustment to FMV should be disallowed since it was not written off as a loss during the period of investigation. Further, Ipsco improperly considered this to be a direct selling expense, contrary to the Departmental practice of treating such items as indirect selling expenses.

DOC Position: We agree that we should disallow this claim. Normally, we consider bad debt losses when the company writes them off in accordance with their own practices. In Ipsco's case, the debt in question is to be settled in court and is not considered a loss. Therefore, the claim is disallowed.

Comment 13: Petitioner claims that Ipsco overstated its warranty expenses by including secondary costs that should not be treated as direct warranty adjustments; instead, they should be treated as indirect selling expenses.

DOC Position: During the verification, Department officials established from Ipsco's source documents that the included expenses were directly related to the warranty costs of the pipes. Therefore, such expenses were considered as part of warranty expenses in the circumstances of sales adjustments.

Comment 14: Petitioner claims that in calculating Ipsco's freight costs the Department should use average freight costs rather than the actual freight cost, because these are the only costs that have been verified for all markets.

DOC Position: We agree and have used the verified average freight costs.

Comment 15: Petitioner contends that the Department should use Ipsco's actual production costs rather than the calculated "normalized" costs proposed by Ipsco. Contrary to Ipsco's assertions, its actual cost are not extraordinary within the Department's definition of the term and therefore are the appropriate costs to use the final determination. Further, the "normalized" costs submitted by Ipsco were untimely, hypothetical, and unsubstantiated.

DOC Position: Ipsco incurred abnormally high costs for certain products which it recently started producing. However, the normalized cost data submitted by Ipsco was not sufficiently substantiated. At verification, information was gathered regarding yield rates during and after the period of investigation. Where such information was available, the low yield rates in the period of investigation were normalized, in keeping with the Department's policy of amortizing start-up costs over future production.

Comment 16: Petitioner claims that Ipsco failed to account for research and development costs. The Department should adjust Ipsco's cost of production to reflect unreported research and development costs.

DOC Position: Ipsco reported research and development costs as part of general and administrative expenses. However, petitioner refers to Ipsco's argument that certain expenses incurred in initial production runs of experimental products, which in Ipsco's cost accounting system are classified as production costs, should be excluded from the "normalized" costs of these products. In the calculation of "normalized" costs for these products, the Department amortized these costs over present and estimated future production.

Comment 17: Petitioner argues that the Department should not classify Ipsco's off-specification OCTG as a by-product. There is significant demand for off-spec OCTG and, therefore, its production is desirable. Further, classifying off-spec OCTG as a by-product and not attributing any cost of production to it would encourage firms to circumvent the antidumping order by merely ceasing to test pipe for compliance with API standards.

DOC Position: We treated Ipsco's production of off-specification pipe as a full-costed product by spreading the cost of production equally over prime production and production off-spec products.

Comment 18: Petitioner argues that Welded Tube's cost of production data should be adjusted to reflect the differential in costs of producing casing of different dimensions.

DOC Position: We agree. For the final determination, we reallocated labor and overhead costs to accurately account for the differences in costs among different casing diameters.

Comment 19: Petitioner argues that Welded Tube's second quality tube should be included as a yield loss and the production costs offset by the sale of scrap.

DOC Position: We agree. The second quality product was treated as a by-product. Revenues from the sale of scrap were offset against production costs.

Comment 20: Petitioner argues that Welded Tube's slitting costs should be recalculated, first by allocating this expense among the proper mills, and then by allocating the costs among the products produced in that mill.

DOC Position: We agree. This was done for the final determination.

Comment 21: Petitioner argues that the following income items should not be allowed as deductions from Welded Tube's factory overhead and SG&A expenses: "storage income," "sundry income," and "dividend income."

DOC Position: We agree. These were not included in the final determination.

Comment 22: Petitioner argues that the factory overhead costs that Sonco reclassified to SG&A expense for purposes of the antidumping investigation should be included as a manufacturing cost.

DOC Position: We agree. These costs were included in manufacturing overhead for the final determination.

Comment 23: Petitioner argues that the reallocation of Sonco's electricity, water and gas costs among mills for the purposes of this antidumping investigation should be disallowed.

DOC Position: The reallocation was disallowed.

Comment 24: Petitioner claims that Sonco's accrued warranty expenses

should be included as an overhead expense.

DOC Position: Accrued warranty expense was included in SG&A expense for the final determination because it is a selling expense.

Comment 25: Petitioner claims that any overstatement in submitted yield rates by Sonco should be corrected and production costs adjusted accordingly.

DOC Position: The Department used the verified yield rates except for limited service casing. The yield and, accordingly, the costs were revised for the limited service pipe.

Comment 26: Petitioner argues that the production costs of limited service casing should be increased to reflect the scrap cost of producing this casing.

DOC Position: We agree. The costs were increased to include estimated scrap and rejected casing.

Domestic Interested Party

Comment 1: Counsel for interested party claims that Sonco's raw material supplier, Algoma, is a related party. Interested party further claims that Algoma has an option to purchase 50 to 100 percent of Sonco's shares. Because of this relationship, the Department should not presume that sales of raw material to Sonco were at arm's length prices. Accordingly, interested party argues that data used to substantiate sales of raw material by Algoma to Sonco should be disregarded and that the Department should use best information available to calculate these costs.

DOC Position: During the verification, the Department reviewed the raw material prices and found that the validity of the transaction prices were supported by the company's records. We found no evidence that any elements of the values were missing. Therefore, we determine that the purchases from Algoma were made at arm's length prices.

Comment 2: Counsel for interested party claims that Sonco's scrap loss was too low, and that the Department should disregard it and use the best information available to calculate the production cost.

DOC Position: After careful review of verification document, we believe that, except for the limited service products discussed within, submitted yield rates for the six-month period used for the final determination were reasonable.

Comment 3: Counsel for the interested party claims Sonco's overhead costs should be allocated on the basis of mill run time.

DOC Position: We reviewed allocations of overhead items which were computed based on tonnage and determined that the difference in costs between use of run time and tonnage bases was not significant.

Comment 4: Counsel for interested party claims that the SG&A reported by Sonco are too low due to the underallocation of such items as warehousing expenses and inventory carrying charges. Sonco's actual SG&A expense should be equal to or higher than that of Ferrum Inc., Sonco's parent company. Allocation of SG&A expenses based on sales tonnage will underallocate expenses to OCTG.

DOC Position: See our responses to Sonco's Comments number 4 and 7.

Comment 5: Counsel for the interested party argues that the Department should not accept Sonco's cost allocations because they do not reflect the respondent's usual cost allocation practices and should use best information available.

DOC Position: We agree that the respondent's reallocations should not be accepted. Such reallocations were disallowed for the final determination.

Comment 6: Counsel for the interested party argues that Sonco's accrued warranty expense should be allocated to the production cost.

DOC Position: Accrued warranty expense was allocated as part of SG&A expense for the final determination.

Comment 7: Counsel for the interested party argues that Sonco's actual profit margin on the OCTG was not specific and it prevents the interested party from checking to see if Sonco under-reported its cost of goods sold and SG&A.

DOC Position: The Department verified the actual elements of cost related to Sonco's costs of production to determine if the costs were appropriately valued.

Comment 8: Counsel for the interested party argues that Sonco's cost for further manufacturing in the United States was understated.

DOC Position: We agree. Certain SG&A and manufacturing expenses were reallocated for the final determination.

Comment 9: Counsel for the interested party and petitioner argues the constructed value information provided by Sonco is inconsistent and unreliable.

DOC Position: For the final determination, the constructed values were based on the verified amounts.

Respondents Comments

Sonco Comment 1: Sonco argues that the U.S. sales of API products constitute the majority of its sales, and sales of the limited service product are so small that they should be excluded from the fair value comparison because they were not in the ordinary course of trade.

DOC Position: We have included "limited service" products in the fair value comparison. We rejected Sonco's argument of treating "limited service" products as not in the ordinary course of trade. Ordinary course of trade is not applicable to U.S. sales.

Comment 2: Sonco argues that the credit expenses incurred in both markets were the same and no adjustment for credit expenses required.

DOC Position: We agree.

Comment 3: Sonco argues that a cash discount offered U.S. customers should not be treated as a reduction in price, but rather as an offset to credit expenses.

DOC Position: It is long established practice that the Department treats such discounts as reductions of price not as part of a credit expense equation.

Comment 4: Sonco argues that if the Department does not use Sonco's total credit expense calculation, then the discount given for early payment should be treated as a circumstance of sale adjustment. If the Department makes this circumstances of sales adjustment, it should be made for all comparison using either home market sales or constructed value.

DOC Position: A reduction for an early payment discount from the price has been a longstanding administrative practice. A discount represents a reduction in the price paid by the customer and must be deducted in calculating the U.S. price. It is not a circumstance of sale adjustment.

Comment 5: Sonco claims that the Department should use the daily exchange rate rather than the quarterly exchange rate for its currency conversion.

DOC Position: We agree and have done so.

Comment 6: Sonco claims that the Department should allocate the costs of producing scrap, rejects, and limited service OCTG to the production of the prime and non-prime merchandise. To calculate those costs, the Department should offset the cost of production by revenue earned in the selling of the scrap, reject and by-product material. this is consistent with Departmental practice.

DOC Position: We treated scrap and rejects as by-products. The limited service OCTG, which has the same use as the prime quality product, was not treated as a by-product.

A-60

Comment 7: Sonco claims that it properly classified consulting fees, general plant administration and salaries, and insurance as SG&A expenses rather than the cost of manufacturing. Therefore, the

Department should include them in Sonco's SG&A rather than in its cost of manufacture.

DOC Position: We disagree. We believe that the expenses were more appropriately classified as overhead.

Comment 8: Sonco claims that the Department overstated the SG&A expenses by using the Sonco parent company's financial statement rather than expenses specific to Sonco. Ferrum Inc.'s, financial statement includes SG&A attributable soley to products other than OCTG. Including these expenses is contrary to the Department's practice of attributing only those SG&A expenses related to the products under investigation.

DOC Position: We agree. Only SG&A expenses related to the production of OCTG were used for the final determination.

Comment 9: Sonco should not include accrued pipe warranty expenses in its submitted overhead costs because it has never had a warranty claim against its OCTG products.

DOC Position: An allocation of this expense was included in SG&A expense for the final determination.

Comment 10: Sonco has properly allocated its electricity, water and gas costs between the two mills at the Van Kirk facility on the basis of an engineering study that measured actual usage. The Department should use this allocation.

DOC Position: We disagree. The allocation used in Sonco's internal accounting system, produced in the normal course of business, was used for the final determination.

Comment 11: Sonco properly allocated its plant depreciation and electricity costs on the basis of tons produced because these costs are a function of production.

DOC Position: We disagree. However, since the difference in the amount of plant deprecition and electricity costs between the allocation based on run time and based on tonnage was insignificant, we accepted the submitted amounts.

Comment 12: Sonco has properly accounted for all costs incurred in further processing its material in the United States.

DOC Position: We disagree. We believe that several expenses were allocated using inappropriate allocation bases, resulting in an understatement of costs. These included general and administrative expenses and certain manufacturing costs. We reallocated these for the final determination.

Comment 13: SG&A expenses reported in the financial statements of Ferrum Inc., Sonco's parent, should not be used since they include expenses of the Lyman Tube Division which are completely unrelated to OCTG production.

DOC Position: We agree. Only SG&A expenses related to the production of OCTG were used for the final determination.

Comment 14: Sonco claims that their SG&A expenses should not be allocated as a percentage of cost of goods sold. This methodology overstates the expense because a large portion of Sonco's business is the conversion of pipe for other companies using customer-supplied coil.

DOC Position: We agree. SG&A expenses for the final determination were allocated to the products under investigation on a tonnage basis, a basis we believe to be more appropriate than the cost of goods sold basis under the circumstances for this company.

Comment 15: Sonco claims that the Department should offset the amount of the U.S. selling expenses from its ESP sales in the amount of its selling expenses for comparable merchandise in the home market. Such an offset is in accordance with Departmental practice and should be allowed whether the foreign market value is based on home market sales or constructed value.

DOC Position: We agree and have done so.

Algoma Comment 1: Algoma argues that the Department should exclude the amount for "depreciation and amortization" which was included in the preliminary determination from its calculation of Algoma's SG&A expenses because this amount was already included in the submitted cost of production.

DOC Position: We agree. Since these costs were included in respondent's submission, no adjustment was made by the Department for its final determination.

Comment 2: Algoma argues that the Department should exclude the long-term interest expense because none of Algoma's long-term debt was incurred to purchase the assets used in manufacturing the merchandise under consideration.

DOC Position: We disagree. Since the debt was incurred as part of the corporate long-term capitalization, we included an allocation of the expense in the final determination.

Comment 3: Algoma argues that the Department should reduce Algoma's short-term interest expense by the short-term interest income Algoma earned in 1984, before including the interest expense in SG&A. This interest income was earned in the normal course of business. Such an offset is consistent with Departmental practice.

DOC Position: We agree. The Department followed its usual practice and offset interest expense by ordinary interest income associated with incidential investments related to the ordinary course of business.

Comment 4: Algoma argues that the foreign exchange losses and deferred exchange losses shown in Algoma's Financial Statement are merely paper losses (not actual current expenses to Algoma) and are thus not properly attributable to Algoma's SG&A expense.

DOC Position: We disagree. These were allocated as part of SG&A expense.

Comment 5: Algoma argues that the Department should exclude "seconds" sales of clearance merchandise from its fair value commparison because they were not made in the ordinary course of trade. Algoma states that Departmental policy is to include such clearance sales only if home market sales are otherwise inadequate or the clearance sales represent a significant portion of the U.S. sales under investigation. Alternatively, Algoma suggests that if the Department does include clearance sales, it should compare clearance sales in both markets.

DOC Position: We disagree. We do not believe that these sales of overruns and downgraded API specification material qualify as "clearance merchandise" outside the ordinary course of trade since they were of prime quality and of standard API sizes.

Comment 6: Algoma claims that, in its preliminary determination, the Department failed to adjust the constructed value for physical differences despite its stated position that Algoma was entitled to this adjustment.

DOC Position: We have adjsuted the constructed value for physical differences in reaching this final determination.

Comment 7: Algoma was consistent with Department standards in reclassifying certain "general works" expenses from overhead to SG&A expenses for the submission.

DOC Position: We disagree. For the final determination, these were included in the cost of manufacture.

Comment 8: Algoma correctly modified its ESP U.S. manufacturing expenses adjustments to reflect the price per ton for plain-end OCTG.

DOC Position: We agree. The submission methodology was accepted.

Comment 9: Algoma argues that taxes and royalty payments on iron-ore properties not in production should be

excluded from cost of production because such costs do not relate to OCTG production.

DOC Position: We disagree. Since the company is an intergrated producer these expenses would relate to the production of OCTG. For the final determination, the taxes and royalty payments were included in SG&A expense.

Comment 10: Algoma states that it properly treated raw material purchases from related parties as 100 percent variable costs in its calculation of difference in merchandise adjustments.

DOC Position: We agree with Algoma's treatment of the material purchase as 100 percent variable cost.

Comment 11: Algoma contends that it properly excluded the capital tax from SG&A expense in Algoma's submission because this tax is essentially a form of income tax.

DOC Position: We disagree. The tax is based on capital and not income. In addition, the normal treatment of this capital tax in Canada is a general expense. We therefore included it in SG&A expense for the final determination.

Comment 12: Algoma argues that its cost of production should not include an allocation of the general costs of CP Enterprises Limited, Algoma's parent company, because CP Enterprises provides no services to Algoma.

DOC Position: We agree. CP Enterprises Limited is essentially a holding company and, as such, acts as only an investor in Algoma.

Comment 13: Algoma's selling, general and administrative expenses should be allocated on the basis of tons sold.

DOC Position: We disagree. For the final determination, the cost of goods sold allocation basis was used because it takes into account differences in product costs.

Comment 14: Algoma maintains that the Department should make an adjustment for the differences of price due to differing levels of trade between distributor and end-users. Precedent requires the Department, in situations where there are sales to differing levels of trade in both markets, to adjust for differences in prices between the two levels of trade in the Canadian market.

DOC Position: Departmental practice is that, in establishing whether there are differences in sales at varying levels of trade that affect price comparability, information substantiating that the differences in the price are the result of differences in the cost of selling at one level of trade as compared to the other must be submitted and verified. Algoma was unable to substantiate information on cost differences. Therefore, we made no adjustment for differeing levels of trade.

Comment 15: Algoma argues that we should make an adjustment for quantity discounts.

DOC Position: We agree. The verified data indicates that quantity discounts did exist for certain product. Therefore, we included the discount in our calculations for those products.

Comment 16: Algoma argues that, in its preliminary determination, the Department improperly excluded from its foreign market value sales made at below cost if these sales comprised more than 10 percent of Algoma's total sales of that product. The Department may not disregard any of Algoma's home market sales because there is no evidence on the record to show that sales of the entire class or kind of OCTG were "made over an extended period of time and in substantial quantities" at below cost.

DOC Position: In calculating weighted average home market prices, the Department took into consideration the provisions of section 773(b) of the Act which directs that home market sales below cost which are made over an extended period of time and in substantial quantities at prices which do not permit recovery of all costs over a reasonable period of time will be disregarded in the determination of foreign market value.

Thus, there are two stages in the calculation of foreign market value where there are sales below costs. First, the Department must determine whether to disregard below cost sales. Second, if it does disregard them, it must determine whether the remaining above cost sales provide an adequate basis for comparison.

In determining whether to disregard below cost sales, we have followed the precedent set in the antidumping cases involving carbon steel plate from Japan (43 FR 2033) and welded stainless pipe and tubing from Japan (48 FR 1206) in which sales below-cost were disregarded when they amounted to 10 percent or more of the total home market sales. In the case of Algoma, there were a few products that had more than 10 percent of the home market sales which were below cost. These below-cost sales were disregarded in the computation of foreign market value. In certain instances where a product had less than 10 percent of the total home market sales below cost, none of the below-cost sales were disregarded in the computation of foreign market value.

Welded Tube Comment 1: Welded Tube claims that their home market sales were at prices above the cost of production and, therefore, should be used as the basis of comparison for foreign market value.

DOC Position: We agree and have done so.

Comment 2: Welded Tube argues that, in its preliminary determination, the Department overstated the SG&A expenses attributable to OCTG because it included charges reported elsewhere and costs unrelated to OCTG production. The SG&A expenses submitted by Welded Tube accurately calculate those costs for OCTG production, and the Department should use them to determine Welded Tube's cost of production.

DOC Position: We agree. We used the verified SG&A expenses for the final determination.

Comment 3: Welded Tube claims that the Department should use its skelp cost because all purchases of skelp were arm's length transactions made at market prices.

DOC Position: We agree. The supplier's equity interest is under 20 percent and the information provided to the Department indicated that the Skelp price represented market prices. Therefore, these prices were used for the final determination.

Comment 4: Welded Tube has provided the Department with accurate yield loss amounts. The Department has sufficient information with which to calculate Welded Tube's net yield loss for the period of investigation.

DOC Position: During the verification, the Department reviewed Welded Tube's yields and related costs for each product for the period of investigation. These yields were used for the final determination.

Comment 5: Welded Tube's slitting labor and overhead costs should be computed by first allocating the cost to the mill that produces OCTG and then by dividing by that mill's finished tube production output. The submission methodology of allocating the cost to finished production based on total tons slit should not be used.

DOC Position: We agree. The allocation method based on finished tube production tonnage by mill was used for the final determination.

Comment 6: Welded Tube argues that it has accurately reported SG&A expenses. Commission, warehousing expenses, and bad debt expenses were correctly excluded from the submission. Welded Tube provided worksheets at verification which corrected SG&A expenses for the first quarter of 1985.

DOC Position: We agree that the

above expenses were properly excluded because such expenses were not related to OCTG. However, SG&A expenses were allocated based on production. We used cost of goods sold as the allocation basis for SG&A expenses for the final determination.

Ipsco Comment 1: Ipsco argues that the Department should adjust the foreign market value to reflect rebates provides in the home market.

DOC Position: We agree. Such rebates were verified and allowed.

Comment 2: Ipsco argues that the Department should make a circumstance of sale adjustment for commissions that Ipsco pays to distributors when it sells directly to end-users. These commissions were verified and are appropriately considered a circumstance of sale.

DOC Position: We agree and the adjustments were made for the final determination.

Comment 3: Ipsco contends that the Department should adjust its foreign market value to reflect bad debt expenses directly related to sales of the product under investigation.

DOC Position: We disagree. See our response to Petitioner's Comment 12.

Comment 4: Ipsco states that the Department should adjust for warranty expenses now that it has verified those expenses. Further, that adjustment should cover all warranty expenses claims by Ipsco.

DOC Position: We agree. See our response to Petitioner's Comment 13.

Comment 5: Ipsco argues that, in adjusting United States price for Canadian inland freight, the Department should use actual freight costs rather than average costs. These freight costs are easily ascertainable and would prevent over-or understatement of the costs.

DOC Position: We disagree. See our response to Petitioner's Comment 14.

Comment 6: Ipsco argues that all extraordinary costs attributable to equipment start-up, product development, and limited test runs should be amortized over the useful life of the equipment or technology involved, rather than fully assessed against products produced in this start-up phase. Ipsco provides and urges the Department to use this normalized cost instead of the actual production costs.

DOC Position: The normalized cost information submitted by Ipsco is based on standard costs contained in Ipsco's annual management budget adjusted for inflation using a broad index of price levels. The standard costs contained in the budget are not used by Ipsco in its cost accounting sytem. This information is not sufficient to substantiate the level of production costs under normal operating conditions. However, as stated in our response to Petitioner's Comment 16, we have amortized costs related to low yield rates on initial production runs over present and estimated future production, where yield rates for subsequent production were available and were lower.

Comment 7: Ipsco offers two possible methods of determining foreign market value for comparison purposes for its sale of off-spec merchandise. First, Ipsco suggests the Department use the uniform per ton value which Ipsco ascribes to such by-products in calculating the cost of prime material. If not, the Department should use the actual selling price for such off-spec merchandise. In either case, Department practice, generally accepted accounting principles, and industry practice require that the cost of production of the prime product should reflect the costs of all production net of the reject value.

DOC Position: Because the off-spec merchandise is used as OCTG and can be very similar to prime merchandise, we have included it in this investigation and made comparisons of United States price with foreign market value for sales of off-spec merchandise. In order to allow such comparisons, we rejected Ipsco's methodology of treating off-spec production as a by-product.

Comment 8: Ipsco contains that the Department improperly excluded sales of oilwell tubing from its calculations of foreign market value in the preliminary determination. The Department should correct this error for the final determination.

DOC Position: We agree and have done so.

Suspension of Liquidation

In accordance with section 733(d) of the Act, we are directing the United States Customs Service to continue to suspend liquidation of all entries of OCTG from Canada (with the exception of those OCTG produced by Welded Tube) that are entered, or withdrawn from warehouse, for consumption, on or after the date of publication of this notice in the Federal Register. The United States Customs Service shall require a cash deposit or the posting of a bond equal to the estimated weighted-average amount by which the foreign market value of the merchandise subject to this investigation exceeds the United States price as shown in the table below. This suspension of liquidation will remain in effect until further notice.

Manufacturer/producer/exporter	Weighted-average margin percentage
Algoma	14.26
Ipsco	40.85
Sonco	3.35
Welded Tube	0
All others	19.38

ITC Notification

In accordance with section 735(d) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all non-privileged and non-confidential information relating to this investigation. We will allow the ITC access to all privileged and confidential information in our files, provided that the ITC confirms that it will not disclose such information either publicly or under an administrative protective order without the written consent of the Deputy Assistant Secretary for Import Administration. The ITC will determine whether these imports materially injure, or threaten material injury to, a U.S. industry, within 45 days after our final determination.

If the ITC determines that material injury, or threat of material injury, does not exist, this proceeding will be terminated and all securities posted as a result of the suspension of liquidation will be refunded or cancelled. If, however, the ITC determines that such injury does exist, we will issue an antidumping duty order on the subject merchandise which was entered, or withdrawn from warehouse, for consumption after the suspension of liquidation, equal to the amount by which the foreign market value of the merchandise exceeds the United States price.

This notice is published pursuant to section 735(d) of the Act (19 U.S.C. 1673d(d)).

Paul Freedenberg,

Assistant Secretary for Trade Administration.

April 16, 1986.

[FR Doc. 86-8962 Filed 4-21-86; 8:45 am]

BILLING CODE 3510-DS-M

[C-122-505]

Final Affirmative Countervailing Duty Determination; Oil Country Tubular Goods From Canada

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters of oil country tubular goods (OCTG) in Canada. The estimated net subsidy is 0.72 percent *ad valorem* for all companies except those specifically excluded from this determination. In addition, we determine that "critical circumstances" do not exist with respect to the subject merchandise.

We have notified the United States International Trade Commission (ITC) of our determination. We are directing the U.S. Customs Service to continue to suspend liquidation of all entries of OCTG from Canada that are entered, or withdrawn from warehouse, for consumption, on or after the date of publication of this notice, except for companies that have been excluded from this determination, and to require a cash deposit or bond on entries of this product in an amount equal to the estimated net subsidy as described in the "Suspension of Liquidation" section of this notice.

EFFECTIVE DATE: April 22, 1986.

FOR FURTHER INFORMATION CONTACT: Steven Morrison or Barbara Tillman, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone (202) 377-1248 (Morrison) or (202) 377-2438 (Tillman).

SUPPLEMENTARY INFORMATION:

Final Determination

Based upon our investigation, we determine that certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to manufacturers, producers or exporters of OCTG in Canada. For purposes of this investigation, the following programs are found to confer subsidies:

- Certain Types of Investment Tax Credits;
- Regional Development Incentives Program; and
- General Development Agreement/Canada-Saskatchewan Subsidiary Agreement on Iron, Steel and Other Related Metal Industries.

We determine the estimated net subsidy for OCTG to be 0.72 percent *ad valorem* for all companies except those specifically excluded from this determination.

Case History

On July 22, 1985, we received a petition filed in proper form by the Lone Star Steel Company and CF&I Steel Corporation, producers of OCTG. In compliance with the filing requirements of §355.26 of our regulations (19 CFR 355.26), the petition alleged that manufacturers, producers or exporters of OCTG in Canada directly or indirectly receive benefits which constitute subsidies within the meaning of section 701 of the Act, and that these imports materially injure, or threaten material injury to, a U.S. industry. In addition, the petition alleged that "critical circumstances" exist within the meaning of section 703(e)(1) of the Act. We found that the petition contained

sufficient grounds upon which to initiate a countervailing duty investigation, and on August 12, 1985, we initiated the investigation (50 FR 33383).

Since Canada is a "Country under the Agreement" within the meaning of section 701(b) of the Act, the ITC is required to determine whether imports of the subject merchandise from Canada materially injure, or threaten materials injury to, a U.S. industry. Therefore, we notified the ITC of our initiation. On September 5, 1985, the ITC determined that there is a reasonable indication that these imports materially injure a U.S. industry (50 FR 37066).

On August 21, 1985, we presented a questionnaire concerning the petitioners' allegations to the government of Canada. Responses to the questionnaire were received on September 23 and 24, 1985, from the government of Canada, the provinces of Alberta, Ontario and Sakatchewan and from producers who account for substantially all exports of OCTG from Canada to the United States.

There are eleven known producers and/or exporters of OCTG to the United States from Canada. These are Siegfried Kreiser Pipe and Tube; IPSCO, Inc.; Stelco Inc.; Sonco Steel Tube (a division of Ferrum, Inc.); Algoma Steel Corp. Ltd.; Welded Tube of Canada, Ltd.; Prudential Steel, Ltd.; Frank Pipe Co.; Christianson Pipe, Ltd.; Dominion Steel Export Co., Ltd.; and Matthew Tube & Pipe Supply Inc. We received timely requests for exclusion from these companies. We sent them copies of the detailed questionnaire. We verified that eight respondents received no benefits. In addition, Algoma Steel Corporation received benefits which we determine are *de minimis*. Therefore, these nine companies are excluded from this final determination. IPSCO received countervailable benefits above the *de minimis* rate of 0.50 percent. Siegfried Kreiser Pipe and Tube did not respond to our questionnaire.

On September 23, 1985, we received a timely request by petitioners for a extension of the deadline date for the preliminary determination. An extension was granted on September 26, 1985 (50 FR 40209). We made our preliminary determination on December 19, 1985 (50 FR 53172).

Verification was conducted in Canada from October 23, 1985 to November 14, 1985. After verification, supplemental responses were received revising and adding information as requested at verification. Prehearing briefs were submitted on January 9, 1986. The hearing was held on January 14, 1986. Post-hearing briefs were received by the Department on February 3, 1986.

On February 7, 1986, we received a request from petitioners to extend the final countervailing duty determination on OCTG from Canada to coincide with the final antidumping duty determination on a simultaneously initiated investigation of the same merchandise from the same country. This request was made pursuant to section 705(a)(1) of the Tariff Act of 1930, as amended. Pursuant to petitioners' request we extended the date of the final countervailing duty determination on OCTG from Canada until not later than April 16, 1986, to correspond to the date of the final antidumping duty determination (51 FR 7977).

Under Article 5.3 of the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement of Tariffs and Trade (1979), we would have to terminate the suspension of liquidation of countervailing duties if the final injury determination date, as extended, was more than four months after the date of publication of the preliminary affirmative countervailing duty determination, December 30, 1985 (50 FR 53172). Therefore, we will terminate the suspension of liquidation ordered in our preliminary affirmative countervailing duty determination on May 1, 1986. We will reinstate the suspension of liquidation if the ITC makes a final affirmative injury determination in this investigation.

Because of the extension of the final determination, we were able to conduct a supplemental verification of information submitted by IPSCO after our preliminary determination. This suplemental verification was conducted in Washington, D.C. on March 21, 1986.

Scope of Investigation

The products covered by this investigation are "oil country tubular goods," which are hollow steel products of circular cross-section intended for use in drilling for oil or gas. These products include oil well casings, tubing and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or non-API (such as proprietary) specifications as currently provided for in the *Tariff Schedules of the United States Annotated* (TSUSA), under items 610.3216, 610.3219, 610.3233, 610.3234, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4210, 610.4220, 610.4225, 610.4230, 610.4235, 610.4240, 610.4310, 610.4320, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, 610.5244. This investigation includes OCTG that are in both finished and unfinished condition.

Analysis of Programs

Throughout this notice, we refer to certain general principles applied to the facts of the current investigation. These principles are described in the "Subsidies Appendix" attached to the notice of "Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina: Final Affirmative Countervailing Duty Determination and Countervailing Duty Order," which was published on April 26, 1984 (49 FR 18006).

For purposes of this final determination, the period for which we are measuring subsidies (the review period) is calendar year 1984. Based upon our analysis of the petition, the responses to our questionnaires submitted by the federal and provincial governments as well as those of the ten responding companies as amended, the verifications, and comments submitted by the petitioners and the respondents, we determine the following:

I. Programs Determined To Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers or exporters of OCTG in Canada under the following programs:

A. Certain Types of Investment Tax Credits

There are several categories of Investment Tax Credits (ITCs) in Canada. Two ITC programs are directed at encouraging capital investment in certain regions of the country. One category of ITC is for investment in "qualified property," such as new plant and equipment used for manufacturing or processing. The basic ITC for investment in qualified property is seven percent. An additional three or 13 percent is available for qualified property used in certain regions. IPSCO and Algoma each claimed the additional three percent ITC for qualified property used in Saskatchewan and Sault Ste. Marie, respectively.

We verified that the basic seven percent rate for "qualified property" is not limited to a specific industry or region. We, therefore, determine that it is not countervailable. However, because the additional rate of three percent for qualified property can only be claimed on investments in assets used in certain regions, we determine that this additional benefit is

countervailable. We also verified that the additional 13 percent rate was not used by manufacturers, producers or exporters of OCTG in Canada.

A second category of ITC is for investment in "certified property." The distinguishing factor between "certified property" and "qualified property" is that the former must be located in prescribed regions characterized by high levels of unemployment and low per capita income. The ITC rate for certified property is 50 percent. We verified that no manufacturer, producer or exporter of OCTG in Canada used certified property ITCs in the review period.

A third category of ITC is for scientific research. Eligible expenditures under this category include the cost of capital equipment used for scientific research and expenses attributable to scientific research. A basic 20 percent ITC rate is available for qualifying scientific research expenditures to all companies in Canada. For small Canadian-controlled private corporations, the rate is 35 percent. For all other corporations, the rate is 30 percent, if the expenditure is made in certain regions. From April 1983 to May 1985, manufacturers incurring scientific research expenses, receiving scientific research and operating at a tax loss could sell these ITCs to companies owing taxes. Algoma and Stelco used 20 percent scientific research ITCs. We determine that 20 and 35 percent scientific research ITCs, whether sold or used by the company performing the research, do not confer domestic subsidies because they are not limited to a specific enterprise or industry, or group of enterprises or industries, or to companies in specific regions. We did not discover any corporations manufacturing, producing, or exporting OCTG in Canada that were eligible for the 30 percent regional benefit. We verified that the 35 percent scientific research ITC for small business was not used.

A fourth category of ITC is for qualified transportation and construction equipment. It is also a nationwide program. We verified that no manufacturer, producer or exporter of OCTG used this particular tax credit.

In our "Final Affirmative Countervailing Duty Determination: Certain Fresh Atlantic Groundfish from Canada" ("Groundfish") (51 FR 10041), we stated that there were four categories of ITCs. We have since become aware of a fifth category which is for research and development. During the review period, a company could receive ITCs for ten percent of its research and development expenses (20 percent for small businesses). This provision is available to companies nationwide. IPSCO received tax deductions under this provision in 1984. We determine that research and development ITCs do not confer domestic subsidies because they are not limited to a specific enterprise or industry, or group of enterprises or industries, or to companies in specific regions.

Canadian tax law provides that ITCs may be subtracted from taxes owed, but if no taxes are owed (either because a company is initially in a tax loss position or because only some of the ITCs have been used to satisfy all tax liability), those excess ITCs earned after April 19, 1983, have a refundable, one-time cash value of equal to 20 percent of the initial, face value of the ITC (40 percent for small businesses). We verified that Algoma did get refunds for some post-April 19, 1983 qualified property ITCs for cash on tax returns filed in 1984.

To calculate the benefit from the "qualified property" ITCs, we followed our standard tax methodology. Under our tax methodology, we allocate an income tax benefit to the year in which the tax return was filed. Thus, we looked at the tax return filed in 1984, covering fiscal year 1983. We examined IPSCO's and Algoma's tax returns filed during the review period and found the value of "qualified property" ITCs in excess of the seven percent threshold. We then divided that amount by each company's total sales to calculate a net subsidy of 0.01 percent *ad valorem* for Algoma and 0.01 percent *ad valorem* for IPSCO.

B. Regional Development Incentive Program (RDIP)

The RDIP, which was the predecessor of the Industrial and Regional Development Program, was administered by the Department of Regional Economic Expansion (DREE) for the purpose of creating stable employment opportunities in areas of Canada where employment and economic opportunities were chronically low. The program provided development incentive (usually grants) to manufacturers whose capital investment projects for establishing new facilities or expanding or modernizing existing facilities would create jobs and economic opportunities in areas designated as economically disadvantaged.

Because benefits were limited to companies located within specific regions in Canada, we determine that grants provided through the RDIP program of DREE are countervailable. We verified that the only manufacturers, producers or exporters of OCTG located in regions of Canada eligible for RDIP were IPSCO and Algoma.

Each company received one RDIP grant for facilities not used in the production of OCTG. Consistent with our methodology, when a grant is tied specifically to a production not under investigation, we do not include it in our calculation of benefits. In addition, we verified that one RDIP grant, reported by the government of Canada as paid to IPSCO, was actually paid to a scrap metal company subsequently acquired by IPSCO. The money was paid to the scrap metal company more than a year before its assets were acquired by IPSCO. We verified that IPSCO did not receive any funds under this grant.

IPSCO also received a large grant under RDIP and a Saskatchewan subsidiary agreement which is discussed in the next section of this notice. The benefit from this joint grant is included in the subsidy calculation for this RDIP program. Finally, IPSCO and Algoma each received RDIP grants which were used for several facilities producing both OCTG and other products. Since these grants were used in the production of OCTG, among other products, we included the full amount of these grants in our calculations.

To calculate the benefits from these RDIP grants, we used the methodology for grants outlined in the Subsidies Appendix. Because RDIP grants are not provided automatically every year, we allocate the benefits received over time. The average useful life of equipment in the steel industry is 15 years as determined by standard Internal Revenue Service tables. Thus, for all grants received by each company in the past 15 years, we aggregated all grants received by each company in each year and divided by the company's total sales in that year. If the result was less than 0.50 percent (*de minimis*), we expensed the full amount of the grant(s) in the year of receipt. If the result was 0.50 percent or greater, we allocated the grant over the average useful life of equipment using our declining balance methodology.

We applied the methodology outlined in the Subsidies Appendix. Using this methodology, we determine the estimated net subsidy to be 0.71 percent *ad valorem* for IPSCO and 0.04 percent *ad valorem* for Algoma. The amount calculated for IPSCO includes the full amount of a grant jointly funded by RDIP and a subsidiary agreement discussed below.

C. General Development Agreement (GDA) and the Canada-Saskatchewan Subsidiary Agreement on Iron, Steel and Other Related Metal Industries

GDAs, which were umbrella agreements stating general economic development goals, provided the legal basis for departments of the federal and provincial governments to cooperate in the establishment of economic development programs. Ten-year GDAs were signed with all the provinces in 1974, except P.E.I., which had signed its own Comprehensive Development Plan in 1969. Five-year GDAs were signed with the Yukon Territory in 1977 and with the Northwest Territories in 1979.

Pursuant to GDAs, subsidiary agreements were signed. The subsidiary agreements were generally between particular federal and provincial government departments (*e.g.*, DREE and the Ministry of Industry and Commerce in Saskatchewan). These agreements established various individual programs, delineated administrative procedures and set out the relative funding commitments of the federal and provincial governments. Subsidiary agreements were typically directed at establishing traditional government programs (*i.e.*, extension services, developing infrastructure, providing for economic development assistance for certain regions within the province and creating programs for specific industries).

The iron and steel subsidiary agreement in Saskatchewan was intended to enhance the viability of the existing iron and steel industry in the province, to expand and diversify iron and steel production, and to increase employment opportunities in the iron, steel and other related metal industries in Saskatchewan. IPSCO was and still is the only producer in Saskatchewan of pipe (including OCTG) in addition to being the sole steel producer in the province. IPSCO received most of the funds the province budgeted for primary and secondary steel facilities under the subsidiary agreement. As such, we determine this subsidiary agreement to be countervailable because it provided direct financial assistance that was limited to a specific enterprise or industry, or group of enterprises or industries.

IPSCO received two grants under the subsidiary agreement. These two grants were jointly approved and funded through RDIP and the subsidiary agreement. IPSCO received funds under one grant in 1976 and 1978. These were the only grant funds IPSCO received in each of those years. The funds received under this grant were less than 0.50 percent of total IPSCO sales in each of those years. Thus, we expensed the amount of each of these grants to the year of receipt. IPSCO received funds under the other grant in 1980, 1981, 1982 and 1983. The amount of these disbursements exceeded 0.50 percent of total IPSCO sales in each of those four years. Therefore, we allocated each of these disbursements over time and have included the benefits in our calculation of the estimated net subsidy under RDIP.

II. Programs Determined Not To Confer Subsidies

We determine that subsidies are not being provided to manufacturers, producers or exporters of OCTG in Canada under the following programs:

A. Grant Under the Enterprise Development Program (EDP)

The EDP was established to provide loans, loan guarantees and contributions to those engaged in manufacturing or processing. In the "Final Negative Countervailing Duty Determinations: Certain Softwood Products from Canada" ("Softwood") (48 FR 24159 (1983)), we found EDP grants not countervailable and EDP loan programs not used. Based on that determination, we initiated an investigation only on EDP loan programs and not EDP grants. However, IPSCO's 1984 annual report stated that the company was being assisted by an EDP grant for research on a new alloy while the government of Canada response said the EDP program was terminated in 1983. Because of this inconsistency in the information provided in the two responses, we asked for additional information in order to determine whether a new EDP program has been established.

We verified that companies could continue to receive funds for projects approved prior to the termination of the EDP program and that there was no new EDP program. In addition, although project funding for the grant has been approved, we verified that IPSCO has not yet received any funding under this program. Accordingly, we have no information changing our prior conclusion that EDP grants are not limited to a specific enterprise or industry, or group of enterprises or industries, or to companies in specific regions. EDP loan programs were not used as explained in section III. I. of this notice.

B. Employment Development Fund (EDF)

The Employment Development Fund (EDF), which was terminated in 1982, was an Ontario provincial grant program intended to increase long-term investment and employment in the province. In its response, one OCTG manufacturer reported receipt of an EDF grant. During verification, we saw that as part of the application procedure, applicants are required to predict the growth of production and exports. However, the default provisions of the application form are not triggered if the projected export goals are not met.

We determine that EDF was not an export subsidy because these grants were provided to producers for the domestic market as well as to exporters, and receipt of EDF grants was not contingent on export performance. Based on our examination of a report on recipients of EDF, funding was provided to a wide range of industries in Ontario including general manufacturing, automotive, high-technology electrical products, wood products, tourism, textiles, transport, chemicals, agriculture, and pulp and paper. Therefore, we also determine that EDF grants do not confer domestic subsidies because they are not limited to a specific enterprise or industry, or group of enterprises or industries, or to companies in specific regions.

C. Alberta Opportunity Loan to IPSCO

The Alberta Opportuntiy Company (AOC), a crown corporation, issues loans and loan guarantees to companies in Alberta in order to stimulate new businesses and assist expansion of existing enterprises when financing from other sources is unavailable. In *Softwood*, we determined that AOC loans were not limited to a specific enterprise or industry, or group of enterprises or industries, or to companies in specific regions. However, we initiated an investigation on this program because we had information that AOC loans may be intended for export promotion. According to the responses, IPSCO had a loan outstanding from the AOC during the review period.

IPSCO's AOC loan is not a part of normal loan program; it is part of a settlement reached in court for IPSCO's purchase of physical assets of Ram Steel (Ram), a company placed into receivership by its primary secured creditor. Thus, even though we found no linkage of this loan to exports, we examined whether the loan was granted on terms inconsistent with commercial considerations.

Normally, we determine this by comparing the interest rate and other charges to comparable, commercial loans. To find comparable, commerical loans, we look first to the company's debt experience. If it has no comparable,

commercial debt outstanding, we look to the national experience. The circumstances surrounding this loan were unusual. The lending institution faced large losses, absent a favorable resolution of Ram's financial difficulties. Because of this, normal loans from a commercial bank that is not exposed in a similar manner are not comparable. We were unable to find comparable, commercial loans to determine the appropriate benchmark.

Thus, we had to determine whether a commercial lender would act as AOC did. AOC was the secondary, secured creditor of Ram at the time the court placed Ram in receivership. The court assigned an officer of Peat Marwick, Ltd. (a neutral, private party) as the receiver to negotiate the best deal possible on behalf of Ram's creditor and storkholders. According to the receiver, the company could not be operated by the receiver or by Ram at a profit, and the price offered by IPSCO was the highest price they could obtain (it was also the only offer they received). It included payoff of the primary creditor which was a pre-condition of AOC receiving anything at all. The assets of Ram were appraised by an independent appraiser acting on behalf of the Court. The appraiser evaluated the assets of Ram, purchaser by IPSCO, as if they were used in a profitable business. The final price offered by IPSCO was seven percent more than the value that the appraiser placed on the assets. IPSCO made its offer to buy contingent upon receiving a loan from AOC to cover part of the purchaser price. The receiver determined that IPSCO' offer, including the AOC loan terms, was in the best interest of all of Ram's creditors, including AOC. By granting that loan, AOC was able to recover most of the money owed it by Ram and to receive the full principal and interest of this loan to IPSCO on deferred terms, as was a condition of IPSCO's offer.

Given the above information, we determine that AOC's loan to IPSCO was not inconsistent with commercial considerations. It is commercially reasonable to accept deferred repayment terms on a portion of the purchase price in this situation, whether or not the lender is a government-funded company, especially if acceptance of such terms is part of a settlement recommended by a court-appointed receiver. By accepting deferred repayment on the remainder of the price, the lender avoided major financial losses, otherwise reasonably expected, had it not accepted the deferral. (We note that banks, in particular, are willing to renegotiate loan terms in order to avoid having to write off large amounts of bad debt.)

Additionally, it is commercially reasonable for IPSCO to negotiate the best terms possible for itself when borrowing. In a situation where IPSCO make the only offer for Ram's assets, it is reasonable for IPSCO to look for credit from the lender who stands to lose the most if the purchase falls through. IPSCO is still required to repay interest and principal on this loan and has made all payments required thus far.

Therefore, since we have determined that the AOC loan was not provided on terms inconsistent with commercial considerations, we determine that this loan does not confer a subsidy.

III. Programs Determined Not To Be Used

We determine that the following programs are not used by manufacturers, producers, or exporters of OCTG in Canada:

A. Loans Under Subsidiary Agreements

Petitioners allege that under the GDA and federal-provincial subsidiary agreement, loans were provided on terms inconsistent with commercial considerations. We verified that the GDA was not itself a program and that none of the companies had outstanding loans under the subsidiary agreements during the review period.

B. Defense Industry Productivity Program (DIPP)

The DIPP, administered by the Department of Regional and Industrial Expansion (DRIE), has several purposes. Among these purposes are the stimulation of exports of military hardware and the provision of assistance to upgrade equipment, processes and facilities to make companies more competitive in bidding for military hardware contracts.

We verified that Algoma is the only manufacturer, producer or exporter of OCTG that received a DIPP grant. The grant was for a facility to desulfurize steel, which is used in producing OCTG and other steel products. DIPP funds were paid to Algoma in 1980 and 1981. Although the Department may determine that DIPP grants serve as export subsidies in other cases, we verified that there were no conditions in the Algoma DIPP grant agreement which were tied to export performance or which made the grant contingent upon exporting. Algoma has a large home market for desulfurized steel and products made from desulfurized steel. This DIPP grant benefits Algoma's entire production, and not exports alone. Thus, we determine that this grant was not an export subsidy.

Although we have determined that this program is not an export subsidy, we must still determine whether any benefits were received during the review period and, if so, whether this program is limited to a specific enterprise or industry, or group of enterprises of industries. Consistent with the Subsidies Appendix, we divide the sum of all grants received in each year by the total sales of the company in the same year. Algoma received no other grants in the two years DIPP funds were received. The calculated benefits in each year were *de minimis*; therefore we expensed them in the year of receipt. Because the DIPP grants received by Algoma were expensed prior to the review period and because no DIP grants were received by Algoma during the review period, we determine this program was not used.

C. Community-Based Industrial Adjustment Program of the Industry and Labor Adjustment Program (CIAP/ILAP)

This program, now terminated, provided loans and grants to firms in designated communities affected by high unemployment. We verified that 12 identified communities were eligible for CIAP during the life of the program. None of the OCTG respondents were located in these communities.

D. Promotional Projects Program (PPP)

The PPP is run by the Department of External Affairs. At selected foreign trade shows, the government of Canada rents space, furniture, and facilities which it subleases at minimal charge to Canadian exhibitors. The government of Canada reported that one OCTG respondent, Stelco, used the PPP in 1983 and 1985 (but not 1984) at a trade show in the United States. This benefit was received outside the review period. We verified that no benefit was received by OCTG companies during the review period.

E. Program for Export Market Development (PEMD)

The PEMD program is also run by the Department of External Affairs. One PEMD subprogram was reportedly used by Stelco, Algoma and IPSCO to recover certain transportation expenses incurred in selling specific products in potential markets. We verified that none of these trips were for selling OCTG in the United States. Therefore, we determine that this program was not used.

A-68

F. Industrial and Regional Development Program (IRDP)

Under the administration of DRIE, IRDP was established in 1983 as the successor to the RDIP. Its purpose is to increase industrial development and improve the overall economic climate in Canada. To accomplish this goal, grants are provided for four major purposes: (1) To encourage the development of new products and new processes and to increase industrial productivity and industrial competitiveness; (2) to assist in the establishment of new production facilities in less developed areas; (3) to increase industrial productivity through the improvement, modernization and expansion of existing manufacturing and processing operations; and (4) for marketing purposes. Each census district in Canada is classified into one of four tiers based on its level of economic development. The level of benefit varies inversely with employment, population density, and existing facilities.

The petitioners alleged that DRIE provides discretionary grants, interest-free loans and loan guarantees under IRDP. We verified that no IRDP loans or loan guarantees were provided to manufacturers, producers or exporters of OCTG. We have, however, verified that IPSCO and Siegfried Kreiser have been approved for specific IRDP grants, but have not yet received any funds. Therefore, we determine that this program was not used in the review period. We will examine any future provisions of money under IRDP in any section 751 review that may be requested.

G. Saskatchewan Economic Development Commission (SEDCO) SEDCO issues loans, loan guarantees and in some cases invests in Saskatchewan industries and commerce. We verified from company financial records that, in the review period, none of the OCTG respondents had any outstanding loans, loan guarantees, investments or other assistance from SEDCO.

H. Ontario Development Corporation (ODC) Export Support Loans, Other Loans and Loan Guarantees

The ODC controls, approves and administers loan and loan guarantee programs in addition to administering, but not approving, grant programs (such as the Employment Development Fund, discussed earlier in this notice). We verified that no OCTG producer has received assistance under these programs.

I. Enterprise Development Program (EDP) Loans

Petitioners alleged that loans were provided on terms inconsistent with commercial considerations under EDP. Based on information in the records we inspected, none of the manufacturers, producers or exporters of OCTG had EDP loans outstanding during the review period.

J. Interest-Free Loans and Below-Commercial Rate Loans

Petitioners alleged that loans have been provided on terms inconsistent with commercial considerations by the government or at the direction of the government. We have verified that no government-funded or directed loan programs were used by manufacturers, producers or exporters of OCTG other than those programs already addressed in this notice.

K. Government Grants for Purchase of Fixed Assets

Petitioners alleged that government grants have been provided to IPSCO for purchase of fixed assets. We have verified that IPSCO and Algoma received grants for acquisition of fixed assets under the RDIP, DIPP and a subsidiary agreement. These grant programs are addressed elsewhere in this notice. The verified financial records of the governments and the companies indicate that there are no other government grant programs used by manufacturers, producers or exporters of OCTG, other than those previously discussed.

Negative Determination of Critical Circumstances

Petitioners alleged that imports of OCTG from Canada present "critical circumstances." Under section 703(e)(1) of the Act, critical circumstances exist when the Department has a reasonable basis to believe or suspect that (1) the alleged subsidy is inconsistent with the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement of Tariffs and Trade ("the Subsidies Code"), and (2) there have been massive imports of the class or kind of merchandise which is the subject of the investigation over a relatively short period. Based upon our analysis, there were no export subsidies bestowed upon OCTG in Canada during the review period. Accordingly, we determine that the subsidies received are not inconsistent with the Subsidies Code.

Since we have determined that the subsidies are not inconsistent with Code commitments, we need not determine whether there have been massive imports. Accordingly, we determine that "critical circumstances" do not exist with respect to OCTG from Canada.

Petitioners' Comments

Comment 1: Petitioners argue the original AOC loan to Ram Steel provided a countervailable benefit to IPSCO. Petitioners have two major concerns. First, they argue that the loan to Ram was given on terms inconsistent with commercial considerations. Second, they argue that AOC provided another countervailable subsidy through its apparent forgiveness of two million dollars of Ram's outstanding debt. In both situations, petitioners argue that since the funds were provided to Ram, the subsidies accure to Ram's assets. Therefore, by purchasing Ram's subsidized assets, IPSCO is benefitting from those subsidies. Petitioners argue that the Department should find that AOC's subsidization of Ram's assets did not cease to confer a benefit to those assets once IPSCO purchased them.

DOC Position: Petitioners are asking the Department to determine that AOC loans to Ram conferred a subsidy that was passed through to IPSCO. We looked at the pass-through issue first.

Funds for the AOC loan were received by Ram Steel in January 1983, well after Ram had acquired its plant and equipment and was manufacturing steel pipe. As a factual matter, the loan was not tied to purchase of specific assets. In fact, Ram was manufacturing pipe before it obtained the loan. Further, IPSCO's purchase of Ram's assets was an arm's length transaction. IPSCO purchased Ram's assets at a price above the appraised value. The appraisal of the assets was conducted independently for the Court as part of the receivership proceedings. In an arm's length transaction, such as this one, subsidies, if there are any, are not passed through.

Finally, the other possibility is that IPSCO, in some way, benefitted from a reduction of Ram's liabilities through a forgiveness of debt. IPSCO purchased only Ram's physical assets; it did not purchase Ram itself. Since IPSCO was not responsible to Ram's creditors (Ram's stockholders were), it could not benefit from a reduction in Ram's liabilities.

Thus, since any subsidy to Ram was not passed through to IPSCO, the question of whether Ram received any subsidies is moot.

Comment 2: The petitioners note that the AOC loan to IPSCO, which financed part of the IPSCO purchase price for Ram Steel's plant and equipment, was

provided on deferred repayment terms. Therefore, the loan was on terms inconsistent with commercial considerations. Petitioners suggest that we compare the actual payments terms to the payment terms normally offered by commercial banks.

DOC Position: We disagree. See section II.C., "Alberta Opportunity Company Loan to IPSCO," of this notice.

Comment 3: Petitioners note that for one IPSCO grant, approved in 1972, the Department allocated the benefit using a rate of interest on debt applicable to a long-term commercial loan taken out by IPSCO in 1972. They point out that IPSCO also issued bonds at a higher rate of interest in the same year in addition to the commercial loan. Petitioners suggest that we allocate the 1972 grant based on the bond interest rate.

DOC Position: While it is inappropriate to use only the higher interest rate on the bonds in the weighted cost of capital calculation, we have now included this higher interest rate in calculating the average long-term debt rate for the year in which the grant was approved. However, using this average long-term debt rate in IPSCO's weighted cost of capital had no effect on the *ad valorem* subsidy rate.

Respondents' Comments

Comment 1: The government of Canada and other respondents have observed that most of the OCTG manufacturers, producers or exporters received no countervailable subsidies and one company received subsidies which we calculated ad *de minimis*. (All these companies had requested exclusion from the determination.) One company, IPSCO, received countervailable subsidies. They claim that the Department incorrectly determined that the country-wide rate was the same rate applicable to the non-excluded company, and argue that the Department should have divided all subsidies to all companies by sales from these companies, including those not receiving subsidies, to determine the country-wide rate. If this were done, the country-wide rate would be *de minimis*. Only after determining whether there will be an order should companies be excluded.

DOC Position: The purpose of our determination is to find a bonding or deposit rate equal to the average level of subsidization of imports subject to an order, assuming that average rate is above *de minimis*. The way we calculate this country-wide average is to take the subsidies found and divide by either the value of export sales of all firms subject to the investigation, or their total sales (depending on whether it is an export or a domestic subsidy). We do not normally calculate specific rates for each company.

In the case on OCTG, all the respondent firms requested exclusion from the determination. Kreiser chose not to respond to our questionnaire; therefore it could not be excluded and we had to use best information as representing its level of subsidization (*i.e.*, the highest subsidy found for other companies, in this case, IPSCO). The other exclusion requests required us to look at each company individually. All the respondents except IPSCO qualified for exclusion. Their imports will not be subject to a countervailing duty order, if the ITC issues an affirmative injury determination. Thus, IPSCO became the basis for our country-wide average.

Section 701 of the Act directs the Department (upon determination that a subsidy exists) to impose a countervailing duty equal to the amount of the net subsidy. If the Department averaged benefits to companies which are excluded from the collection of countervailing duties, as the government of Canada requests, with countervailing duties collected only from companies which are receiving subsidies, the aggregate amount of countervailing duties collected would be less than the net subsidy. Therefore, the Department will continue its practice of only using rates applicable to firms receiving more than *de minimis* benefits when computing country-wide rates.

Comment 2: The government of Canada and IPSCO state that the provincial portion of the GDA grant is "not targeted at specific regions or industries." Within Saskatchewan, the scope of this and other subsidiary agreements under the GDA and its successor act means that the entire economy of Saskatchewan has access to such funding under very general eligibility criteria.

DOC Position: As we stated in *Groundfish*, GDAs are not programs *per se*. They do not establish government programs, nor do they provide for the administration and funding of government programs. They are merely legal agreements under which departments of the federal and provincial governments may cooperate in establishing and administering joint economic development programs in spheres of dual or conflicting jurisdiction. The implementation, administration, and funding of industry and regional-specific programs occurs exclusively through subsidiary agreements. Therefore, we decided that in determining whether a subsidiary agreement is limited to specific enterprises or industries, the proper level of analysis is the subsidiary agreement.

In this case, the Saskatchewan Iron, Steel and Other Related Metal Industries Subsidiary Agreement in question was targeted specifically to the iron, steel, and other related metal industries. Even more specifically, in Saskatchewan, only one company, IPSOC, constitutes the entire industry which could have availed itself of a major portion of the subsidiary agreement benefits, those targeted at primary and at secondary steel producers. As such, the subsidiary agreement is clearly limited to a specific enterprise or industry.

Comment 3: IPSCO claims that the Department's method for apportioning the value of grants used by IPSCO for the capital improvement of its steel facilities (by sales value rather than by weight) unfarily biases the subsidy to products, such as OCTG, with a relatively high unit value per ton. IPSCO suggests that since the money was granted for steel making capital equipment, it would be fairer to allocate the benefits on the basis of weight rather than value.

DOC Position: Except in certain involving agricultural products, the Department has consistently allocated the value of grants received based on the value of products sold. We cannot determine, *a priori*, if a cash grant is more beneficial to the volume than the value of the goods produced. Therefore, we utilize a standard method to avoid biasing the outcome.

Comment 4: The Department of Commerce calculated the value of the benefit of an IPSCO grant based on the published debt to equity ratio for IPSCO in the year that the grant was approved. IPSCO contends that we should have used IPSCO's average debt to equity ratio between IPSCO's first year of operation and the year the grant was provided.

DOC Position: As we stated in the Subsidies Appendix, the discount rate applied in our grant methodology is a measure of the company's time preference for money. We further stated that a company's time preference for money is determined by its expected rate of return on investments at the time the subsidy was received. Since that rate of return is not easily quantifiable, we considered the company's actual cost of raising money (weighted cost of capital) at the time the grant was bestowed. Using a debt to equity ratio affected by other time periods would not reflect the cost to the company of raising money at the time the subsidy was

approved. Furthermore, the proposed method does not use standardized times over which one company's time preference for money could be compared to another.

Comment 5: IPSCO argues that the Department was incorrect to use national average cost of debt in calculating the value of a benefit for an IPSCO grant. IPSCO argues that we should use IPSCO's short-term interest rate that it would have paid in the year the grant was approved. IPSCO further argues that without the grant, it would have used short-term financing and it would have received the same rate as for other short-term borrowings that year.

DOC Position: The project, partially funded by the grant, was built over several successive years. It was a major capital expansion. During the years that the project was being built, IPSCO floated two 15-year debenture issues at higher interest rates than IPSCO suggests we use for calculation purposes. To say that this large capital expansion project would have been financed by short-term borrowings is purely speculative and unsupported by any verified facts. In general, firms use long-term debt or equity to finance such long-term projects.

Comment 6: IPSCO claims that DOC should have used 25 years rather than 15 years as the period over which to amortize the grants. It claims that it uses 25 years for financial reporting purposes, that this period has been accepted by its external auditors and that the steel industry in Canada generally writes off its capital assets in this time.

DOC Position: In the Subsidies appendix, we state that we will allocate grants over the average useful life of a company's renewable physical assets as determined by the U.S. Internal Revenue Service (IRS) in the 1977 Class Life Asset Depreciation Range System. That is the source of the 15-year allocation period used in this case. We feel the use of the IRS tables provides a consistent and predictable standard for allocating grants. If we were to use different countries' tax tables or different companies' amortization periods for allocating grant benefits, we might arrive at different subsidy rates for equal grants due solely to the different periods of allocation. (In addition, this method provides petitioners, before filing a petition, with a consistent and publicly-available standard for determining whether programs potentially provide countervailable benefits.)

In this case we have found that, while IPSCO and other Canadian primary and secondary steel producers may amortize capital equipment expenditures over 25 years, we are aware of nothing that requres them to do so. Accepting that IPSCO depreciates capital equipment for financial statement purposes over a 25-year period, the majority of this equipment is depreciated for tax purposes by IPSCO over a two-year period with the remainder depreciated for tax purposes over other intervals. The Canadian government accepts these various methods. So even if we did attempt to find a company-or country-specific allocation period, there is often no clear choice of what that period should be. Therefore, we continue to rely on the IRS tables as a reasonable measure of the average life of a company's renewable physical assets.

Comment 7: IPSCO argues that the Department should reduce the value of the grants by the tax savings which IPSCO gave up in accepting grants. IPSCO states that it does not receive a capital cost allowance (depreciation) on grant money. If it had paid for the assets out of company funds instead of accepting a grant, it would have received a non-countervailable capital cost allowance which could have been deducted from taxable income. Using an incremental tax rate, IPSCO contends that it would have reduced its taxes owed by a percentage of the full capital cost allowance that it would have receive if the full value of the assets purchased by the grant money had been subject to capital cost allowance.

DOC Position: It has been our consistent policy not to take into account the secondary effects, including tax effects, of subsidies. Any offsets to a counteravailable subsidy are strictly limited by section 771(6) of the Act. Furthermore, the review period for this investigation was calendar year 1984. During the review period, IPSCO filed its fiscal year 1983 tax return. IPSCO had negative taxable income on its 1983 tax return. Thus, assuming the facts as IPSCO presents them, additional capital cost allowance would not result in tax savings during the review period.

Comment 8: IPSCO argues that if it had invested its own money in lieu of grant funds on the project, it would have had to borrow the money. If it had borrowed the money, it would have incurred an interest expense, which it could have taken as a tax deduction. The tax deduction (which IPSCO did not get because it accepted the grant), IPSCO postulates, would have resulted in a tax savings which they contend should be used to reduce the value of the grant.

DOC Position: As stated above, we do not consider the secondary effects of subsidy. Since IPSCO did, indeed, accept the grant funds, the hypothesis it poses is speculative.

Comment 9: IPSCO argues that the use of the Subsidies Appendix, published in 1984, may have been warranted in the case for which it was first published since the parties to that case had opportunity to present their views on the proposed methodologies. They contend that the use of the Subsidies Appendix in subsequent cases constitutes rulemaking and is in violation of the Administrative Procedure Act (APA). Since the parties in this investigation did not have an opportunity to submit comments and be heard prior to publication of the Subsidies Appendix, they argue that it should not be applied to the present case.

DOC Position: IPSCO is in error when it states that it had no notice or opportunity to comment on the methodologies from the Subsidies Appendix that were employed in the present case. It admits that notice and comment are adequately provided for in the case where the methodologies are formulated. However, IPSCO fails to recognize that the same justification applies to subsequent cases where such methodology may be employed. In this case, IPSCO has been provided with notice and opportunity to comment on the methodologies used even though they were first formulated in an earlier case. It has, in fact, commented on them in its prehearing brief, at the hearing and in its post-hearing brief.

Furthermore, an investigative agency such as the Department of Commerce, has the discretion to develop general policies on a case-by-case basis rather than through rulemaking procedures. (See *NLRB* v. *Bell Aerospace Company*, 416 U.S. 267, 290–295 (1973)). IPSCO seeks to have the Department follow a fairly rigid standard with regard to all methodologies used. The responsibilities of the Department preclude strict compliance with the APA. Because of the large number of government programs that confer subsidies, the Department needs the flexibility to formulate and adjust methodologies that are applicable to the various government programs. Strict compliance with the APA formal rulemaking procedures, including the requirement that rules go into effect at least 30 days after publication, would severely retard the Department's ability to meet its obligations with ragard to the countervailing duty law. Such a result could not have been intended by Congress. Therefore, the Department does not consider formulation of methodology to be formal rulemaking.

Federal Register / Vol. 51, No. 77 / Tuesday, April 22, 1986 / Notices 15045

Congressional authority for this position is apparent in the legislation governing the Department's duties in the area of countervailing duties. Congress has provided strict requirements in every countervailing duty investigation or review proceeding for notice and opportunity for comment from all parties, as well as a hearing, if requested. Further evidence of Congressional intent can be found in 19 U.S.C. 1677(c)(b), where adherence to the APA is waived for these hearings. Congress would not have waived the APA requirements for hearings, where the parties are invited to comment, if it expected compliance with the APA concerning the methodology employed. It is clear that Congress, recognizing the nature of countervailing duty proceedings, provided a system of notice and comment that protects the same rights protected under the APA, without hampering the work of the Department.

Comment 10: IPSCO claims that the application of the procedures published in the Subsidies Appendix, for grants approved in 1978 and received between 1980 and 1983, amounts to the imposition of a retroactive tax. IPSCO feels that the Subsidies Appendix should apply only to grants received after its publication. IPSCO claims that it studied our past countervailing duty practices and would never have applied for or accepted a grant which it understood to be countervailable when it chose to apply for the grants in question.

DOC Position: We disagree. Since at least 1974, we have been allocating the value of Canadian subsidies over time. The Subsidies Appendix altered our prior valuation method of a subsidy, not our determination of its countervailability. Grants approved in 1978 and received in 1980, 1981, 1982 and 1983 would be countervailable according to the 1973 methodology we used for Michelin Tires from Canada (3 ITRD 1177 (CIT, 1981)) or the latter method published in the Subsidies Appendix. There is no evidence that IPSCO relied on past practices, as it claimed. If IPSCO has relied on past practices, the subsidy it received would still have been countervailable.

The countervailing duty imposed is prospective, affecting merchandise entered or withdrawn from warehouse after the date of the preliminary determination or order. IPSCO has confused the method of valuation of a subsidy, which is necessarily based on activities in an earlier period, with the merchandise on which the countervailing duty is imposed.

The Trade Agreement Act of 1979 redefined the term "subsidy" in relation to the General Agreement on Tariffs and Trade. It did not constrain us to apply this new standard only to subsidies received after the date of enactment. To do so would have vitiated the effective use of the countervailing duty law for several years. This was clearly not the Congressional intent.

Comment 11: The respondents request that the Department take steps to subdivide the TSUSA classification numbers to segregate non-OCTG pipe and tube products now in mixed classifications with OCTG. Otherwise, liquidation of these non-OCTG products would be unfairly delayed by U.S. Customs.

DOC Position: The prime responsibility for establishing TSUSA classifications is that of the ITC. We see no reason for the ITC to make the requested breakouts in the TSUSA. We have had affirmative antidumping and/or countervailing duty determinations on OCTG from other countries. These have been administered using the existing TSUSA. Based on this experience, there is no need for the proposed modifications.

Verification

In accordance with section 776(a) of the Act, we verified the information used in making our final determination. During verification, we followed standard verification procedures, including meeting with government officials, inspection of documents and ledgers, and tracing the information in the responses to source documents, accounting records, and financial statements.

Suspension of Liquidation

In accordance with section 703(d) of the Act, we are directing the U.S. Customs Service to continue to suspend liquidation of all unliquidated entries of OCTG from Canada which are entered, or withdrawn from warehouse, for consumption, on or after December 30, 1985 and before May 1, 1986. On May 1, 1986, the suspension of liquidation, ordered in our preliminary affirmative countervailing duty determination, will be terminated. As of the date of publication of this notice in the Federal Register, The Customs Service should require a cash deposit or bond for each such entry of this merchandise equal to 0.72 percent *ad valorem* except for OCTG from Stelco Inc., Sonco Steel Tube (a division of Ferrum Inc.), Algoma Steel Corp., Ltd., Welded Tube of Canada, Ltd., Prudential Steel Ltd., Frank Pipe Co., Christianson Pipe, Ltd., Dominion Steel Export Co., Ltd., and Matthew Tube & Pipe Supply Inc. We will reinstate the suspension of liquidation if the ITC makes a final affirmative injury determination in this investigation.

ITC Notification

In accordance with section 705(c) of the Act, we will notify the ITC of our determination In addition, we are making available to the ITC all non-privileged and non-confidential information relating to this investigation. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or, under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

The ITC will determine whether these imports materially injure, or threaten material injury to a U.S. industry within 45 days after the date of publication of this notice. If the ITC determines that material injury, or the threat of material injury, does not exist, this proceeding will be terminated and all estimated duties deposited or securities posted as a result of the suspension of liquidation will be refunded or cancelled. If, however, the ITC determines that injury exists, we will issue a countervailing duty order, directing Customs officers not to assess a countervailing duty on shipments from the nine firms with zero or *de minimis* assessment rates during the period of review, and to assess a countervailing duty on all other oil country tubular goods from Canada entered, or withdrawn from warehouse, for consumption, on or after the date of the suspension of liquidation, as indicated in the "Suspension of Liquidation" section of this notice.

This notice is published pursuant to section 705(d) of the Act (19 U.S.C. 1671d(d)).

Paul Freedenberg,

Assistant Secretary for Trade Administration.

April 16, 1986.

[FR Doc. 86-8959 Filed 4-21-86; 8:45 am]

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Notices

Federal Register
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DEPARTMENT OF COMMERCE

International Trade Administration

[A-583-505]

Oil Country Tubular Goods from Taiwan; Final Determination of Sales at Less Than Fair Value

AGENCY: International Trade Administration, Import Administration, Department of Commerce.

ACTION: Notice.

SUMMARY: We have determined that oil country tubular goods (OCTG) from Taiwan are being, or are likely to be, sold in the United States at less than fair value and that critical circumstances do not exist, and have notified the U.S. International Trade Commission (ITC) of our determination. We have also directed the U.S. Customs Service to continue to suspend the liquidation of all entries of OCTG from Taiwan that are entered, or withdrawn from warehouse, for consumption, on or after the date of publication of the notice of the preliminary determination, and to require a cash deposit or bond for each entry in an amount equal to the estimated dumping margin as described in the "Suspension of Liquidation" section of this notice.

EFFECTIVE DATE: May 29, 1986.

FOR FURTHER INFORMATION CONTACT: John J. Kenkel or Charles Wilson, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, D.C. 20230; telephone: (202) 377-5404 or (202) 377-5288.

SUPPLEMENTARY INFORMATION:

Final Determination

A-73

We have determined that OCTG from Taiwan is being, or is likely to be, sold in the United States at less than fair value, as provided in section 731 of the

Tariff Act of 1930, as amended (19 U.S.C. 1673) (the Act). The estimated margin was based on all the respondent's sales of the class or kind of merchandise to the United States during the period of investigation. Comparisons were based on the U.S. purchase price and the constructed value, since there were no sales in the home market or to third countries. We also found that critical circumstances do not exist. The margin found for the company investigated is listed in the "Suspension of Liquidation" section of this notice.

Case History

On July 22, 1985, we received a petition, filed in proper form from Lone Star Steel Company and CF&I Steel Corporation on behalf of the U.S. industry producing OCTG. In compliance with the filing requirements of § 353.36 of the Commerce Regulations (19 CFR 353.36), the petition alleges that imports of the subject merchandise from Taiwan are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act (19 U.S.C. 1673), and that these imports are materially injuring, or threatening material injury to, a U.S. industry.

After reviewing the petition, we determined that it contained sufficient grounds upon which to initiate an antidumping investigation. We initiated the investigation on August 9, 1985 (50 FR 33388), and notified the ITC of our action.

On August 21, 1985, a questionnaire was presented to counsel for the respondent.

On September 5, 1985, the ITC found that there is a reasonable indication that imports of OCTG from Taiwan are threatening material injury to a U.S. industry (U.S. ITC Pub. No. 1747, September 1985).

On October 10, 1985, the respondent filed a response to our questionnaire. We investigated Far East Machinery Company (FEMCO), the manufacturer who accounts for all Taiwanese exports of the merchandise to the United States. We examined 100 percent of the sales made by this company.

On December 23, 1985, we made our preliminary determination, which was based on the information contained in the response.

On February 24 through 27, 1986, we conducted a verification at FEMCO's offices.

On February 22, 1986, we postponed the final determination at the request of FEMCO pursuant to 19 U.S.C. 1673d(a)(2) until not later than May 21, 1986 (51 FR 7308).

We held a public hearing on April 28, 1986.

Scope of the Investigation

The products under investigation are "oil country tubular goods," which are hollow steel products of circular cross section intended for use in drilling for oil or gas. These products include oil well casing, tubing, and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or non API specifications (such as proprietary) as currently provided for in the *Tariff Schedules of the United States, Annotated* (TSUSA) items, 610.3216, 610.3219, 610.3233, 610.3234, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4210, 610.4220, 610.4225, 610.4230, 610.4235, 610.4240, 610.4310, 610.4320, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, and 610.5244. This investigation includes OCTG that are in both finished and unfinished condition.

Fair Value Comparison

To determine whether sales of the subject merchandise in the United States were made at less than fair value, we compared the United States price with the foreign market value.

United States Price

As provided in section 772(b) of the Act, we used the purchase price of the subject merchandise to represent the United States price because the merchandise was sold prior to the date of importation to unrelated purchasers in the United States. We calculated the purchase price based on the C and F packed price. We made deductions for foreign inland freight, ocean freight, handling and brokerage charges.

Foreign Market Value

In accordance with section 773(a)(2) of the Act, we used "constructed value" to determine the foreign market value, because Far East Machinery Co., Ltd. has not sold a product "such or similar" to that sold in the United States in either its home market or in a third country. To determine constructed value we examined production costs, including materials, labor, research and development, other manufacturing costs, selling, other general expenses and profit.

Our final determination was based on verified cost information relating to production during 1985 rather than 1984 as submitted by respondent. We used unit costs based on the actual costs incurred for production. We revised the costs as presented by the respondent in its submission of October 16 and December 2, 1985, related to the following:

- Rebate credits claimed by the respondent for raw materials were only allocated to 4.5 inch pipe produced during the period of investigation.
- The theoretical weight adjustment was corrected for 2.375 inch pipe and excluded from 4.5 inch pipe cost calculations.
- The annual bonus was allocated throughout the year to labor costs per hour.
- Direct labor costs were corrected to reflect the weighted average monthly cost of regular and overtime hours.
- Factory overhead expenses were adjusted for supplies, indirect labor and other costs.
- Factory overhead was allocated on production volume.
- Fixed overhead was allocated on an average monthly basis.
- Labor and material costs for packing expenses were corrected.

We used the actual selling, general and administrative (SG&A) expenses which exceeded the statutory 10 percent of the material and conversion costs. We revised the SG&A costs as presented by the respondent related to the following:

- Selling, general and administrative expenses were adjusted to include direct and indirect selling, financial and interest expenses.

We calculated profit based on the eight percent minimum, as prescribed in section 773(e)(1)(B)(ii) of the Act.

Negative Determination of Critical Circumstances

The petitioners alleged that imports of OCTG from Taiwan present "critical circumstances." Under section 735(a)(3) of the Act, critical circumstances exist if we find that (1) there is a history of dumping in the United States or elsewhere of the class or kind of the merchandise which is the subject of the investigation; or the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than its fair value; and (2) there have been massive imports of the class or kind of merchandise that is the subject of the investigation over a relatively short period.

We generally consider the following concerning massive imports: (1) The

volume and value of the imports; (2) seasonal trends; and (3) the share of domestic consumption accounted for by the imports.

In considering this question, we analyzed recent trade statistics on import levels and import penetration ratios for oil country tubular goods from Taiwan for equal periods immediately preceding and following the filing of the petition. Based on this analysis, we find that imports of the subject merchandise from Taiwan during the period subsequent to receipt of the petition have not been massive when compared to recent import levels and import penetration ratios.

We therefore, did not need to consider whether there is a history of dumping or whether importers knew or should have known that the exporters were dumping the merchandise.

For reasons described above, we determine that "critical circumstances" do not exist with respect to oil country tubular goods from Taiwan.

Verification

In accordance with section 776(a) of the Act, we verified all the information used in making this determination. We were granted access to the books and records of the company involved. We used standard verification procedures, including examination of relevant sales and financial records of the company.

Petitioners' Comments

Comment 1

Due to an absence of verified information, the petitioners contend that the Department should disallow all rebates claimed by the respondent for coil purchases and use, as best information, a weighted average of prices paid by respondent for shipments of coil during 1984 and 1985.

DOC Position

We disagree. Because we could not verify whether 1984 or 1985 coil purchases were used to produce the 2.375 inch pipe under investigation, we used the 1985 purchases, the most recent cost of coil purchased prior to the sales under investigation. The 1984 coil purchases appear to be used for pipe other than OCTG which was produced in 1984. Because we could not verify that the rebate claimed by the respondent was related to these 1985 coil purchases, the rebate was not allowed for 2.375 inch pipe. However, we verified that a rebate credit was received on coil used in the production of 4.5 inch pipes and, therefore, have allocated the rebate to the cost of coil used.

Comment 2

The petitioners assert that the Department should not allow any credits claimed by respondent for waste. The credits are based on theoretical yield rates, not verified data.

DOC Position

We disagree. We computed the credit for waste recovery based on the second quality pipe and the scrap sales values as verified and the yield rates supplied by the respondent. The Department reviewed all the facts pertaining to the yield rates and, based on these facts and because the yield rates were within industry experience, the Department used the company's yield rates for calculating the credit.

Comment 3

The petitioners believe that the variance adjustment for the tolerance standards should be disallowed by the Department. The adjustment in the submission was incorrectly applied to pipe which was not affected by the variance.

DOC Position

We partially agree. For the 4.5 inch pipe we disallowed the theoretical weight adjustment because the thickness of the coil used by the respondent was the same as the thickness of the coil upon which the theoretical weight was measured. Therefore, there would not be a tolerance weight-saving adjustment.

However, for the 2.375 inch pipe we adjusted the theoretical weight adjustment to reflect the verified actual weight savings.

Comment 4

The petitioners contend that annual bonuses paid by the respondent should be allocated throughout the year since they are a recurring annual labor expense

DOC Position

We agree. Annual bonuses have been allocated throughout the year.

Comment 5

The petitioners assert that the Department should derive an overtime premium to be added to respondent's labor cost for the product under investigation, since the records of the overtime worked were not properly maintained.

DOC Position

We agree. Since the direct labor costs submitted did not adequately reflect overtime, they were adjusted to reflect the weighted average of the monthly cost of the regular and the overtime hours.

Comment 6

The petitioners believe that certain factory overhead charges such as supplies, repair costs, intermediate material costs, and employee welfare expenses should be included in the respondent's factory overhead costs.

DOC Position

We agree. These costs have been included in factory overhead since they were incurred as indirect production costs for the product under investigation.

Comment 7

The petitioners contend that the Department should treat as current expenses, capitalized organizational and the initial testing expenses which are being amortized over five years by the company.

DOC Position

We have accepted the respondent's normal accounting method for amortizing the cost over five years. However, we have included a portion of the amortization expenses which the respondent had excluded in the period of investigation, since these costs relate to the start-up expenses of the operations.

Comment 8

The petitioners assert that the Department should include the transit interest charge on the letters of credit, direct selling expenses such as the Joint Export Promotion Council levy, the expenses attributable to the financial division and the cost of the president's office in selling, general and administrative (SG&A) costs.

DOC Position

We agree. The Department included all of the direct selling expenses for the U.S. sales, including the transit interest charge on letters of credit, because there were no sales of OCTG in the home or third country market. The administrative cost of the financial division and the cost of all corporate administrative expenses, including the cost of the president's office, have been included in general and administrative expenses.

Comment 9

A-75

The petitioners contend that the Department should use their information as best information for packing costs since submitted packing costs could not be verified.

DOC Position

We disagree. During verification we obtained sufficient data for packing costs which we used in our calculations.

Comment 10

The petitioners contend that the Department should only allow the amount of those brokerage handling charges on U.S. sales which were verified.

DOC Position

We agree. We have only deducted the verified brokerage and port charges.

Respondent's Comments

Comment 1

The respondent states that the Department should use 1984 raw material costs for 2.375 inch OCTG cost of production and if that is not acceptable, a weighted average of 1984 and 1985 costs.

DOC Position

See response to petitioner's *Comment 1.*

Comment 2

The respondent contends that the Department should apply the entire amount of the discount rebate to the 2.375 inch raw materials purchased in 1984.

DOC Position

See response to petitioner's *Comment 1.*

Comment 3

The respondent asserts that the Department should use the prices of scrap and seconds sold which were verified and not amounts contained in the submission.

DOC Position

The actual verified sales prices of scrap and seconds which were sold were used for the final determination.

Comment 4

The respondent believes that the Department should include in the cost of production an offset for raw materials sold as scrap which was verified.

DOC Position

We agree. The Department included an offset to the cost for raw materials which were sold.

Comment 5

The respondent contends that annual bonuses paid by it should be allocated throughout this year.

DOC Position

See response to petitioners' *Comment 4.*

Comment 6

The respondent alleges that although production records did not provide a basis that any overtime was utilized in OCTG production, submitted unit labor costs accurately reflect overtime hours. No further adjustment should be made to labor costs.

DOC Position

We disagree. While submitted labor costs did purport to account for overtime, these labor costs could not be reconciled with the actual labor information. See response to petitioners' *Comment 1.*

Comment 7

The respondent asserts that factory overhead should be allocated to OCTG production based on labor hours rather than on production quantity.

DOC Position

We disagree. Under the facts in this case, we believe that production volume (measured by weight) is the most appropriate allocation basis for overhead costs. This was the method employed by the respondent in its original submission. The Department concludes that labor hours would not appropriately allocate the costs to the products being manufactured, since this basis did not reflect the actual production time of each product.

Comment 8

The respondent believes that fixed overhead costs should be averaged throughout the year to avoid fluctuations caused by the payments for such expenses not occurring evenly throughout the year.

DOC Position

We agree. We use a method of allocation which averaged fixed overhead costs throughout the year.

Comment 9

The respondent contends that the Department should allocate intermediate supply costs which are not included in the submission by using a basis of labor hours.

DOC Position

We disagree. We believe the cost of the intermediate supplies not included in the submission should be allocated to OCTG under investigation based on production volume since these were incurred as indirect production costs and were included in the factory overhead.

Comment 10

The respondent asserts that the organizational and the initial testing expenses treated as deferred expenses by it were related to OCTG products not under investigation.

DOC Position

Since such costs were related to the production of OCTG as a product line, a proportional amount was included for the product under investigation.

Comment 11

The respondent believes that the research and development and interest expenses it incurred were not related to OCTG products under investigation and, therefore, should not be included.

DOC Position

We disagree. Since we could not verify the nature of the R&D costs, such costs were allocated over all products sold. Interest costs, considered by the Department to be a general corporate expense, likewise were allocated over all products sold.

Comment 12

The respondent contends that the Department should not include any selling costs from the Chia Yi office in SG&A expenses because it handles only domestic sales of which there were none of OCTG.

DOC Position

We agree. Because the product under investigation was not sold in the home market or third country markets, we have used the direct and indirect selling costs for the U.S. market. The costs of the Chia Yi office were not included.

Comment 13

The respondent alleges that packing costs reported in the submission are the best estimate of those costs and should be used by the Department.

DOC Position

See response to petitioner's *Comment 9.*

Comment 14

The respondent requests that the Department extend the period of investigation by one day in order to include one additional sale to the United States so as to have a more representative universe.

DOC Position

We agree and have done so.

Comment 15

The respondent contends that certain charges relating to U.S. sales, such as bank commissions, transit interest charged by banks, contribution to a government reserve for the promotion of trade, etc., should not be deducted from the U.S. sales price because these charges are not additional costs incident to bringing the merchandise to the place of delivery in the United States.

DOC Position

We agree. However, we have added them to the foreign market value because they are part of the SG&A expenses.

Suspension of Liquidation

In accordance with section 733(d) of the Act, we are directing the United States Customs Service to continue to suspend liquidation of all entries of OCTG from Taiwan that are entered, or withdrawn from warehouse, for consumption on or after the date which is on or after the date of publication of the final determination notice in the **Federal Register**. The U.S. Customs Service shall continue to require a cash deposit or the posting of a bond equal to the estimated weighted average amount by which the foreign market value of the merchandise subject to this investigation exceeds the United States price as shown in the table below. This suspension of liquidation will remain in effect until further notice.

Article VI.5 of the General Agreement on Tariffs and Trade provides that "[n]o product . . . shall be subject to both antidumping and countervailing duties to compensate for the same situation of dumping or export subsidization." This provision is implemented by section 772(d)(1)(D) of the Act, which prohibits assessing dumping duties on the portion of the margin attributable to export subsidies. However, we made a negative determination in the final countervailing duty determination on OCTG from Taiwan, because we found that the subsidies were *de minimis*. Therefore, the bonding rate will not be reduced since there were no export subsidies.

Manufacturer/Producer/Exporter	Weighted-average margin percentage
Far East Machinery Company, Ltd.	26.32%
All others	26.32%

ITC Notification

In accordance with section 735(d) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all nonprivileged and nonconfidential information relating to this investigation. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration. If the ITC determines that material injury or threat of material injury does not exist, this proceeding will be terminated and all securities posted as a result of the suspension of liquidation will be refunded or cancelled. If the ITC determines that such injury does exist, we will issue an antidumping duty order directing Customs officers to assess an antidumping duty on OCTG from Taiwan entered, or withdrawn from warehouse, for consumption equal to the amount by which the foreign market value exceeds the United States price. This determination is being published pursuant to section 735(d) of the Act (19 U.S.C. 1673d(d))

Paul Freedenberg,

Assistant Secretary for Trade Administration.

May 21, 1986.

[FR Doc. 86-12045 Filed 5-28-86; 8:45 am]

BILLING CODE 3510-DS-M

APPENDIX C

LIST OF WITNESSES

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Oil Country Tubular Goods from Argentina, Canada and Taiwan

Inv. Nos. : 701-TA-255 (Final)

and

731-TA-275, 276 and 277 (Final)

Date and time: May 6, 1986 - 10:00 a.m.

Sessions were held in connection with the investigation in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

In support of the imposition of countervailing and/or antidumping duties:

Akin, Gump, Strauss, Hauer & Feld--Counsel
Washington, D.C.
Dewey, Ballantine, Bushby, Palmer & Wood--Counsel
Washington, D.C.
on behalf of

Lone Star Steel Company & CF&I Steel Corporation

James E. Chenault, President of Lone Star Steel Company

James W. Chenoweth, Manager of International Trade Affairs for Lone Star Steel Co.

Daniel Casey, Vice President of Lone Star Steel Company

Richard L. Head, Vice President-Commercial of CF&I Steel Corp.

Lynn Holec, Economist

Kenneth L. Roche, General Counsel of CF&I Steel Corp.

Roger Bartelsmeyer, Consultant on Tubular Services,
Engineering and Marketing

Akin, Gump, Strauss, Hauer & Feld

Warren E. Connelly--OF COUNSEL

Dewey, Ballantine, Bushby, Palmer & Wood

Michael H. Stein)
Jane Albrecht)--OF COUNSEL

Schagrin Associates--Counsel
Washington, D.C.
on behalf of

Copperweld Tubing Group, Copperweld Corporation
Maverick Tube Corporation
Quanex Oil Country Group, Quanex Corporation
Sawhill Tubular Division, Cyclops Corporation
Tex-Tube Division, Cyclops Corporation

John Lloyd, President, Maverick Tube Corporation

Gregg Eisenberg, Vice President - Sales

Roger B. Schagrin)
Alan Luberda)--OF COUNSEL

United States Steel Corporation, Pittsburgh, Pennsylvania

John J. Mangan, Senior General Attorney, International Trade

Peter J. Koenig, Attorney, Legal Department

Bruce Haines, Manager of Oil Country Tubular Goods

Paul Fidel, Manager, International Trade

In opposition to the imposition of countervailing and/or antidumping duties:

Dow, Lohnes & Albertson--Counsel
Washington, D.C.
on behalf of

The Algoma Steel Corporation, Limited and Sonco Steel Tube Division, Ferrum, Inc., and Christianson Pipe Ltd.

David A. Condon, President, Algoma Tube Corporation

Doughas Hahn, formerly with Sonco Steel Tube Division, Ferrum Inc.

Susan James-Mann

Sarah Johnson, Putnam, Hayes & Bartlett

Robert A. Leone, Lecturer in Public Policy, Harvard University

James A. LeVelle

Robert G. Pond, Robert G. Pond & Associates, Inc.

William Silverman)
Michael House)--OF COUNSEL
Timothy O'Rourke)

Barnes, Richardson & Colburn--Counsel
Washington, D.C. & New York, N.Y.
on behalf of

IPSCO, Inc. and IPSCO Steel, Inc.

Roger M. Phillips, President of IPSCO, Inc.

S. Benton Vinzant, President of IPSCO Steel, Inc.

John Tulloch, Vice President, IPSCO, Inc.

Rufus E. Jarman, Jr.)
Matthew J. Clark)--OF COUNSEL

Abiondi & Foster, P.C.--Counsel
Washington, D.C.
on behalf of

Far East Machinery Company, Ltd.

F. David Foster--OF COUNSEL

Mudge, Rose, Guthrie, Alexander & Ferdon--Counsel
Washington, D.C.
on behalf of

Dalmine Siderca, S.A.I.C. (Salsid) of Argentina

Eduardo Franck, General Manager, Siderca Corp.,
Houston, Texas

David P. Houlihan)
Jeffrey S. Neeley)--OF COUNSEL

APPENDIX D

ADDITIONAL REPORTING FACILITY

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APPENDIX E

STATISTICAL TABLES

Table E-1.--Welded oil country tubular goods: U.S. production, capacity, and capacity utilization, 1983-85

Period	Production	Capacity	Capacity utilization
	--------1,000 tons	---------	Percent
1983	493	3,479	14.1
1984	945	2,601	36.3
1985	776	2,854	27.2

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-2.--Seamless oil country tubular goods: U.S. production, capacity, and capacity utilization, 1983-85

Period	Production	Capacity	Capacity utilization
	--------1,000 tons	---------	Percent
1983	97	2,208	4.3
1984	727	2,686	27.1
1985	695	2,481	28.0

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-3.--Welded oil country tubular goods: U.S. producers' shipments, 1983-85

(In thousands of tons)

Period	Intracompany shipments	Domestic shipments	Export shipments	Total
1983	***	***	***	599
1984	***	***	***	932
1985	***	***	***	773

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Because of rounding, figures may not add to the totals shown.

Table E-4.--Seamless oil country tubular goods: U.S. producers' shipments, 1983-85

(In thousands of tons)

Period	Intracompany shipments	Domestic shipments	Export shipments	Total
1983	***	***	***	158
1984	***	***	***	645
1985	***	***	***	711

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Because of rounding, figures may not add to the totals shown.

Table E-5.--Welded oil country tubular goods: Average number of production and related workers, hours worked by such workers, wages paid and total compensation, 1983-85

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	---- Per hour-	
1983	2,539	4,626	$12.81	$18.23
1984	3,494	6,702	11.70	15.29
1985	3,274	5,313	12.93	17.65

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-6.--Seamless oil country tubular goods: Average number of production and related workers, hours worked by such workers, wages paid and total compensation, 1983-85

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	--- Per hour-------	
1983	1,337	2,586	$12.77	$21.53
1984	3,968	7,874	14.24	19.87
1985	4,224	8,455	14.79	21.45

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-7.--Income-and-loss experience of U.S. producers 1/ on the operations producing welded oil country tubular goods, accounting years 1982-85

Item	1982	1983	1984	1985 2/
Net sales-------1,000 dollars--:	809,006	286,028	493,712	447,635
Cost of goods sold---------do--:	575,327	339,510	469,723	475,763
Gross profit or (loss)-----do--:	233,679	(53,482)	23,989	(28,128)
General, selling, and administrative expenses-------do--:	27,860	33,183	34,594	30,429
Operating income or (loss)-do--:	205,819	(86,665)	(10,605)	(58,557)
Depreciation and amortization expense-----------do--:	22,612	24,285	27,071	26,936
As a share of net sales:				
Cost of goods sold--percent--:	71.1	118.7	95.1	106.3
Gross profit or (loss)---do--:	28.9	(18.7)	4.9	(6.3)
General, selling, and administrative expenses--do--:	3.4	11.6	7.0	6.8
Operating income or (loss) ----------------------do--:	25.5	(30.3)	(2.1)	(13.1)
Number of firms reporting operating losses-------------:	3	6	5	4

1/ These firms are ***.
2/ ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-8.--Income-and-loss experience of U.S. producers 1/ on the operations producing seamless oil country tubular goods, accounting years 1982-85

Item	1982	1983	1984	1985 2/
Net sales-------1,000 dollars--	1,089,641	64,707	451,447	516,735
Cost of goods sold---------do--	884,654	145,714	556,704	552,223
Gross profit or (loss)-----do--	204,987	(81,007)	(105,257	(35,488)
General, selling, and administrative expenses-------do--	57,454	16,148	19,619	12,393
Operating income or (loss)-do--	147,533	(97,155)	(124,876)	(47,881)
Depreciation and amortization expense-----------do--	12,008	6,447	28,152	30,557
As a share of net sales:				
Cost of goods sold--percent--	81.2	225.2	123.3	106.9
Gross profit or (loss)---do--	18.8	(125.2)	(23.3)	(6.9)
General, selling, and administrative expenses--do--	5.3	25.0	4.3	2.4
Operating income or (loss) ----------------------do--	13.5	(150.2)	(27.6)	(9.3)
Number of firms reporting operating losses-------------	1	4	3	4

1/ These firms are ***.
2/ ***.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-9.--Income-and-loss experience of U.S. producers 1/ on their operations producing oil well drill pipe, accounting years 1982-85

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APPENDIX F

WEIGHTED-AVERAGE NET F.O.B. SELLING PRICES AND QUANTITIES REPORTED BY U.S. PRODUCERS OF OIL COUNTRY TUBULAR GOODS AND BY IMPORTERS OF THE ARGENTINE, CANADIAN, AND TAIWANESE OIL COUNTRY TUBULAR GOODS

Table F-1.--Domestic API oil field casing--4-1/2-inch outside diameter: Weighted-average net selling prices and quantities of U.S.-produced oil country tubular goods sold to distributors, by product specifications, and by quarters, January 1983-December 1985

* * * * * * *

Table F-2.--Domestic API oil field casing--5-1/2-inch outside diameter: Weighted-average net selling prices and quantities of U.S.-produced oil country tubular goods sold to distributors, by product specifications, and by quarters, January 1983-December 1985

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Table F-3.--Domestic API oil field tubing--2-3/8-inch outside diameter: Weighted-average net selling prices and quantities of U.S.-produced oil country tubular goods sold to distributors, by product specifications, and by quarters, January 1983-December 1985.

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Table F-4.--Imported API oil field casing from Canada--4 1/2-inch outside diameter: Weighted-average net selling prices and quantities of the subject imported oil country tubular goods sold to distributors, by product specifications and by quarters, October 1983-December 1985

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Table F-5.--Imported API oil field casing from Argentina and Taiwan-- 4 1/2-inch outside diameter: Weighted-average net selling prices and quantities of the subject imported oil country tubular goods sold to distributors, by product specifications and by quarters, April 1983-December 1985

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Table F-6.--Imported API oil field casing--5 1/2 inch outside diameter: Weighted-average net selling prices and quantities of the subject imported oil country tubular goods sold to distributors, by product specifications and by quarters, July 1983-September 1985

* * * * * * *

Table F-7.--Imported API oil field tubing--2-3/8 inch outside diameter: Weighted-average net selling prices and quantities of the subject imported oil country tubular goods sold to distributors, by products and quarters, January 1983-December 1985

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APPENDIX G

CAPACITY, PRODUCTION, CAPACITY UTILIZATION, DOMESTIC SHIPMENTS, EXPORT SHIPMENTS, AND YEAREND INVENTORIES, BY COMPANY, FOR SELECTED CANADIAN PRODUCERS OF OIL COUNTRY TUBULAR GOODS

Table G.--Capacity, production, capacity utilization, domestic shipments, export shipments, and yearend inventories, by company, for selected Canadian producers of oil country tubular goods, 1982-85

*   *   *   *   *   *   *