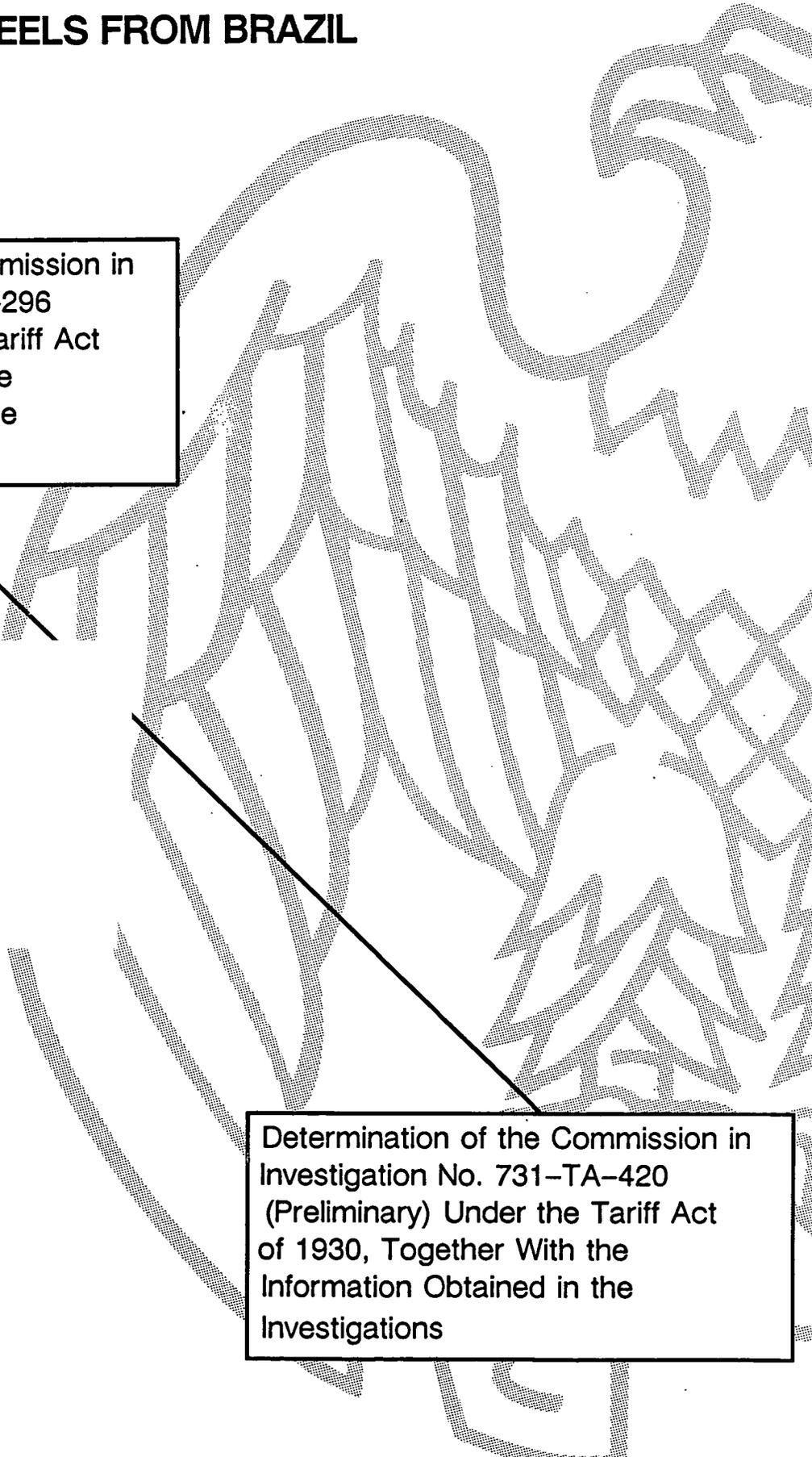


# CERTAIN STEEL WHEELS FROM BRAZIL



Determination of the Commission in  
Investigation No. 701-TA-296  
(Preliminary) Under the Tariff Act  
of 1930, Together With the  
Information Obtained in the  
Investigations

USITC PUBLICATION 2124  
SEPTEMBER 1988

Determination of the Commission in  
Investigation No. 731-TA-420  
(Preliminary) Under the Tariff Act  
of 1930, Together With the  
Information Obtained in the  
Investigations

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

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Note.—Information that would reveal the confidential operations of individual concerns may not be published and, therefore, has been deleted for this report.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



UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, DC

Investigation No. 701-TA-296 (Preliminary) and  
Investigation No. 731-TA-420 (Preliminary)

CERTAIN STEEL WHEELS FROM BRAZIL

Determinations

On the basis of the record 1/ developed in the subject investigations, the Commission 2/ determines, pursuant to section 703(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)), that there is a reasonable indication that an industry in the United States is materially injured, or threatened with material injury, by reason of imports from Brazil of steel wheels, 3/ provided for in item 692.32 of the Tariff Schedules of the United States, that are alleged to be subsidized by the Government of Brazil.

The Commission also determines, pursuant to section 733(a) of the Act (19 U.S.C. §1673b(a)), that there is a reasonable indication that an industry in the United States is materially injured, or threatened with material injury, by reason of imports from Brazil of steel wheels, provided for in item 692.32 of the Tariff Schedules of the United States, that are alleged to be sold in the United States at less than fair value (LTFV).

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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/ Commissioner Rohr and Commissioner Cass did not participate in this determination.

3/ For purposes of these investigations, the term "steel wheels" is defined as steel wheels, assembled or unassembled, designed to be mounted with pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles and light trucks in Gross Vehicle Weight (GVW) classifications 1, 2, and 3 (the trucks covered by classes 1, 2, and 3 are, generally, light trucks such as pickup trucks, panel vans and mini-vans with gross vehicle weights of from under 6,000 lbs. to 14,000 lbs.), as provided for in item 692.3230 of the Tariff Schedules of the United States Annotated (1987) (TSUSA); they are provided for in subheading 8708.70.80 of the Harmonized Tariff Schedule of the United States (USITC Pub. 2030 as supplemented).

### Background

On July 29, 1988, a petition was filed with the Commission and the Department of Commerce by Kelsey-Hayes Co., Romulus, MI, alleging that an industry in the United States is materially injured by reason of subsidized imports of certain steel wheels from Brazil and by reason of LTFV imports of certain steel wheels from Brazil. Accordingly, effective July 29, 1988, the Commission instituted preliminary countervailing duty investigation No. 701-TA-296 (Preliminary) and preliminary antidumping investigation No. 731-TA-420 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of August 10, 1988 (53 F.R. 30117). The conference was held in Washington, DC, on August 19, 1988, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF ACTING CHAIRMAN ANNE BRUNSDALE  
AND COMMISSIONER SUSAN LIEBELER<sup>1/</sup>

Certain Steel Wheels from Brazil  
Invs. Nos. 701-TA-296 (Preliminary)  
and 731-TA-420 (Preliminary)

September 12, 1988

Based on the information gathered in these preliminary investigations, we determine that there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of steel wheels that are allegedly subsidized and allegedly sold at less than fair value (LTFV).<sup>2/</sup>

Like Product and Domestic Industry

As a threshold matter, we are required to define the like product and the relevant domestic industry that are to be examined for the purpose of assessing whether a reasonable indication of material injury or threat of material injury by reason of dumped or subsidized imports exists. Section 771(4)(A) of the Tariff Act of 1930, as amended, 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."<sup>3/</sup>

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<sup>1/</sup> See also Views of Commissioner Alfred E. Eckes & Seeley G. Lodwick, infra. Commissioners Rohr and Cass did not participate in this determination.

<sup>2/</sup> 19 U.S.C. 1671b(a), 1673b(a). Material retardation is not an issue in this investigation and will not be discussed further.

<sup>3/</sup> 19 U.S.C. 1677(4)(A).

Like product, in turn, is defined 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...."<sup>4/</sup>

In these preliminary investigations, the principal question regarding the definition of like product is whether standard steel wheels, custom steel wheels, and aluminum wheels constitute a single like product or multiple like products. Based on the record developed in this preliminary investigation, we determine that all three types of wheels constitute a single like product.

The Commission's like-product decision is a factual determination, and the Commission applies the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis. In analyzing like-product issues, the Commission generally considers a number of factors, including the use of common manufacturing facilities and production employees, physical appearance, interchangeability among the articles, channels of distribution, and customer perceptions of the articles.

Production facilities and employees. Standard and custom steel wheels are produced using the same raw material. In addition, their manufacturing processes are similar. Respondents

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<sup>4/</sup> 19 U.S.C. 1677(10). "The article subject to an investigation" is defined by the scope of the Department of Commerce's (Commerce) investigation. Commerce, in its Notice of Initiation, has defined the scope of its investigation as follows: "...steel wheels...consisting of a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles, light trucks, and other vehicles...." 53 Fed. Reg. 32268 (Aug. 24, 1988).

note, however, that (1) the shorter production runs common in custom wheel production favor the use of more labor intensive methods than are used in producing standard steel wheels,<sup>5/</sup> and (2) most aluminum wheels, in contrast, are produced by a casting process that is performed in different establishments from steel wheels. There are, however, some aluminum wheels that are produced in steel-wheel plants using some of the same equipment used to produce steel wheels.<sup>6/</sup> The Petitioner indicates that these stamped aluminum wheels are used primarily as spare wheels.

Channels of distribution. The primary distribution channel for both standard steel wheels and aluminum wheels is the direct sale to the original equipment manufacturer (OEMs) -- in this case, the auto manufacturers.<sup>7/</sup> Custom steel wheels are sold exclusively in the aftermarket.<sup>8/</sup> In terms of distribution channels, standard steel and aluminum wheels are closer to each other than to custom steel wheels.

Customer perceptions. Consideration of both final consumer and OEM perspectives highlights the difficulty of finding a reasonable basis for subdividing wheels into separate like products. Both custom steel wheels and aluminum wheels are targeted towards consumers who are willing to pay a significant

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<sup>5/</sup> Post-Hearing Brief on behalf of Positrade, Inc. (Positrade Brief) at 8-9.

<sup>6/</sup> Report at A-4. See also Post Conference Statement of Petitioner Kelsey-Hayes Company (Petitioner's Statement) at 10-11, tr. at 23 (Mr. MacIntyre).

<sup>7/</sup> Petitioner's statement at 9; Post conference submission of Rockwell International Corporation (Rockwell Submission) at 9.

<sup>8/</sup> Report at A-2.

premium over the price of standard steel wheels in order to improve the appearance of their vehicle.<sup>9/</sup> While aluminum wheels are standard equipment on some higher-priced vehicles, they are optional equipment on low- and mid-priced cars, allowing the consumer to make the same tradeoff between price and aesthetic value at the dealership as he can make in the aftermarket, where both custom steel wheels and aluminum wheels are available.<sup>10/</sup>

Since OEMs are the initial purchasers of 93 percent of all wheels sold, they must also be considered as customers in the wheel market. The record shows that OEMs buy aluminum wheels and standard steel wheels, but no custom steel wheels.<sup>11/</sup> Apparently, the OEM's choice between styled steel wheels (a type of standard steel wheel) and aluminum wheels is a close call in some circumstances. For example, testimony shows that one long-term contract for styled steel wheels was terminated when the buyer decided to go "all aluminum".<sup>12/</sup>

Physical appearance. Given the plethora of individual wheel lines, there is no way to make meaningful appearance comparisons between the different categories of wheels. Aluminum and custom steel wheels are usually silver in color, while standard steel wheels can be black or silver. However, the polished and plated

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<sup>9/</sup> Report at A-2 and A-4. Petitioner's Statement at 10. Rockwell Submission at 10.

<sup>10/</sup> See Rockwell Submission at 10, citing Ward's 1988 Automotive Yearbook at 123.

<sup>11/</sup> Report at A-2.

<sup>12/</sup> Tr. at 139-141 (Messrs. Kerr and Stein).

appearance of most custom steel wheels distinguishes them from the dull finish of most standard steel and aluminum wheels.

Interchangeability. The arguments of Petitioners and Respondents focused on different aspects of the term interchangeability. Petitioner argued that steel and aluminum wheels are not interchangeable because the latter are very different in appearance and are more highly priced<sup>13/</sup> (specifically, aluminum wheels are, on average, 250 to 300 percent more expensive). Respondents countered that the gap between aluminum and standard steel wheel prices is becoming less important to consumers as the price of wheels generally declines relative to the price of automobiles and light trucks.<sup>14/</sup> In addition, Respondent argued that aluminum and standard steel wheels are interchangeable because they are fitted to vehicles for the same basic purpose.<sup>15/</sup>

Petitioners favor a like-product definition that includes only custom steel wheels.<sup>16/</sup> Custom steel wheels are typically sold at prices that fall in the gap between the prices of standard steel wheels and aluminum wheels.<sup>17/</sup> Some custom wheels are more expensive than aluminum wheels. This positioning of custom steel wheels in the marketplace tends to undercut the argument that pricing provides a clear basis for determining that steel and aluminum wheels are not interchangeable.

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<sup>13/</sup> Petitioner's Statement at 9.

<sup>14/</sup> Tr. at 137-138 (Messrs. Kern and Stein).

<sup>15/</sup> Rockwell Submission at 6-7.

<sup>16/</sup> Tr. at 55 (Mr. Clark).

<sup>17/</sup> Positrade Brief at 9.

At this stage of the investigation, neither side has developed a convincing record in support of its position on interchangeability. For this reason, interchangeability considerations cannot play a large role in our preliminary like-product determination.

Summary Evaluation of the Like-Product Question. This case presents us with no ordering of the products that is stable as we consider each of the factors relevant to our like-product determination. Wheels that appear to be closest in terms of one factor are farthest apart for several of the others. Indeed, within a single factor such as customer perception the grouping of different wheels varies dramatically depending on whether the customers considered are final consumers or OEMs.

The present case may be contrasted to others in which the Commission has faced the issue of whether a continuum of products could be divided into separate like products. In those cases, the ordering of the products along some dimension was not in question. Rather, the issue was if, and where, to cut the line.<sup>18/</sup>

Here, there is no "line" along which the wheels in question can be naturally distributed. Rather, there appears to be an intricate multidimensional web of relationships among different wheels. We can find no sensible basis for subdividing such a

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<sup>18/</sup> See, e.g., Granular Polytetrafluoroethylene Resin from Italy and Japan, Inv. Nos. 731-TA-385 & 386 (P), USITC pub. No. 2043 at 7-8 (Dec. 1987); Oil Country Tubular Goods from Brazil, Korea & Spain, Inv. Nos. 701-TA-215-217 (F), USITC Pub. No. 1633 at 5 (January 1985).

tangled web in the present record. While we are prepared to reconsider the like-product question in light of the more complete record that would become available in the event that this matter comes before us for a final determination, we conclude that the relevant like product in this investigation encompasses all three types of steel wheels, and the domestic industry consists of producers of all three types.

#### Domestic Industry

In view of our discussion of the like product, we include standard and custom steel wheel producers and aluminum wheel producers in the domestic industry. Because the Commission has traditionally considered captive producers to be a part of the domestic industry,<sup>19/</sup> we include Ford Motor Corp. (Ford) and General Motors Corp. (GM), which manufacture wheels for internal consumption only, as part of the domestic industry.<sup>20/</sup> Together, Ford and GM accounted for a substantial share of 1987 U.S. production of wheels.<sup>21/</sup>

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<sup>19/</sup> See 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (F), USITC Pub. No. 1862 at 11, n. 18. See also 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (P), USITC Pub. No. 1735 at 5; Color Picture Tubes from Canada, Japan, the Republic of Korea and Singapore, Inv. Nos. 731-TA-367-370 (F), USITC Pub. No. 2046 (Dec. 1987).

<sup>20/</sup> Report at A-14.

<sup>21/</sup> Report at A-15.

Condition of the Domestic Industry

In determining the condition of the domestic industry, the Commission considers, among other factors, the domestic consumption of the product, U.S. production, capacity and capacity utilization, shipments, inventories, employment, and profitability.<sup>22/</sup> Our analysis of the domestic wheel industry was hampered by a lack of information on the condition of domestic producers of aluminum wheels and custom steel wheels. Most of the information available in these investigations is limited to standard steel wheels.

Some information about aluminum wheels is available. Both parties agree that the domestic market share of aluminum wheels rose significantly during the period of investigation.<sup>23/</sup> By quantity, aluminum wheels held an estimated 19.2 percent of the total market for wheels in the first half of the 1988 model year, more than double the 9.4 percent market share held by aluminum wheels in the 1984 model year. Clearly, aluminum wheels are increasing their sales in the U.S. market and are an increasingly important segment of the U.S. wheel market. Indeed, given the price disparity between standard steel and aluminum wheels, the current value of aluminum wheel sales may be close to, if not larger than, the current value of standard steel wheel sales.

The data in hand for standard steel wheel producers reflect a mixed record. Production of steel wheels declined steadily

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<sup>22/</sup> 19 U.S.C. 1677(7)(c)(iii).

<sup>23/</sup> Rockwell Submission at 5-6.

throughout the period from 47.7 million units in 1985 to 44.6 million units in 1987, a decline of 6.6 percent.24/ However, U.S. producers' capacity increased 7 percent from 1985 to 1986, remained level from 1986 to 1987, and declined slightly in January-June 1988.25/ With an overall increase in steel wheel capacity and a steady decline in production, capacity utilization declined from 75.8 percent in 1985 to 69.9 percent in 1986 and to 66.1 percent in 1987, and dropped from 72.9 percent in interim 1987 to 67.9 percent in interim 1988.26/

Total shipments of steel wheels declined steadily in both quantity and value during the period.27/ Shipments by quantity (in 1,000 units) fell from 47,740 in 1985 to 45,911 in 1986 and to 43,269 in 1987, and dropped from 24,050 in interim 1987 to 22,841 in interim 1988.28/ End-of-period inventories declined throughout the period from 4.3 million units in 1985 to 3.3 million units in 1987, a fall of 24.4 percent.29/ Inventories were 18.1 percent lower in January-June 1988 than in January-June 1987.30/ Inventories as a percent of shipments also declined, from 9.1 in 1985 to 7.6 in 1987, with a continued drop to 7.1 in January-June 1988 compared with 8.4 in the corresponding period of 1987.31/

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24/ Report at A-13.

25/ Report at A-13-A-14.

26/ Report at A-14.

27/ Report at A-14-A-15.

28/ Id.

29/ Production, shipment, and inventory data indicate that domestic steel wheel producers were shipping from inventories during the period.

30/ Report at A-16.

31/ Id.

The number of production and related workers producing steel wheels declined over the period of investigation.<sup>32/</sup> Aggregate operating income (before start-up expense) on steel wheel operations rose from \$49.7 million in 1985 to \$63.1 million in 1986 and then fell to \$60.9 million in 1987. Operating income (before start-up expense) as a percentage of net sales likewise rose from 8.8 percent in 1985 to 11.3 percent in 1986 and to 11.7 percent in 1987.<sup>33/</sup> Operating income declined from \$39.1 million or 13.7 percent of net sales in January-June 1987 to \$25.5 million or 9.8 percent of net sales in January-June 1988.<sup>34/</sup>

Information on the domestic industry is often sparse in preliminary investigations, but we can usually hope that it is reasonably representative. In the present investigation, all of our data come from that part of the industry that appears to be weakest, and none of it from the part of the industry where demand is rising. We expect that data regarding the condition of domestic producers of aluminum and custom steel wheels will be developed in any final investigation. However, based on the data available in these preliminary investigations, we determine that the domestic industry is materially injured.

#### Material Injury Caused by Unfair Imports

In making its preliminary determinations, the Commission must ascertain whether there is a reasonable indication of material

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<sup>32/</sup> Report at A-17.

<sup>33/</sup> Report at A-20.

<sup>34/</sup> Report at A-20.

injury or threat of material injury "by reason of" the imports under investigation.<sup>35/</sup> While the Commission can weigh the evidence obtained in a preliminary investigation, it will not reach a negative determination unless the record as a whole contains clear and convincing evidence of no material injury, or threat thereof, by reason of the imports under investigation, and "no likelihood exists that contrary evidence will arise in a final investigation."<sup>36/</sup>

With respect to material injury, the statute directs the Commission to consider, among other factors, (1) the volume of imports of the merchandise that is the subject of the investigation, (2) the effect of those imports on prices in the United States for the like products, and (3) the impact of those imports on domestic producers of like products.<sup>37/</sup>

Volume of Imports. Imports of Brazilian steel wheels \*\*\*\*\* from \$\*\*\*\*\* in 1985 to \$\*\*\*\*\* in 1986 and \$\*\* \*\*\*\*\* in 1987.<sup>38/</sup> Measured by quantity, Brazilian steel wheel imports \*\*\*\* from \*\*\*\*\* in 1985 to \*\*\*\*\* in 1986, and \*\*\*\*\* to \*\*\*\*\* in 1987.<sup>39/</sup>

With the domestic industry defined as the producers of both steel and aluminum wheels, accurate market share information was

<sup>35/</sup> 19 U.S.C. 1673d(b).

<sup>36/</sup> See American Lamb, 785 F.2d at 1001.

<sup>37/</sup> 19 U.S.C. 1677(7)(8).

<sup>38/</sup> For interim 1988, the Brazilian imports \*\*\*\*\* \$\*\*\*\*\*; versus \$\*\*\*\*\* in interim 1987. See Report at A-41 (Table 13).

<sup>39/</sup> Id. For interim 1988, Brazilian imports were \*\*\*\*\* units, versus \*\*\*\*\* units in interim 1987.

difficult to obtain in this investigation.<sup>40/</sup> The available information does indicate that Brazilian imports captured an increasing share of the U.S. steel wheel market. By value, the Brazilian imports \*\*\*\*\* their market shares from \*\*\* percent in 1985, to \*\*\* percent in 1986, and to \*\*\* percent in 1987.<sup>41/</sup> By quantity, Brazilian imports \*\*\*\*\* from \*\*\* percent in 1985, to \*\*\* percent in 1986, and to \*\*\* percent in 1987.<sup>42/</sup> Thus, as a share of the U.S. steel wheel market only, the Brazilian penetration increased between 1985 and 1987.<sup>43/</sup>

Effect on Prices. The price for steel wheels supplied to U.S. auto manufacturers is included in long-term (usually five-year) contracts and such contracts are rarely reopened for rebidding.<sup>44/</sup> Even for steel wheels alone, however, the record does not contain a nearly complete description of existing contracts, outstanding bid quotations, and requests for bids. In any final investigation, we will seek more detailed information on these items.

As to the possible effect of the subject imports on domestic prices, we note that the limited pricing data available at this

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<sup>40/</sup> Although the Commission collected all the necessary information on Brazilian imports, the Commission only collected information on domestic steel wheel shipments (not custom steel wheels or aluminum wheels). Therefore, the market share of Brazilian imports is overstated.

<sup>41/</sup> In interim 1988, the share \*\*\*\*\* to \*\*\* percent. See id. at A-43 (Table 14).

<sup>42/</sup> Id. The share \*\*\*\*\* to \*\*\* percent in interim 1988.

<sup>43/</sup> In any final investigation, we will attempt to measure Brazilian steel wheel market share as a percentage of steel and aluminum wheels consumed in the United States.

<sup>44/</sup> See Petitioner Statement at 18, Rockwell Submission at 18 & 40, Borlem Brief at 7-9, Tr. at 99 (Mr. McCotter).

time indicate that the Brazilian producers submitted the lowest bid on several projects, while a U.S. producer was the low bidder on other projects. Apparently, contracts are routinely awarded to firms other than the low bidder. In some cases, a foreign bid beat a lower domestic bid, while in others a domestic bid beat a lower foreign bid. Even where the only contenders are domestic, the low bid did not always win the contract. Clearly, OEM buyers consider factors other than price and nationality in making their sourcing decisions. The record contains no evidence regarding the impact of the subject imports on the prices of aluminum wheels produced by the domestic industry.

Although the available evidence is not complete, there is some indication that Brazilian imports are increasing. Therefore, for purposes of this preliminary investigation, we determine that the domestic injury is being materially injured by reason of unfair Brazilian imports.

#### Threat of Material Injury

With respect to threat of material injury, the statutory factors the Commission is directed to consider are (1) the nature of the alleged subsidies; (2) any increase in production capacity or existing unused capacity in the exporting country and the likelihood of a significant increase in the level of imports to the United States;<sup>45/</sup> (3) any rapid increase in U.S. market

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<sup>45/</sup> The Commission's regulations provide that it shall consider in particular "the availability of other export markets" in making its determination. 19 C.F.R. 207.26(d)(3).

penetration and the likelihood that the penetration will increase to an injurious level; (4) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise; (5) any substantial increase in inventories of the merchandise in the United States; (6) the presence of underutilized capacity for producing the merchandise in the exporting country; (7) any other demonstrable adverse trends that indicate the probability that importation of the merchandise will be the cause of actual injury; and (8) the potential for product-shifting.<sup>46/</sup> Finally, to conclude that alleged LTFV imports present a threat of material injury to the domestic industry, the Commission must find that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition.<sup>47/</sup>

Price Effects. The treatment of import volume and price effects in our discussion of material injury also applies to our consideration of threat. With regard to pricing, the record indicates that the period between the time a wheel supplier provides a bid quotation to an auto maker and the time production starts is generally one-and-a-half to two years.<sup>48/</sup> Thus, in this investigation, it would appear that in order for the threat of a rapid increase in volume to be "real and imminent," the bid

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<sup>46/</sup> 19 U.S.C. 1677(F)(i)(I)-(VIII).

<sup>47/</sup> 19 U.S.C. 1677(7)(F).

<sup>48/</sup> Report at A-33.

quotation on a likely future contract would already have been made. The record contains conflicting information with respect to any such outstanding bid quotations.49/

Inventory. Year-end 1987 inventories of U.S. importers of Brazilian steel wheels were higher than levels in 1985 and 1986. U.S. importer inventories were also higher in interim 1988 than in the same period in interim 1987. Even though there is a distinct inventory trend, the nature of the wheel market argues against placing much weight on the inventory factor in the present case. Inventories will fluctuate whenever production of particular car models is not synchronized with the production of wheels for those models. Ultimately, consumption of wheels by the OEMs is completely determined by the sales records for the vehicles on which they are used. For this reason, inventories do not "overhang" the general market for wheels and therefore cannot be used to gain a bigger market share. Furthermore, there is no evidence of any link between inventory levels and price developments in the marketplace.

Capacity. Brazilian exporters had significant idle capacity in 1987, a year in which their shipments to the U.S. market fell due to the decision of a U.S. purchaser to retool production for the model on which imported wheels were used.50/

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49/ See, e.g., Petitioner's Statement at 18, Rockwell Submission at 18, Borlem Brief at 7.

50/ Tr. at 141-142 (Mr. Kern). However, in interim 1988, Brazilian exporters are reported to be operating at very high levels of capacity utilization.

Subsidies. Petitioner alleges that the subsidies involved in this case are export subsidies. The BEFIEX program under which the alleged subsidies are made is a program consisting of financial incentives for exporters.<sup>51/</sup> The best available information on these subsidies mitigates in favor of an affirmative threat finding.

Although the factors considered by the Commission in threat cases are mixed in this instance, on balance, we believe that there is a reasonable indication that the domestic industry is threatened with material injury by reason of Brazilian imports.

#### Conclusion

Given our determination that the like product in this investigation is all wheels, we find the record to be incomplete -- indeed, unusually so as measured by other preliminary investigations. The evidence is both sparse and conflicting. The standard for reaching a determination in preliminary investigations clearly favors an affirmative determination under such conditions. Therefore, we determine that there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of steel wheels that are allegedly subsidized and allegedly sold at less than fair value.

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<sup>51/</sup> See Initiation of Countervailing Duty Investigation: Steel Wheels from Brazil, 53 Fed. Reg. 32,268, 32,269 (Aug. 24, 1988).

VIEWS OF COMMISSIONER ALFRED E. ECKES AND  
COMMISSIONER SEELEY G. LODWICK

We determine that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of imports of certain steel wheels from Brazil that are allegedly subsidized and allegedly sold in the United States at less than fair value ("LTFV"). <sup>1/</sup> <sup>2/</sup>

I. Like Product & Domestic Industry

The Commission must first identify the domestic industry to be examined for the purpose of making an assessment of material injury or threat of material injury. 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." <sup>3/</sup> The statute defines "like product" 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. . . ." <sup>4/</sup>

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<sup>1/</sup> 19 U.S.C. §§ 1671b(a) & 1673b(a).

<sup>2/</sup> Material retardation of the establishment of an industry in the United States is not an issue in this investigation and will not be discussed further. See 19 U.S.C. §§ 1671(2)(B), 1673(2)(B). The Federal Circuit in *American Lamb Co. v. United States*, 785 F.2d 994 (Fed. Cir. 1986) ("American Lamb") addressed the standard for preliminary investigations. The Court held that the Commission may conclude that no reasonable indication exists only if "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation." Id. at 1001.

<sup>3/</sup> 19 U.S.C. § 1677(4)(A).

<sup>4/</sup> 19 U.S.C. § 1677(10). See also S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

A. Like Product

The imported products subject to this investigation are wheels made of steel, whether assembled or unassembled (i.e., including imported rims and/or discs (wheel centers)), in wheel diameter sizes ranging from 13 inches to 16.5 inches, inclusive ("steel wheels"). <sup>5/</sup>

In considering the like product question in a title VII investigation, the Commission examines the characteristics and uses of the articles under investigation, including the following factors: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) common manufacturing equipment, facilities and employees; and (5) customer perceptions of the articles. <sup>6/</sup>

In this preliminary investigation, we considered two principal questions relating to the definition of the like product: (1) whether custom steel

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<sup>5/</sup> The "article subject to an investigation" is defined by the scope of the investigation established by the Department of Commerce ("Commerce"). Commerce has defined the scope of this investigation to include "steel wheels consisting of a disc and a rim either welded or riveted together, having a diameter not less than 13 inches nor greater than 16.5 inches, designed to be mounted with both tube type and tubeless pneumatic tires generally for use on passenger automobiles, light trucks and other vehicles . . . ." 53 Fed. Reg. 32268 (Aug. 24, 1988). However, by a Memorandum to the Files dated August 26, 1988, Commerce stated that it would use the following language "in all future references in these investigations: The products covered by this investigation are steel wheels currently provided for in item 692.3230 of the TSUSA and currently classified under HS item number 8708.70.80. The merchandise includes steel wheels, assembled or unassembled, consisting of a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles."

<sup>6/</sup> See Asociacion Colombiana de Exportadores de Flores v. United States, Slip Op. 88-91 (July 14, 1988) at 9 (hereinafter "ASOCOLFLORES"). See also Yuasa-General Battery Corp. v. United States, 661 F. Supp. 1214, 1217 (1987).

wheels are the same like product as standard steel wheels; and (2) whether aluminum wheels are the same like product as standard steel wheels. <sup>7/</sup>

1. Custom Steel Wheels

"Custom" steel wheels are wheels that have been polished and plated, usually with chrome, and that may be further finished with spokes, cut-out patterns or different designs. Custom steel wheels are purchased primarily for their aesthetic appeal, by consumers who want to improve the appearance of their vehicle. <sup>8/</sup>

We determine that custom and standard steel wheels constitute a single "like product." We note in particular that the manufacturing processes by which custom and standard steel wheels are produced are similar, the raw material used (steel) is the same and the products are to a limited degree interchangeable. <sup>9/</sup> Respondent Positrade Inc., a manufacturer of custom wheels in Brazil, pointed out several differences between custom and standard steel wheels, including that the former are sold exclusively to non-OEM purchasers and are manufactured (in general) by a different set of U.S.

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<sup>7/</sup> We also considered whether wheels with wheel diameter of less than 13 inches or greater than 16.5 inches are a separate like product from the subject steel wheels. Respondents did not contest petitioner's definition of the like product to include only wheels of wheel diameter between 13 inches and 16.5 inches, inclusive. Moreover, U.S. production of wheels with a diameter of 16.5 inches to 19 inches is de minimis, as is U.S. production of wheels with a diameter of between 12 inches and 12.9 inches. Staff Report ("Report") at A-15. Thus, for purposes of this preliminary investigation, we define the like product to include wheels with a wheel diameter of between 13 inches and 16.5 inches.

<sup>8/</sup> Report at A-2.

<sup>9/</sup> See Transcript of Post-Conference Hearing ("Transcript") at 55 (Mr. Clark).

- o producers using a production process that is more labor intensive and involves shorter production runs. Positrade also noted that custom steel wheels are sold in a distinctly higher price range than standard steel wheels. <sup>10/</sup>

While we acknowledge these differences, based on the information before us in this preliminary investigation, we do not believe that they constitute more than minor differences in physical characteristics and uses between custom and standard steel wheels. In light of the foregoing, we find that custom steel wheels are the same like product as standard steel wheels. <sup>11/</sup>

## 2. Aluminum Wheels

We determine that aluminum wheels are a separate like product from standard and custom steel wheels. We base our conclusion primarily on significant differences in physical appearance, manufacturing processes and employees, and customer perceptions, and on the fact that the interchangeability of steel and aluminum wheels is limited by the significantly higher price of the latter.

The parties agree that aluminum wheels are more highly stylized and thus distinct in appearance from steel wheels. <sup>12/</sup> Moreover, this difference in

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<sup>10/</sup> Post-Conference Brief of Positrade ("Positrade Brief") at 2-3, 7-9.

<sup>11/</sup> Our finding that standard and custom steel wheels are the same like product is based on information available to the Commission at this time regarding the characteristics and uses of those types of wheels. We may reconsider our decision for purposes of any final determination based on any additional information received by the Commission relating to the characteristics and uses of the two types of wheels.

<sup>12/</sup> See Post-Conference Statement of Petitioner ("Petitioner Statement") at (Footnote continued on next page)

appearance is reflected in customer perceptions of the two articles. Customers are likely to select aluminum wheels based primarily on their "aesthetic appeal." <sup>13/</sup>

In addition, information obtained in this preliminary investigation indicates that the manufacturing processes for steel and aluminum wheels are, in general, completely different. <sup>14/</sup> Steel wheels are manufactured by stamping and cold forming sheet steel, whereas most aluminum wheels are manufactured by a casting process in which molten aluminum is poured into a steel mold. <sup>15/</sup>

Finally, the interchangeability of steel and aluminum wheels is limited

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(Footnote continued from previous page)

8; Post-Conference Submission of Rockwell ("Rockwell Submission") at 6 n.8. See also Report at A-2.

<sup>13/</sup> Petitioner Statement at 10.

<sup>14/</sup> Report at A-4. While casting is the predominant method of manufacture for aluminum wheels, petitioner testified at the Staff Conference that it had developed a stamping process to manufacture aluminum wheels from aluminum sheet or strip. See Report at A-4 n.1. Information obtained in this investigation indicates that, for stamped aluminum wheels, aluminum discs (wheel centers) may be manufactured on the same production line as steel discs, but that "equipment used in the production of steel rims must be significantly modified to produce aluminum stamped rims." Report at A-4 (emphasis supplied). Petitioner stated that, to the best of its knowledge, it is "the only company in the world producing both steel and aluminum wheels for passenger cars and light trucks." Petitioner Statement at 10-11. However, with the exception of production of the relatively small volume of stamped aluminum wheels, Kelsey-Hayes does not produce both kinds of wheels in the same plant. For petitioner's views generally see, e.g., Petition at 3; Petitioner Statement at 10; tr. at 23 (Mr. MacIntyre). For respondent Rockwell's views, see Rockwell Submission at 8-9; tr. at 106 (Mr. Stein).

<sup>15/</sup> Rockwell Submission at 8; Report at A-2-A-4.

by the substantially higher price of aluminum wheels. <sup>16/</sup> For example, aluminum wheels are, on average, at least 250 to 300 percent more expensive than standard steel wheels (whether styled or not) and significantly more expensive than many custom steel wheels as well. <sup>17/</sup> Moreover, there is no indication that the price difference between steel and aluminum wheels is shrinking, although respondents argued that the higher price of aluminum wheels is becoming less important as the price of wheels generally declines relative to the price of the automobile or light truck. <sup>18/</sup>

Thus, while it is true that steel and aluminum wheels are sold through the same channels of distribution <sup>19/</sup> and may be used for the same purpose (i.e., "to attach the tires to the car and allow them to propel the car down the road"), <sup>20/</sup> we find that the differences (described above) between the two types of wheels outweigh these limited similarities. Indeed, two of the different characteristics of steel and aluminum wheels--price and appearance--appear to be essential to aluminum wheels as a product distinct

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<sup>16/</sup> Petitioner Statement at 9. Petitioner argued that steel and aluminum wheels are not "interchangeable" because the latter are very different in appearance and are more highly priced. Id. Respondent Rockwell argued that the two types of wheels are "interchangeable" because both may be fitted on an automobile or light truck for the same basic purpose. Rockwell Submission at 6.

<sup>17/</sup> The Court of International Trade in ASOCOLFLORES, supra note 6, acknowledged that similarity in price is a factor that may have a bearing on the Commission's like product determination. Id. at 12 n.8.

<sup>18/</sup> See tr. at 137-138 (Messrs. Kern and Stein). We note that respondents did not provide any support for this assertion. In any final investigation, we would seek such information.

<sup>19/</sup> Petitioner Statement at 9; Rockwell Submission at 9.

<sup>20/</sup> See Rockwell Submission at 6; tr. at 103-104 (Mr. Stein).

from steel wheels. Thus, we find for the purposes of this preliminary determination that aluminum wheels are a separate like product and have not included aluminum wheels within the definition of the like product. <sup>21/</sup>

In light of the foregoing, we find for the purposes of this preliminary determination that the like product consists of standard steel wheels and custom steel wheels and that aluminum wheels constitute a separate like product from steel wheels.

#### B. Domestic Industry

In view of our discussion of the like product, we conclude that the members of the domestic industry include both standard and custom steel wheel producers. <sup>22/</sup> In addition, we have included two U.S. producers, Ford Motor Corp. ("Ford") and General Motors Corp. ("GM"), which manufacture steel wheels solely for internal consumption and are, therefore, captive producers. <sup>23/</sup> The Commission has traditionally considered captive producers to be a part of the domestic industry. <sup>24/</sup> Moreover, together, Ford and GM accounted for a

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<sup>21/</sup> Our finding that steel and aluminum wheels are separate like products is based on information available to the Commission at this time regarding the characteristics and uses of steel and aluminum wheels. We may reconsider our decision for purposes of any final determination based on any additional information the Commission receives relating to the characteristics and uses of the two types of wheels.

<sup>22/</sup> The record indicates that custom steel wheel producers add 30 to 40 percent to the value of standard steel wheels. Tr. at 179 (Mr. Mangels).

<sup>23/</sup> Report at A-14.

<sup>24/</sup> See 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (F), USITC Pub. No. 1862 at 11 n. 18. See also 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (P), USITC Pub. No. 1735 at 5; Color Picture Tubes from Canada, Japan, the Republic of Korea and  
(Footnote continued on next page)

substantial share of 1987 U.S. production of steel wheels. <sup>25/</sup> Therefore, we have included Ford and GM within the definition of domestic industry for the purposes of this preliminary investigation.

## II. Condition of the Domestic Industry

In determining the condition of the domestic industry, the Commission considers, among other factors, the domestic consumption of the product, U.S. production, capacity and capacity utilization, shipments, inventories, employment and financial performance. <sup>26/</sup>

U.S. apparent consumption of steel wheels declined steadily in both quantity and value from 1985 to 1987, and declined again in January-June 1988 compared with January-June 1987. <sup>27/</sup> In this preliminary investigation, we were not able to obtain data on most custom steel wheel producers. Therefore, the economic indicators of the domestic industry producing steel wheels do not reflect that segment of the industry. However, we note that custom steel wheel producers do not sell to OEM's, and they comprise less than 10 percent of aftermarket sales of steel wheels. Production of steel wheels declined steadily throughout the period from 47.7 million units in 1985 to 44.6 million units in 1987, a decline of 6.6 percent. Production declined again by 7.7 percent, in January-June 1988 compared with January-June 1987. <sup>28/</sup>

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(Footnote continued from previous page)  
Singapore, Inv. Nos. 731-TA-367 through 370 (F), USITC Pub. No. 2046 (Dec. 1987).

<sup>25/</sup> Report at A-8.

<sup>26/</sup> 19 U.S.C. § 1677(7)(c)(iii).

<sup>27/</sup> Report at A-12.

<sup>28/</sup> Report at A-13.

U.S. producers' capacity increased 7 percent from 1985 to 1986, remained level from 1986 to 1987 and declined slightly in January-June 1988 over January-June 1987. <sup>29/</sup> With an overall increase in capacity and a steady decline in production, capacity utilization declined from 75.8 percent in 1985, to 69.9 percent in 1986, and to 66.1 percent in 1987, dropping from 72.9 percent in interim 1987 to 67.9 percent in interim 1988. <sup>30/</sup>

Total shipments declined steadily in both quantity and value during the period. <sup>31/</sup> Shipments by quantity (in 1,000 units) fell from 47,740 in 1985, to 45,911 in 1986 and to 43,269 in 1987, dropping from 24,050 in interim 1987 to 22,841 in interim 1988. <sup>32/</sup> End-of-period inventories declined throughout the period from 4.3 million units in 1985 to 3.3 million units in 1987, a drop of 24.4 percent. <sup>33/</sup> Inventories were 18.1 percent lower in January-June 1988 than in January-June 1987. <sup>34/</sup> Inventories as a percent of shipments also declined, from 9.1 in 1985 to 7.6 in 1987, with a continued drop to 7.1 in January-June 1988 compared with 8.4 in the corresponding period of 1987. <sup>35/</sup>

The total number of employees in the domestic industry decreased overall between 1985 and 1987, with the number of production and related workers

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<sup>29/</sup> Report at A-13.

<sup>30/</sup> Report at A-13.

<sup>31/</sup> Report at A-14.

<sup>32/</sup> Id.

<sup>33/</sup> The production, shipment and inventory data indicate that domestic producers were shipping from inventories during the period.

<sup>34/</sup> Report at A-16.

<sup>35/</sup> Id.

producing steel wheels declining at a steeper rate. <sup>36/</sup> Aggregate operating income (before start-up expense) on steel wheel operations rose from \$49.7 million in 1985 to \$63.1 million in 1986 and then dropped to \$60.9 million in 1987. Operating income (before start-up expense) as a percentage of net sales likewise rose from 8.8 percent in 1985, to 11.3 percent in 1986, climbing to 11.7 percent in 1987. <sup>37/</sup> Operating income declined from \$39.1 million, or 13.7 percent of net sales, in January-June 1987 to \$25.5 million, or 9.8 percent of net sales in January-June 1988. <sup>38/</sup>

III. Reasonable Indication of Threat of Material Injury by Reason of Allegedly LTFV and Subsidized Imports

The statute sets forth a series of factors the Commission is to consider in analyzing the issue of a reasonable indication of threat of material injury. <sup>39/</sup> These factors are: (1) the nature of the subsidies that have been alleged; (2) any increase in production capacity or existing unused capacity in the exporting country and whether any such increase is likely to result in a significant increase in imports to the United States; <sup>40/</sup> (3) any rapid increase in U.S. market penetration and the likelihood that the penetration will increase to an injurious level; (4) the probability that imports of the merchandise will enter the United States at prices that will

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<sup>36/</sup> Report at A-17.

<sup>37/</sup> Report at A-19.

<sup>38/</sup> Report at A-19.

<sup>39/</sup> 19 U.S.C. § 1677(7)(F).

<sup>40/</sup> The Commission's regulations also provide that it shall consider in particular "the availability of other export markets" in making its determination. 19 C.F.R. § 207.26(d)(3).

have a depressing or suppressing effect on domestic prices of the merchandise; (5) any substantial increase in inventories of the merchandise in the United States; (6) the presence of underutilized capacity for producing the merchandise in the exporting country; (7) any other demonstrable adverse trends that indicate the probability that importation of the merchandise will be the cause of actual injury; and (8) the potential for product shifting. <sup>41/</sup>

In addition, in order to conclude that there is a reasonable indication that alleged LTFV imports present a threat of material injury to the domestic industry, the Commission must find that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition. <sup>42/</sup>

The volume of imports of steel wheels from Brazil has recently increased. <sup>43/</sup> The market share of the subject imports also increased during the most recent period, reaching its highest level to date. <sup>44/</sup> Moreover, evidence in the record indicates that the level of imports and their share of the U.S. market have increased steadily, with the exception of what

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<sup>41/</sup> 19 U.S.C. § 1677(F)(i)(I)-(VIII).

<sup>42/</sup> 19 U.S.C. § 1677(7)(F).

<sup>43/</sup> Report at A-30. Much of the importer and Brazilian producer data received in this investigation is confidential. Therefore, we are unable to characterize those data in greater detail.

<sup>44/</sup> Report at A-31.

seems to have been a temporary decline in 1987. <sup>45/</sup> <sup>46/</sup>

In addition to the increased volume of shipments, Brazilian producers' end of period inventories for the most recent period also were higher than for each of the preceding years of the period of investigation, although inventory levels declined somewhat from interim 1987 to interim 1988. <sup>47/</sup> In view of the fact that the United States is, by far, the largest export market for the subject imports, it is likely that a large share of the inventories held in

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<sup>45/</sup> Report at A-29-A-30. The record suggests that the decline in 1987 was related to a temporary drop in U.S. demand for the subject imports caused by a U.S. purchaser's decision to retool production for a specific car model. Tr. at 141-142 (Mr. Kern).

<sup>46/</sup> We note that the parties agreed that steel wheels are supplied to U.S. automobile manufacturers on the basis of long-term (usually five year) requirements contracts and that such contracts are rarely reopened for rebidding. See Petitioner Statement at 18, Rockwell Submission at 18 & 40, Borlem Brief at 7-9, Tr. at 99 (Mr. McCotter). Moreover, the record indicates that the period between the time a wheel supplier provides a bid quotation to an automobile manufacturer and the time production starts is generally 1.5 to 2 years. Report at A-33. Thus, in this investigation, it would appear that in order for the threat of a rapid increase in volume to be "real and imminent," the bid quotation on a likely future contract would already have been made. However, the record contains conflicting information with respect to any such outstanding bid quotations. See, e.g., Petitioner Statement at 18, Rockwell Submission at 18, Borlem Brief at 7. Moreover, evidence in the record indicates that actual import volumes under some requirement contracts described in the Report may exceed by as much as 100 percent the amounts specified in the contract award since the actual number of wheels manufactured and imported depends on the sales of a particular car model. Thus, in view of the fact that it appears that the record does not contain a complete description of existing contracts as well as outstanding bid quotations and requests for bids, this information is not particularly probative in determining whether, in fact, the recent rapid increase in U.S. market penetration is likely to persist. In any final investigation, the Commission will seek more detailed information on all outstanding contracts, bid quotations and requests for bid.

<sup>47/</sup> Report at A-27.

Brazil will be sold in the United States in the near future. <sup>48/</sup> Moreover, capacity utilization levels for the Brazilian producers fell from 1986 to 1987, suggesting that Brazilian producers may have substantial excess capacity. <sup>49/</sup>

As to the possible effect of the subject imports on domestic prices, we note that the limited pricing data available at this time indicate that on several projects the Brazilian producers underbid U.S. producers, while on other projects, a U.S. producer was the low bidder. Nonetheless, the evidence in the record does suggest that price depression or price suppression in current and future contract bidding is likely to occur in this industry, which is currently in a period of shrinking demand, if the current volume and availability of imports were to continue or if imports were to increase substantially. <sup>50/ 51/ 52/</sup>

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<sup>48/</sup> Report at A-27 & Table 11. Moreover, importers' end-of-period inventories rose over the period.

<sup>49/</sup> The Report indicates that capacity utilization levels increased substantially between interim 1987 and interim 1988. Report at A-28. While these data are consistent with corresponding increases in Brazilian producers' shipments, production and inventory levels, we note that those levels demonstrate the ability of those producers to utilize excess capacity to increase substantially shipments to the United States in a relatively short period.

<sup>50/</sup> Motor Wheel Corporation alleged in its post-hearing brief that "Brazilian price quotes are presently used as benchmarks by OEM buyers to establish prices for domestic wheel manufacturers." Post Hearing Brief of Motor Wheel Corporation at 4.

<sup>51/</sup> In any final investigation, we intend to request complete data on: (1) the dates of all bid requests won (as well as any outstanding bid requests and proposals for bid) or contracts awarded, (2) the dates on which shipments began or are due to begin under each such bid request, proposal for bid, contract or contract award and (3) the quantity of such shipments.

<sup>52/</sup> Commissioner Eckes notes that the record contains incomplete data on which to assess how the bid process covering existing and future requirements contracts relates to recent increases in import volumes, inventories held by producers in Brazil, importers' inventories in the U.S., and anticipated import volumes in the short term.

Finally, petitioner alleged that the imported products subject to this investigation benefit from a variety of subsidies, including subsidies contained in programs administered under the auspices of the Commission for the Granting of Fiscal Benefits to Special Export Programs ("BEFIEEX"). <sup>53/</sup> Among other beneficial Brazilian programs that petitioner alleged are: (1) duty and tax exemptions on equipment that producers import for their manufacturing operations; and (2) income tax exemptions for a portion of producers' export earnings. <sup>54/</sup>

Based on the foregoing, we determine that there is a reasonable indication that the domestic industry is threatened with material injury by reason of imports from Brazil that are allegedly subsidized and that are allegedly sold at LTFV.

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<sup>53/</sup> Petition at 15-16. See also Report at A-8.

<sup>54/</sup> Id.

## INFORMATION OBTAINED IN THE INVESTIGATIONS

## Introduction

On July 29, 1988, a petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce by counsel on behalf of Kelsey-Hayes Co., Romulus, MI. The petition alleges that an industry in the United States is materially injured and threatened with material injury by reason of imports from Brazil of certain steel wheels, 1/ provided for in item 692.32 of the Tariff Schedules of the United States (TSUS), that are allegedly being sold in the United States at less than fair value (LTFV) and that are allegedly being subsidized by the Government of Brazil. Accordingly, effective July 29, 1988, the Commission instituted investigation No. 701-TA-296 (Preliminary), under section 703(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)) and investigation No. 731-TA-420 (Preliminary), under section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)), 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 is materially retarded, by reason of such imports.

Notice of the institution of the investigations and of a conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of August 10, 1988 (53 F.R. 30117). 2/ The conference was held in Washington, DC, on August 19, 1988. 3/

On August 18, 1988, the U.S. Department of Commerce initiated 4/ an antidumping investigation to determine whether the subject merchandise is being, or is likely to be, sold in the United States at LTFV (53 F.R. 32267, Aug. 24, 1988). The Department of Commerce also initiated a countervailing duty investigation to determine whether the subject merchandise is being subsidized by the Government of Brazil (53 F.R. 32268, Aug. 24, 1988).

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1/ For purposes of these investigations, the term "steel wheels" is defined as steel wheels (assembled or unassembled), designed to be mounted with pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles and light trucks in Gross Vehicle Weight (GVW) classifications 1, 2, and 3 (the trucks covered by classes 1, 2, and 3, are, generally, light trucks, for example pickup trucks, panel vans and mini-vans with gross vehicle weights of from under 6,000 lbs. up to 14,000 lbs.), as provided for in item 692.3230 of the Tariff Schedules of the United States Annotated (1987) (TSUSA): they are provided for in subheading 8708.70.80 of the Harmonized Tariff Schedule of the United States (USITC Publication 2030 as supplemented).

2/ Copies of cited Federal Register notices are presented in app. A.

3/ A list of witnesses appearing at the conference is presented in app. B.

4/ These investigations were initiated by Commerce before the signing of the new Omnibus Trade Bill; therefore these preliminary proceedings are not covered by its provisions.

The Commission's briefing and vote in these investigations was held on September 7, 1988. The statute directs the Commission to make its determinations within 45 days after receipt of a petition, or in this case by September 12, 1988.

## The Product

### Description and uses

The steel wheels and parts thereof subject to these investigations are wheels made of steel in wheel diameter sizes ranging between 13 inches and 16.5 inches, inclusive. These wheels consist of a steel center (also referred to as a "disc" or "spider") and a steel rim that are welded or riveted together to form a single unit. The steel disc component centers the rim about the axle. Once assembled into a wheel, the steel center and rim are inseparable. The subject products are for use with both tube-type and tubeless-type tires, and are used on passenger automobiles, light-to-heavy duty pickup trucks, vans, step vans, and similar vehicles collectively referred to in the industry as "light trucks" (GVW classification Nos. 1, 2, and 3) <sup>1/</sup> and are capable of use on other vehicles such as mobile homes, trailers, and farm equipment.

Custom wheels are a subset of steel wheels. They are wheels that have been polished and plated, usually with chrome, or painted with special paints, and which may be further finished with spokes, cutout patterns, or different designs. Custom wheels are purchased primarily for their aesthetic appeal, by people who want to improve the appearance of their car or light truck.

The producers of custom steel wheels generally purchase the steel rim and/or disc and further finish them. These are usually different producers than the producers of the steel rim itself. Custom wheel producers are, for the most part, relatively small producers that do not sell to original equipment manufacturers (OEM's). <sup>2/</sup> They produce in much smaller volumes, for the aftermarket (such as auto supply stores and department stores that sell automobile supplies). Many custom wheel producers also produce aluminum wheels, which they consider to be custom wheels as well.

### Manufacturing process

Steel wheel production occurs in three stages: (1) center or disc production; (2) rim production; and (3) assembly and finishing.

The center or disc is produced from a hot-rolled steel sheet or strip, usually grade SAE 1010 to 1015 low-carbon, high-strength low alloy, or a similar grade. Centers are stamped, which involves the cold forming of a

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<sup>1/</sup> The Motor Vehicle Manufacturers Association of the United States, Inc., classifies trucks by gross vehicle weight as follows:

Class 1.....	6,000 pounds and less,
Class 2.....	6,001 to 10,000 pounds,
Class 3.....	10,001 to 14,000 pounds.

<sup>2/</sup> Kelsey-Hayes, the petitioner, has a subsidiary, Western Wheel Corp., in Santa Fe Springs, CA, which produces custom wheels. \* \* \*

round or nearly round blank to shape the basic contour of the wheel center. The centers then undergo stamping processes that produce the final configuration and are punched to form the vent, stud, and center holes. The discs are stamped with the manufacturer's identification code, part identification number, and date of manufacture. The centers are then washed, inspected, and stored.

Rim production begins on a separate production line with coiled low-carbon, hot-rolled steel in the form of either in-house slit-to-width coils or master coils that have been slit to width and recoiled prior to delivery. The coil is processed through a series of rollers where it is flattened and cut to length, and the edges are conditioned. The strip is then stamped for identification, rollformed to rim shape, and welded into a hoop. The hoop is subjected to a series of intermediate steps: weld trim, edge trim, and planishing (smoothing). The rim is then finished by passing it through a series of press-and-roll formers, which flare and contour the rim and impart final configuration. The rims are washed before final assembly.

Assembly and finishing are performed on a third separate line. The center and wheel are pressure fitted together, the valve-stem hole is punched, and the two pieces are permanently joined to form a wheel either by welding or riveting. Welding is the predominant method of joining the wheel. The wheels are then inspected and washed. Finally, the wheel is dipped into an electrolytically charged paint, spray painted on the front face if requested by the customer, and cured. If intended for the original-equipment customer, the wheels are packed on returnable metal racks for shipment. If shipped to distributors, the wheels are stacked horizontally and spun-wrapped on wooden pallets.

Following is a list of equipment used in the U.S. production of the subject steel wheels:

Disc production (stamp nearly round blank into desired form, punch, and stamp identification numbers):

- presses
- washing equipment

Rim production:

- decoiler (flattens and cuts if produced from strip slit in-house)
- coiler (coils hoops)
- buttwelder (connects hoop seams)
- presses (flares edges)
- rim rollers (contours rims)
- expander
- washing equipment

Assembly:

- presses (pushes rim over disc and punches valve-stem opening)
- welder (connects rim with disc)
- paint system (dips and/or sprays)
- washing equipment
- curing oven

### Substitute products

Aluminum wheels for passenger cars and light trucks are usually produced by casting. These wheels are chosen primarily because of their appearance, although their lighter weight has made them more appealing in recent years as part of car manufacturers' efforts to decrease the weight of the car to improve gas mileage.

Aluminum cast wheels are not commercially interchangeable with steel wheels except in sets of four, for reasons of appearance, styling, and cost. Technically, however, steel wheels and aluminum cast wheels are interchangeable, and use the same mounting with different wheel nuts. Aluminum wheels are generally more expensive than steel wheels. The average unit value of shipments of aluminum wheels reported in the Commission's questionnaire for 1987 was \$\*\*\*, compared with an average unit value of \$\*\*\* for custom wheels and an average unit value of \$13.09 for steel wheels. The higher cost of aluminum wheels is attributable to the higher cost of raw material, the increased use of raw material, and the higher cost of manufacturing due to increased labor cost and slower manufacturing methods.

There are two methods of producing aluminum wheels, by casting and stamping. Casting is the predominant method used. Aluminum cast wheels are produced in a foundry using a casting process that involves pouring molten aluminum into a steel mold containing the hollow shape of a wheel. After the molten aluminum is solidified, the mold is opened and a complete wheel, fully cast, is removed. The rough casting is then finished by machining to produce a smooth and shiny surface. The facilities in which steel wheels are produced are not equipped to make cast aluminum wheels. Likewise, the petitioner's subsidiary that produces cast aluminum wheels cannot be used for steel wheel production. This facility does, however, make custom steel wheels using a different method and different equipment.

Aluminum stamped wheels are produced from an aluminum sheet or strip in much the same production process that is used for steel wheels. However, equipment used in the production of steel rims must be significantly modified to produce aluminum stamped rims (on the other hand, aluminum discs can be produced on a line dedicated to the manufacture of steel discs). <sup>1/</sup> Production of aluminum stamped wheels is small owing to the low demand for a relatively higher priced product than steel wheels. Additionally, the aluminum stamped wheels are not as attractive as cast aluminum wheels. These wheels are used to reduce the total weight of the vehicle to improve fuel economy. Their use is primarily as an undersized light-weight spare wheel for a few car models. <sup>2/</sup>

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<sup>1/</sup> Transcript of the staff conference, p. 84.

<sup>2/</sup> Ibid., pp. 23-24.

U.S. tariff treatment

Imports of steel wheels covered by these investigations are classified in item 692.32 of the TSUS and statistically reported under item 692.3230 of the TSUSA, which includes all wheels designed to be mounted with pneumatic tires. The column 1 or most-favored-nation duty rate is 3.1 percent ad valorem. The column 2 rate of duty is 25 percent ad valorem, and is applicable to imports from those Communist countries and areas specified in general headnote 3(d) of the TSUS.

Imports under TSUS item 692.32 are designated as being eligible for duty-free entry under the Generalized System of Preferences; imports under item 692.32 from Brazil are not eligible for such preferential treatment. <sup>1/</sup> Imports under this tariff item are eligible for duty-free entry if deemed to be the product of Israel, or of designated beneficiary countries under the Caribbean Basin Economic Recovery Act.

Imports of certain steel wheels from Canada are classified in TSUS item 692.33 and reported under TSUS item 692.3330, and are eligible for duty-free entry, if original motor-vehicle equipment, under the U.S.-Canada Automotive Products Trade Agreement.

Under the Harmonized Tariff Schedule, the subject products are classified in subheading 8708.70.80.

Nature and Extent of Alleged Subsidies and  
Alleged Sales at Less Than Fair Value

Alleged subsidies

The petition alleges that there are various programs in Brazil which are believed to be bestowing benefits on the producers and exporters of steel wheels. One of these programs is the IPI Export Credit Premiums Program. Under this program the financial institution that finances an export transaction reimburses to the exporter a percentage of the adjusted f.o.b. price of the exported merchandise. The program is administered under the auspices of the Commission for the Granting of Fiscal Benefits to Special Export Programs (BEFIEEX) and petitioner believes that Rockwell-Fumagalli receives benefits through the incentive agreement of its corporate parent, Rockwell do Brasil, which confers a countervailable export subsidy on the sale of Brazilian origin wheels in the United States. There are other aspects of the BEFIEEX program under which Fumagalli, through its parent Rockwell do Brasil, is alleged to be receiving benefits, including (1) a program that provides duty and tax exemptions for imported capital goods employed in the production of merchandise for export; (2) a program that provides preferential capital financing for exports; and (3) a program that provides income tax exemptions for export earnings. The petition alleges that these three

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<sup>1/</sup> Brazil was removed from GSP status for TSUS item 692.32 under Executive Order 12204, effective Mar. 30, 1980, based on Brazil exceeding competitive-need limits for this item.

programs have all been found by Commerce to constitute countervailable export subsidies in prior investigations. In addition, the petition listed seven other programs that have appeared in other investigations involving Brazil and which the petitioner has requested be investigated by Commerce. In its initiation notice Commerce has indicated that it is not investigating the allegations concerning the IPI Export Credit Premium or the alleged Government Provision of Equity Capital.

The petition also alleges that an upstream subsidy is being paid or bestowed with respect to production of the subject wheels in Brazil. The allegation specifically cites the Brazilian producers of hot-rolled carbon steel sheet that have been found to be benefiting from countervailable subsidies (Certain Carbon Steel Products From Brazil, 49 F.R. 17988 (Apr. 26, 1984)). Hot-rolled carbon steel sheet is a basic raw material in the production of steel wheels. Commerce, however, did not institute on the basis of upstream subsidy. For further information on the subsidy allegations see the notice of institution of the Department of Commerce.

#### Alleged dumping

The petition alleges that, based on a comparison of the U.S. price and foreign-market value of the subject steel wheels imported from Brazil, these wheels are being sold in the United States at less than fair value. The U.S. price is based on the purchase price of the imported merchandise in the United States adjusted for various freight, tariff, brokerage, warehousing, and other charges to determine the net ex-factory price in Brazil. This price is compared with the price at which the same wheel is currently being sold in Brazil. The alleged estimated LTFV margin is 73.67 percent as shown in the following tabulation:

Home-market price.....	\$11.81
U.S. price.....	<u>6.80</u>
Difference.....	5.01
LTFV margin (percent)...	73.67

#### U.S. Producers

Nine firms were listed in the petition as manufacturers of the steel wheels covered in this report. These nine firms account for virtually all the production of steel wheels and rims subject to investigation, produced by firms that produce the wheels and rims from steel sheet or coil. All nine

companies have provided data in response to the Commission's questionnaire. Their plant locations, production, and share of total production in 1987 are shown in the following tabulation:

Firm	Plant location	Production (1,000 units)	Share of total (percent)
Accuride Corp. 1/.....	Henderson, KY	***	***
Central Manufacturing Co. 2/..	Paris, KY	***	***
Dexter Axle Division 3/.....	Elkhart, IN	***	***
Ford Motor Co.....	Monroe, MI	***	***
General Motors Corp.....	Warren, MI	***	***
Kelsey-Hayes Co. 4/.....	Romulus, MI	***	***
	Sedalia, MO	***	***
Motor Wheel Corp. 5/.....	Lansing, MI	***	***
	Mendota, IL	***	***
Norris Industries, Inc. 6/....	Brea, CA	***	***
Topy Corp. 7/.....	Frankfort, KY	***	***
Total.....	8/	***	100.0

1/ Prior to December 1986, Accuride was known as Firestone Steel Products Division, a wholly owned subsidiary of Firestone Tire and Rubber Co., Akron, OH. Accuride was established as a distinct corporate entity until March 1988, when Accuride was sold to the Phelps Dodge Corp. of Phoenix, AZ.

2/ Central Manufacturing Co. (CMC) is a joint venture between Kelsey-Hayes (\*\*\*) ; Chuo Seiki Co. (\*\*\*) , and Toyota Tsusho America, Inc. (\*\*\*) . CMC began production in 1988.

3/ Dexter Axle Division is in the Transportation Products Group of Philips Industries, Inc.

4/ As of December 1986, Kelsey-Hayes, a wholly owned subsidiary of Freuhauf Corp., was acquired by Freuhauf Holdings, Inc. Immediately after the acquisition, Freuhauf Holdings, Inc., changed its name to Freuhauf Corp.

5/ Motor Wheel Corp., now independently owned, was a wholly owned subsidiary of Goodyear Tire and Rubber Co., Akron, OH, prior to February 1987.

6/ Norris Industries is a wholly owned subsidiary of Masco Industries.

7/ Topy Corp. is owned by Topy Industries, Ltd., of Japan (\*\*\*) and Topy International (\*\*\*) .

8/ Not applicable.

A discussion of individual U.S. producers follows:

Accuride Corp., Henderson, KY.—Accuride produces the subject steel wheels at its plants in Henderson, KY, and London, Ontario, Canada. On December 1, 1986, Firestone Steel Products Co., a \*\*\* owned subsidiary of Firestone Tire and Rubber Co., was acquired by a group of private investors and renamed Accuride Corp. In 1987, Accuride was the \* \* \* largest domestic producer of the subject steel wheels, accounting for approximately \*\*\* percent of U.S. production.

Central Manufacturing Co. (CMC), Paris, KY.—CMC is a joint venture between Kelsey-Hayes Co., Chuo Seiki Co., of Japan, and Toyota Tsusho America, Inc., located in Paris, KY. It started plant construction in September 1986, and was substantially completed to produce steel wheels in March 1988. The CMC plant was \* \* \*.

Dexter Axle Division, Elkhart, IN.—Dexter is part of the Transportation Products Group of Philips Industries, Inc. The principal application for Dexter's products is on trailer and other towed vehicle running gear. Dexter does not sell steel wheels to the automotive original equipment or aftermarket segment. In 1987, Dexter was the \* \* \* largest producer of steel wheels with \*\*\* percent of total production.

Ford Motor Co., Monroe, MI.—Ford Motor Co. is the \* \* \* largest manufacturer of steel wheels in the United States, accounting for \*\*\* percent of U.S. production. \* \* \*.

General Motors Corp., Warren, MI.—General Motors is the \* \* \* largest producer of steel wheels in the United States, accounting for \*\*\* percent of production. \* \* \*.

Kelsey-Hayes Co., Romulus, MI.—Kelsey-Hayes produces steel wheels at its plants in Romulus, MI, and Sedalia, MO, and in Windsor, Ontario, Canada and Carabobo, Venezuela. It has a subsidiary in Santa Fe Springs, CA, which produces custom and aluminum wheels. Kelsey-Hayes is wholly owned by Freuhauf Corp. of Michigan. Kelsey-Hayes is \* \* \*. In 1987 Kelsey-Hayes accounted for \*\*\* percent of total U.S. production.

Motor Wheel Corp., Lansing, MI.—Motor Wheel produces the subject steel wheels at its plants in Lansing, MI, Mendota, IL, and Chatham, Ontario, Canada. In February 1987, after a management "buy out," Motor Wheel became independent of the Goodyear Tire and Rubber Co., its former parent. In 1987, Motor Wheel was \* \* \* in U.S. production of steel wheels with \*\*\* percent of total production.

Norris Industries (NI), Brea, CA.—NI is a \*\*\* owned subsidiary of Masco Industries. It has steel wheels plants in Brea, CA, and Cambridge, Ontario, Canada. \* \* \*. Norris was the \* \* \* largest U.S. producer of the subject steel wheels in 1987 with \*\*\* percent of total production.

Topy Corp., Frankfort, KY.—Topy is a joint venture between Topy Industries, Ltd., headquartered in Japan, and Topy International, Elk Grove, IL. Topy began operation in 1986 at its Frankfort plant, and in 1987 was the \*\*\* largest domestic producer of the subject steel wheels, with \*\*\* percent of total production.

#### U.S. Importers

There are approximately 20 to 30 importers of the subject product from around the world. Most of these are U.S. divisions of various foreign car manufacturers, which import the subject steel wheels as replacement wheels for their automobiles sold in the United States. Wheel manufacturers themselves

are significant importers, bringing wheels into the United States from their foreign facilities, particularly from Canada. The Commission received questionnaire responses from 18 firms that reported importing the subject product. Of these, \*\*\* are U.S. wheel manufacturers, \*\*\* are U.S. car manufacturers, \*\*\* are U.S. subsidiaries of foreign car manufacturers, and \*\*\* are the importing arm for foreign wheel manufacturers.

Importers from Brazil.— Of the 18 firms which reported importing the subject product, 6 were importers from Brazil. It is believed that they accounted for virtually all imports of steel wheels from Brazil.

Rockwell International is the largest importer of steel wheels from Brazil, accounting for \*\*\* percent of the imports of steel wheels from that country in 1987. Rockwell owns \*\*\* percent of Rockwell-Fumagalli, one of the Brazilian producers of the subject wheels. Rockwell imports wheels \* \* \*.

GAMMA Enterprises, Camarillo, CA., is \* \* \*. It accounted for \*\*\* percent of the imports from Brazil in 1987.

Rim and Wheel of America, Vernon, CA, is the importer of \* \* \*. Rim and Wheel accounted for \*\*\* percent of imports from Brazil in 1987.

Chrysler Corp., Highland Park, MI., reported \* \* \*. It reported \* \* \* of direct imports (\*\*\*) units) from \* \* \* in 1987.

Ford Motor Co., Dearborn, MI., reported \* \* \*.

Positrade Corp, of Edison, NJ., is \*\*\* percent owned by Megatrade of Panama City, Panama, which is \*\*\* percent owned by Mangels Industrial, of Sao Paulo, Brazil. Mangels Industrial is also \*\*\*-percent owner of Mangels Minas, which is a producer of custom wheels in Brazil. Positrade imports these custom wheels into the United States for sale to the aftermarket. Positrade makes no sales to original equipment manufacturers (OEM's). Positrade accounted for \*\*\* percent of imports of the subject product from Brazil in 1987.

#### The Domestic Market

The U.S. market for steel wheels is divided between the OEM market and the aftermarket. The OEM market, which consists primarily of car manufacturers, constitutes approximately 93 percent of the market for steel wheels. The remaining 7 percent of production is for the aftermarket; these wheels are intended for use as replacement wheels on cars and are sold through dealers, auto repair shops, auto parts stores, or department stores that carry automotive supplies. The sale of rims is also part of the aftermarket trade. These rims are sold to custom steel wheel producers that plate them, usually with chrome, or paint them with special paint, and weld or rivet the centers in, for sale to auto supply stores, such as Pep Boys, or through department stores that carry automotive supplies. Custom wheels are not sold to OEM's for use as original equipment on cars.

As mentioned, the primary market for the steel wheels subject to investigation consists of OEM's of passenger cars and light trucks. Sales of passenger cars and light trucks (trucks in GVW classifications 1, 2, and 3) from 1980 to 1987 and during January-June 1987 and January-June 1988 are shown in table 1.

Table 1  
Retail sales of passenger cars and light trucks, 1980-87, January-June 1987,  
and January-June 1988

(In thousands of units)			
Period	Domestic	Imported	Total
1980.....	8,316	2,885	11,201
1981.....	10,796	2,778	13,574
1982.....	7,727	2,635	10,362
1983.....	9,270	2,857	12,127
1984.....	11,160	3,057	14,217
1985.....	11,833	3,618	15,451
1986.....	11,891	4,186	16,077
1987.....	10,872	4,055	14,927
January-June:			
1987.....	5,882	1,998	7,880
1988.....	5,826	1,835	7,661

Source: Economic Indicators, The Motor Vehicle's Role in the U.S. Economy, 1st quarter, Policy Analysis Department, Public Affairs Division, Motor Vehicle Manufacturers Association of the United States, Inc (MVMA).

Retail sales of passenger cars and light trucks increased erratically from 1980 to 1986, then declined in 1987, with a continued decline indicated in January-June 1988 compared with sales in January-June 1987.

Since the demand for steel wheels is derived from the demand for cars and light trucks, one method for estimating the consumption of steel wheels is to multiply the figures for U.S. production of cars and light trucks by 5 (thus assuming that all such vehicles have four wheels and a spare). This method, although giving a reasonable estimate for the overall market for wheels, would also include aluminum wheels, thereby resulting in an overstatement of the consumption of steel wheels alone. On the other hand, it fails to account for wheels that are sold to the aftermarket. Consumption of wheels for the OEM market, using this method, is presented in table 2.

On the basis of these data, consumption of wheels used in the production of cars and light trucks declined steadily, by 6.4 percent, from 1985 to 1987. It increased, however, by 1.9 percent in January-June 1988 compared with consumption in the corresponding period of 1987.

Table 2

U.S. production of passenger cars and light trucks and estimated consumption of wheels used in the production of passenger cars and light trucks, 1985-87, January-June 1987, and January-June 1988

Item	1985	1986	1987	January-June—	
				1987	1988
Production:					
Cars.....	8,185	7,829	7,099	3,742	4,011
Light trucks.....	3,173	3,236	3,528	1,979	1,817
Total.....	11,358	11,065	10,627	5,721	5,828
Consumption of wheels in the production of— <u>1/</u>					
Cars.....	40,925	39,145	35,495	18,710	20,055
Light trucks.....	15,865	16,180	17,640	9,895	9,085
Total.....	56,790	55,325	53,135	28,605	29,140

1/ Calculation is based on the production of cars and light trucks multiplied by 5.

Source: Economic Indicators, The Motor Vehicle's Role in the U.S. Economy, 1st quarter, Policy Analysis Department, Public Affairs Division, (MVMA), except as noted.

The market for aluminum wheels is also divided, between sales to OEM's and sales to the aftermarket, which again consists of replacement wheels sold through dealers, auto repair shops, auto supply stores, and department stores that carry auto supplies. The market for aluminum wheels is growing for both the OEM market and aftermarket sales. Information on aluminum wheels used as original equipment on automobiles is available from Wards Automotive Yearbooks. The use of aluminum wheels as original equipment has increased steadily throughout the period 1985-87. Aluminum wheels were used on 9.9 percent of cars and trucks in 1985 compared with 15.8 percent in 1987.

Industry sources have indicated that the use of aluminum wheels will most likely continue to increase in the future, depending on the overall state of the economy. During a recession, for example, the use of aluminum wheels tends to decline relative to the use of steel wheels because of the higher price. Data on car production in the United States and Canada with aluminum wheels as original equipment are presented in the following tabulation:

Year	Total cars <u>produced</u> (1,000 units)	Cars produced with aluminum wheels as original equipment	
		(1,000 units)	As a percent of cars produced
1985.....	12,209	1,212	9.9
1986.....	12,243	1,715	14.0
1987.....	11,325	1,784	15.8

U.S. consumption

The Commission sent questionnaires to all the producers of steel wheels in the United States that actually manufacture the wheel itself from steel sheet. Questionnaires were also sent to all known importers of the subject product from Brazil as well as all significant importers of the subject product from other countries. Imports of the steel wheels subject to these investigations are classified as part of a larger "basket" tariff item; therefore, official import statistics are not available. Apparent U.S. consumption is based on the shipments reported by these producers and importers. The information on U.S. producers' shipments and shipments of imports from Brazil is believed to account for virtually all such shipments. Import and shipment data on wheels from Canada, Japan, and all other countries may be understated to the extent that not all these importers responded to the Commission questionnaire.

Apparent U.S. consumption of steel wheels, on the basis of quantity, declined steadily throughout the period, falling by 9.6 percent from 1985 to 1987, then declining again, by 2.0 percent, in January-June 1988 compared with that in January-June 1987 (table 3).

Table 3  
Steel wheels: Apparent U.S. consumption, by sources, 1985-87, January-June 1987, and January-June 1988

Source	1985	1986	1987	January-June	
				1987	1988
Quantity (1,000 units)					
U.S. produced.....	46,246	44,643	41,439	22,741	21,536
Shipments of imports from:					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Subtotal.....	4,060	4,432	4,055	2,421	3,138
Total apparent consumption.....	50,306	49,075	45,494	25,162	24,674
Value (1,000 dollars)					
U.S. produced.....	605,606	591,952	541,120	301,526	272,974
Shipments of imports from:					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Subtotal.....	57,590	65,931	65,245	39,358	49,877
Total apparent consumption.....	663,196	657,883	606,364	340,884	322,851

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

Apparent U.S. consumption of steel wheels; on the basis of value, dropped steadily throughout the period as well, declining by 8.7 percent from 1985 to 1987, then declining by 5.7 percent in January-June 1988 compared with that in the corresponding period of 1987.

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

In order to evaluate the condition of the U.S. industry producing steel wheels the Commission sent questionnaires to nine producers of standard steel wheels in the United States. These nine producers account for virtually all the domestic production of steel wheels, as well as U.S. production of rims used by custom wheel producers in their production of custom wheels.

In addition to these nine standard steel wheel producers, there are many producers of custom steel wheels. These producers for the most part purchase the steel rims and/or discs from one of the nine domestic producers or from importers and customize them, primarily using chrome plating or special paints, as well as by adding special centers or discs. These custom steel wheel producers did not receive questionnaires. Information on the operations of custom wheel producers included in this report (i.e., primarily shipment data) was provided by the producers of steel wheels that also produce custom wheels. The limited information available on the operations of aluminum wheel producers was also provided by those producers of standard steel wheels that also manufacture aluminum wheels. Information on custom and aluminum wheels, where available, is presented separately. All nine of the producers of standard steel wheels responded to the Commission questionnaire.

#### U.S. production, capacity, and capacity utilization

Production of steel wheels declined steadily throughout the period from 47.7 million units in 1985 to 44.6 million units in 1987, representing a decline of 3.2 million units, or 6.6 percent. Production declined again, by 7.7 percent, in January-June 1988 compared with that in January-June 1987 (table 4).

Average-for-period capacity increased from 62.9 million units in 1985 to 67.5 million units in 1987, representing an increase of 7.2 percent, then declined by less than 1 percent in January-June 1988 compared with that in the corresponding period of 1987. The increase in capacity in 1986 was attributable to the \* \* \*. \* \* \*. The drop in average capacity in January-June 1988 was attributable to declines by \* \* \* while \* \* \*.

With the steady decline in production and the overall increase in capacity, capacity utilization declined steadily throughout the period from 75.8 percent in 1985 to 66.1 percent in 1987. Capacity utilization continued to fall in January-June 1988, reaching 68.0 percent compared with 72.9 percent in January-June 1987.

Table 4

Steel wheels: U.S. production, capacity, and capacity utilization, 1985-87, January-June 1987, and January-June 1988

Item	1985	1986	1987	January-June	
				1987	1988
Production (1,000 units)...	47,723	47,036	44,553	24,518	22,633
Percentage change.....	<u>1/</u>	-1.4	-5.3	<u>1/</u>	-7.7
Capacity (1,000 units)....	62,948	67,338	67,450	33,634	33,309
Percentage change.....	<u>1/</u>	+7.0	+0.2	<u>1/</u>	-1.0
Capacity utilization (percent).....	75.8	69.9	66.1	72.9	67.9

1/ Not available.

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

#### U.S. producers' shipments

U.S. producers' total shipments of wheels declined steadily throughout the period from 47.7 million units in 1985 to 43.3 million units in 1987, representing a drop of 9.4 percent. Shipments continued to decline, by 5.0 percent, in January-June 1988 compared with those in January-June 1987. Domestic shipments \* \* \* by \*\*\* million units, or \*\*\* percent (table 5).

The value of domestic shipments followed the same trend as quantity, \* \* \* by \*\*\* percent from 1985 to 1987, then dropping by \*\*\* percent in January-June 1988 compared with the value of shipments in the corresponding period of 1987. The average unit value of these shipments \* \* \* from \$\*\*\* in 1985 to \$\*\*\* in 1986, then \* \* \* to \$\*\*\* in January-June 1988.

Two domestic producers, Ford and General Motors, use all of their production of steel wheels in the manufacture of their own cars and light trucks, therefore intra/intercompany transfers are significant, accounting for between \*\*\* and \*\*\* percent of U.S. producers' total shipments. Intracompany transfers \* \* \* steadily from \*\*\* million units in 1985 to \*\*\* million units in 1987, a \* \* \* of \*\*\* percent. Intracompany transfers then \* \* \* by \*\*\* percent in January-June 1988 compared with those in January-June 1987.

The value of intracompany transfers \* \* \* from 1985 to 1987, then \* \* \* by \*\*\* percent in January-June 1988 compared with the value of such transfers during the corresponding period of 1987. The unit value of these intracompany transfers \* \* \* from \$\*\*\* in 1985 to \$\*\*\* in 1987, then \* \* \* to \$\*\*\* in January-June 1988 compared with \$\*\*\* in January-June 1987.

Table 5  
Steel wheels: U.S. producers' shipments, by types, 1985-87, January-June  
1987, and January-June 1988

Type of shipment	1985	1986	1987	January-June	
				1987	1988
Quantity (1,000 units)					
Domestic shipments.....	***	***	***	***	***
Intra/intercompany transfers.....	***	***	***	***	***
Export shipments.....	1,494	1,268	1,830	933	1,305
Total.....	47,740	45,911	43,269	24,050	22,841
Value (1,000 dollars)					
Domestic shipments.....	***	***	***	***	***
Intra/intercompany transfers.....	***	***	***	***	***
Export shipments.....	23,039	19,236	25,337	13,111	18,411
Total.....	628,646	611,185	566,457	317,803	291,385
Unit value (dollars per unit)					
Domestic shipments.....	\$ ***	\$ ***	\$ ***	\$ ***	\$ ***
Intra/intercompany transfers.....	***	***	***	***	***
Export shipments.....	15.42	15.17	13.94	14.05	14.11
Average.....	13.17	13.31	13.09	13.21	12.76

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

Export shipments accounted for between 2.8 and 5.7 percent of total shipments by U.S. producers. Exports declined 15.1 percent from 1985 to 1986, then increased by 43.4 percent in 1987. Exports increased by another 39.9 percent in January-June 1988 compared with exports in January-June 1987. The principal export market is Canada, with shipments going to either related companies or to OEM's.

The value of export shipments declined from 1985 to 1986 by 16.5 percent, then increased by 31.7 percent in 1987. The value of exports increased by 40.4 percent in January-June 1988 compared with the value of exports in January-June 1987.

No domestic producer reported shipments of wheels under 13 inches in diameter, and only one domestic producer reported negligible shipments (\*\*\*) of wheels greater than 16.5 inches in diameter.

Two producers of standard steel wheels also reported shipments of custom wheels. 1/ These figures are shown in the following tabulation:

<u>Period</u>	<u>Quantity</u> (1,000 units)	<u>Value</u> (1,000 dollars)	<u>Unit value</u> (dollars/unit)
1985.....	***	***	\$***
1986.....	***	***	***
1987.....	***	***	***
January-June—			
1987.....	***	***	***
1988.....	***	***	***

Two producers of steel wheels that also produce aluminum wheels reported their shipments of aluminum wheels. 2/ These figures are shown in the following tabulation:

<u>Period</u>	<u>Quantity</u> (1,000 units)	<u>Value</u> (1,000 dollars)	<u>Unit Value</u> (dollars/unit)
1985.....	***	***	\$***
1986.....	***	***	***
1987.....	***	***	***
January-June:			
1987.....	***	***	***
1988.....	***	***	***

#### U.S. producers' end-of-period inventories

End-of-period inventories declined throughout the period from 4.3 million units in 1985 to 3.3 million units in 1987, a drop of 24.4 percent (table 6).

Table 6  
Steel wheels: U.S. producers' end-of period inventories, 1985-87,  
January-June 1987, and January-June 1988

<u>Source</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>January-June—</u>	
				<u>1987</u>	<u>1988</u>
Inventories (1,000 units)...	4,337	3,837	3,280	1,974	1,616
Percentage change.....	<u>1/</u>	-11.5	-14.5	<u>1/</u>	-18.1
Inventory-to-shipment ratio (percent).....	9.1	8.4	7.6	<u>2/</u> 8.2	<u>2/</u> 7.1

1/ Not available.

2/ Based on annualized shipments.

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

1/ \* \* \*

2/ \* \* \*

Inventories dropped by an additional 18.1 percent in January-June 1988 compared with inventories in January-June 1987. Inventories as a percent of shipments also declined, from 9.1 in 1985 to 7.6 in 1987, with a continued drop to 7.1 percent in January-June 1988 compared with 8.4 percent in the corresponding period of 1987.

### Employment and productivity

The total number of employees in establishments producing steel wheels increased between 1985 and 1986, from 9,536 workers to 9,743 workers, then declined between 1986 and 1987 to 8,758 workers. Overall, the number of workers declined 8.2 percent between 1985 and 1987. The number of production and related workers producing steel wheels declined at a much steeper rate, falling from 3,304 workers in 1985 to 2,600 in 1987, representing a decline of 21.3 percent for that period. The number of hours worked declined steadily as well, falling from 7.3 million hours in 1985 to 6.0 million hours in 1987, or by 18.1 percent. Hourly wages rose slightly during this time, from \$15.29 in 1985 to \$16.09 in 1987, representing an increase of 5.2 percent. Overall wages and compensation paid declined during this time (table 7).

Table 7

Total employees employed in the establishments within which steel wheels are produced, production and related workers producing steel wheels, and their hours worked, wages paid, total compensation, wages per hour, productivity, and unit labor costs, 1985-87, January-June 1987, and January-June 1988

Item	1985	1986	1987	January-June	
				1987	1988
Total employees.....	9,536	9,743	8,758	9,173	8,550
Percent change.....	1/	+2.2	-10.1	1/	-6.8
Production and related workers.....	3,304	3,010	2,600	2,725	2,244
Percent change.....	1/	-8.9	-13.6	1/	-17.7
Hours worked (1,000 hours).	7,347	6,795	6,015	3,126	2,750
Percent change	1/	-7.5	-11.5	1/	-11.8
Wages paid (1,000 dollars).	112,317	105,510	96,795	52,635	45,280
Percent change.....	1/	-6.1	-8.3	1/	-14.0
Total compensation (1,000 dollars).....	132,226	123,049	105,267	57,134	50,898
Percent change.....	1/	-6.9	-14.5	1/	-10.9
Wages per hour.....	\$15.29	\$15.53	\$16.09	\$16.89	\$16.46
Productivity (units per hour).....	6.50	6.92	7.41	7.88	8.23
Unit labor costs.....	\$2.77	\$2.62	\$2.36	\$2.33	\$2.25

1/ Not available.

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

Total employees dropped 6.8 percent in January-June 1988 compared with the number of employees in the corresponding period of 1987. The number of production and related workers for steel wheels dropped 17.7 percent and the number of hours worked declined by 11.8 percent from that in the previous year. Hourly wages, total wages, and compensation paid declined.

Labor productivity, measured in units per hour, increased steadily from 6.50 in 1985 to 7.41 in 1987. At the same time, unit labor costs fell from \$2.77 per wheel in 1985 to \$2.36 in 1987. Productivity continued to increase in January-June 1988, measuring 8.23 units per hour compared with 7.88 in the corresponding period of 1987. Unit labor costs decreased, however, to \$2.25.

Seven of the domestic producers indicated in the Commission's questionnaire that their steel wheel production workers were represented by unions. These producers were \* \* \*.

In its questionnaire, the Commission also requested U.S. producers to provide detailed information concerning reductions in the number of workers producing steel wheels, from January 1985 through June 1988, if such reductions involved at least 5 percent of the workforce or 50 workers. A summary of these layoffs is presented in the following tabulation. Six firms reported such layoffs. Not all layoffs were permanent. All instances of layoffs resulted from a reduction in the volume of production or loss of sales, with three exceptions. \* \* \*:

Firm	No. of Workers	Date	Duration	Reason
*	*	*	*	*

#### Financial experience of U.S. producers

Eight U.S. producers, accounting for \*\*\* percent of reported production of steel wheels in 1987, furnished income-and-loss data on their steel wheel operations as well as their overall establishment operations. 1/ \* \* \*, which accounted for \*\*\* percent of production of steel wheels in 1987, also provided financial information. It reported however \* \* \*. Thus its data are not included in the aggregate industry data but are presented in a separate tabulation. Topy Corp. started production of steel wheels in \* \* \*. Central Manufacturing Co. was in "startup" mode from \* \* \*.

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

Steel wheel operations.—The income—and—loss data on steel wheel operations are presented in table 8. Total net sales of steel wheels declined by 7 percent from \$563.3 million in 1985 to \$522.6 million in 1987. During the interim period ended June 30, 1988, such sales fell by 9 percent to \$261.0 million, compared with \$286.2 million in the corresponding period of 1987. Company transfers accounted for about \*\*\* to \*\*\* percent of total net sales during the period covered under the investigation. The majority of the company transfers were reported by \* \* \*. \* \* \*. Steel wheels are valued on a \* \* \* basis when transferred to other plants or divisions of the \* \* \*. A plant official indicated that the transfer price is \* \* \*.

Aggregate operating income, before start-up expense, on steel wheel operations rose from \$49.7 million, or 8.8 percent of net sales, in 1985 to \$63.1 million, or 11.3 percent of net sales, in 1986 and then dropped to \$60.9 million, or 11.7 percent of net sales, in 1987. During the interim period ended June 30, operating income declined from \$39.1 million, or 13.7 percent of net sales, in 1987 to \$25.5 million, or 9.8 percent of net sales, in 1988. Topy Corp. and Central Manufacturing Co., which entered the steel wheel industry in 1986 and 1988, respectively, reported start-up expenses. Aggregate operating income after startup expense \* \* \*.

\* \* \* \* \*

Table 8

Income and loss experience of U.S. producers on their operations producing steel wheels, accounting years 1985-87 and interim periods ended June 30, 1987, and June 30, 1988

Item	1985	1986	1987	Interim period ended June 30—	
				1987	1988
Value (1,000 dollars)					
Net sales:					
Trade.....	***	***	***	***	***
Company transfers.....	***	***	***	***	***
Total.....	563,316	557,068	522,564	286,160	261,013
Cost of goods sold.....	492,770	467,863	437,771	235,074	224,762
Gross profit.....	70,546	89,205	84,793	51,086	36,251
General, selling, and administrative ex- penses.....	20,878	26,071	23,902	11,979	10,764
Operating income be- fore startup expense.....	49,668	63,134	60,891	39,107	25,487
Startup expense.....	***	***	***	***	***
Operating income after startup expense.....	***	***	***	***	***
Depreciation and amor- tization included above .....	***	***	***	***	***
Cash-flow <sup>1/</sup> .....	***	***	***	***	***
Share of net sales (percent)					
Cost of goods sold.....	87.5	84.0	83.8	82.1	86.1
Gross profit.....	12.5	16.0	16.2	17.9	13.9
General, selling, and administrative ex- penses.....	3.7	4.7	4.6	4.2	4.1
Operating income be- fore startup ex- pense.....	8.8	11.3	11.7	13.7	9.8
Operating income after start-up expense.....	***	***	***	***	***
Number of firms reporting					
Operating losses.....	***	***	***	***	***
Data.....	6	7	7	7	8

<sup>1/</sup> Cash-flow is defined as operating income or (loss) plus depreciation and amortization.

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

\*\*\* transfers \*\*\*. A company representative 1/ explained that the transfer price is established \*\*\*.

Hence, the data of \*\*\* are not included in the aggregate industry data but are presented in the following tabulation:

Item	1985	1986	1987	Interim period ended June 30—	
				1987	1988
Steel wheel operations:					
Net sales (1,000 dollars.....	***	***	***	***	***
Operating income or (loss) (1,000 dollars.....	***	***	***	***	***
Operating income or (loss) margin (percent).....	***	***	***	***	***
Overall establishment operations:					
Net sales (1,000 dollars.....	***	***	***	***	***
Operating income or (loss) (1,000 dollars.....	***	***	***	***	***
Operating income or (loss) margin (percent).....	***	***	***	***	***
Ratio of steel wheel sales to establish- ment sales (percent)..	***	***	***	***	***

Overall establishment operations.—Income and loss data for U.S. producers' establishments within which steel wheels are produced are shown in table 9. Five out of eight firms produce only the subject steel wheels in their establishments. The share of total sales accounted for by steel wheel sales declined from 57.0 percent in 1985 to 41.6 percent in the interim period ended June 30, 1988. Overall establishment net sales rose by 10 percent from 1985 to 1987 and from interim 1987 to interim 1988, whereas steel wheel sales declined during those periods. The trends for establishment operating income margins are similar to those for steel wheel operations during the period covered by the investigation. The operating income margins on the establishment operations were lower than those for steel wheel operations during the reporting period except in interim 1988.

1/ Telephone conversation with \*\*\* on \*\*\*.

Table 9

Income-and-loss experience of U.S. producers on their overall establishment operations within which steel wheels are produced, accounting years 1985-87 and interim periods ended June 30, 1987, and June 30, 1988

Item	1985	1986	1987	Interim period ended June 30—	
				1987	1988
Value (1,000 dollars)					
Net sales:.....	988,140	1,021,814	1,090,469	568,253	626,731
Cost of goods sold.....	874,977	884,952	927,497	476,465	534,346
Gross profit.....	113,163	136,862	162,972	91,788	92,385
General, selling, and administrative ex- penses.....	33,683	36,497	39,018	19,298	19,381
Operating income.....	79,480	100,365	123,954	72,490	73,004
Start-up expense.....	***	***	***	***	***
Interest expense.....	***	***	***	***	***
Other income or (expense), net.....	***	***	***	***	***
Net income before income taxes.....	79,156	87,706	111,281	65,875	67,843
Depreciation and amor- tization included above.....	27,568	30,426	35,345	18,261	17,534
Cash flow <sup>1/</sup> .....	106,724	118,132	146,626	84,136	85,377
Share of net sales (percent)					
Cost of goods sold.....	88.5	86.6	85.1	83.8	85.3
Gross profit.....	11.5	13.4	14.9	16.2	14.7
General, selling, and administrative ex- penses.....	3.4	3.6	3.6	3.4	3.1
Operating income be- fore start-up ex- pense.....	8.0	9.8	11.4	12.8	11.6
Operating income after startup expense.....	***	***	***	***	***
Steel wheels net sales..	57.0	54.5	47.9	50.4	41.6
Number of firms reporting					
Operating losses.....	***	***	***	***	***
Net losses.....	***	***	***	***	***
Data.....	6	7	7	7	8

<sup>1/</sup> Cash-flow is defined as net income or loss plus depreciation and amortization.

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

Investment in productive facilities.—Nine U.S. producers provided data relating to the valuation of property, plant, and equipment used in the production of all products in their establishments and that used only in the production of steel wheels. These data are presented in the following tabulation (in thousands of dollars):

<u>Period</u>	<u>All establishment products</u>		<u>Steel wheels</u>	
	<u>Original cost</u>	<u>Book value</u>	<u>Original cost</u>	<u>Book value</u>
1985.....	818,921	432,878	266,987	128,169
1986.....	876,805	429,239	320,381	167,447
1987.....	895,367	460,467	331,854	193,081
As of June 30—				
1987.....	852,849	451,007	305,269	177,835
1988.....	902,173	418,511	336,299	188,480

The increase in fixed assets valuation of steel wheels reflects the investments made by \* \* \*. The assets of \* \* \*. On the other hand, \* \* \*.

Operating rate of return on fixed assets.—To provide an additional measure of profitability, the ratios of operating income or (loss) before startup expense to the book value of property, plant, and equipment (i.e., return on fixed assets) employed in the production of all establishment products and for steel wheels are shown in the following tabulation (in percent):

<u>Item</u>	1985	1986	1987	<u>Interim period ended June 30—</u>	
				1987	1988
Return on fixed assets: <u>1/</u>					
Overall establishment operations..	40.7	45.3	44.6	29.6	26.7
Steel wheel operations.....	42.2	45.9	37.3	27.4	16.1

1/ Defined as operating income or (loss) before start-up expense divided by book value of fixed assets. Aggregate book value of both establishment and steel wheel assets are adjusted for the amounts of construction-in-progress for 2 new plants, one in 1986 and another in interim 1988.

Capital expenditures and research and development expenses.—Nine U.S. producers supplied data concerning their capital expenditures and their research and development expenses in connection with all products manufactured in their establishments and, separately, for steel wheels. These data are shown in the following tabulation (in thousands of dollars):

<u>Period</u>	<u>Capital expenditures</u>		<u>Research and development expenses</u>	
	<u>All estab- lishment products</u>	<u>Steel wheels</u>	<u>All estab- lishment products</u>	<u>Steel wheels</u>
1985.....	41,384	32,323	12,896	9,509
1986.....	62,993	45,372	12,872	9,108
1987.....	60,850	39,937	12,668	9,304
Interim period ended June 30—				
1987.....	21,153	15,576	6,210	4,443
1988.....	13,892	7,028	6,414	4,735
	*	*	*	*

Information on the industry's ability to raise capital is presented in app. C.

#### The Question of Threat of Material Injury to an Industry in the United States

Section 771(7)(F)(i) of the Tariff Act of 1930 (19 U.S.C. § 1677(7)(F)(i)) provides that—

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of any merchandise, the Commission shall consider, among other relevant factors 1/—

(I) If a subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement),

1/ Section 771(7)(F)(ii) of the act (19 U.S.C. § 1677(7)(F)(ii)) provides that "Any determination by the Commission under this title that an industry in the United States is threatened with material injury shall be made on the basis of evidence that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition."

(II) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,

(III) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,

(IV) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,

(V) any substantial increase in inventories of the merchandise in the United States,

(VI) the presence of underutilized capacity for producing the merchandise in the exporting country,

(VII) any other demonstrable adverse trends that indicate the probability that the importation (or sale for importation) of the merchandise (whether or not it is actually being imported at the time) will be the cause of actual injury, and

(VIII) 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(s) under section 701 or 731 or to final orders under section 736, are also used to produce the merchandise under investigation.

Information on the volume, U.S. market penetration, and pricing of imports of the subject merchandise (items (III) and (IV) above) is presented in the section entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged injury." Item I is discussed in the section of the report dealing with the nature and extent of alleged subsidies. The available information on foreign producers' operations (items (II) and (VI) above), "product shifting" (item VIII), and on U.S. inventories of the subject product (item (V)) follow.

#### The steel wheel industry in Brazil and its ability to generate exports

There are two producers of steel wheels in Brazil listed in the petition, Rockwell-Fumagalli (Fumagalli) and Borlem S.A. Empreendimentos Industriais (Borlem). <sup>1/</sup>

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<sup>1/</sup> The petition listed a third producer FNV-Veiculos E Equipamentos S.A. (FNV) as a "prospective" producer of the subject product in Brazil. Counsel on behalf of FNV stated in a postconference brief that "FNV has never produced wheels for passenger cars and light trucks and has no intention of doing so."

Fumagalli, headquartered in Sao Paulo, Brazil, is a wholly owned subsidiary of Rockwell International Corp., located in Troy, MI. Fumagalli is the \* \* \* producer of steel wheels subject to investigation in Brazil. Nearly all of the steel wheels produced by Fumagalli and exported to the United States are \* \* \* for the original-equipment market.

Borlem is another \* \* \* producer of vehicle wheels in Brazil. Borlem's product lines include (1) steel wheels for passenger cars, light trucks, heavy trucks, and agriculture equipment (tube type), (2) aluminum wheels, and (3) tubeless steel disc wheels and demountable rims.

Information on production, capacity, and capacity utilization of these companies in Brazil is presented in table 10. The combined capacity for the companies remained \* \* \* throughout the period at \*\*\* million units. Production \* \* \* from 1985 to 1986, then \* \* \* in 1987. Production for the two companies \* \* \* again in January-June 1988 compared with that in the corresponding period of 1987. Capacity utilization \* \* \* from \*\*\* percent in 1985 to \*\*\* percent in 1986, then \* \* \* to \*\*\* percent in 1987. Capacity utilization \* \* \* to \*\*\* percent in January-June 1988 compared with \*\*\* percent in the corresponding period of 1987.

Table 10

Steel wheels: Production, capacity, and capacity utilization of Borlem and Fumagalli, 1985-87, January-June 1987, and January-June 1988

Source	1985	1986	1987	January-June--	
				1987	1988
Production:					
Borlem (1,000 units).....	***	***	***	***	***
Fumagalli (1,000 units)..	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***
Capacity:					
Borlem (1,000 units).....	***	***	***	***	***
Fumagalli (1,000 units)..	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***
Capacity utilization:					
Borlem (percent).....	***	***	***	***	***
Fumagalli (percent).....	***	***	***	***	***
Average (percent).....	***	***	***	***	***

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

Borlem has, by its own assessment, unutilized capacity; however, it claims that this capacity must remain available to supply the Brazilian OEM's with whom it has long-term supply contracts. Borlem also reportedly uses a slightly different technology for the wheels it produces for the Brazilian market and those it produces for export. Borlem estimates it would take \* \* \* to fully convert a production line from production for the Brazilian market to production for the export market. Borlem also reported that after a final

LTFV determination in Disc Wheels from Brazil, 1/ it had considered converting its production lines for the heavy-truck wheels involved in that investigation to production lines for light-truck wheels but determined that it is "simply too costly and inefficient to convert production lines for one product into a line capable of producing a significantly different product." 2/

Rockwell also produces wheels for the Brazilian agricultural tractor industry; however, they testified that "[t]he plant, machines, and equipment designed to produce wheels for the agricultural tractor cannot produce wheels for passenger travel vehicles." 3/

These two Brazilian producers also provided information on their shipments and inventories. This information, which is presented in table 11, shows that shipments in Brazil \* \* \* by \*\*\* percent from 1985 to 1986, then \* \* \* by \*\*\* percent in 1987. Shipments in Brazil \* \* \* by \*\*\* percent in January-June

Table 11  
Steel wheels: Shipments and inventories of Borlem and Fumagalli, 1985-87, January-June 1987, and January-June 1988

Source	1985	1986	1987	January-June	
				1987	1988
Shipments in Brazil:					
Borlem (1,000 units).....	***	***	***	***	***
Fumagalli (1,000 units)...	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***
Shipments to the United States:					
Borlem (1,000 units).....	***	***	***	***	***
Fumagalli (1,000 units)...	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***
Shipments to other countries:					
Borlem (1,000 units).....	***	***	***	***	***
Fumagalli (1,000 units)...	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***
Yearend inventories:					
Borlem (1,000 units).....	***	***	***	***	***
Rockwell (1,000 units)...	***	***	***	***	***
Total (1,000 units)....	***	***	***	***	***

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

1/ Tubeless Steel Disc Wheels From Brazil (Investigation No. 731-TA-335), USITC Pub. 1971, April 1987.

2/ Postconference brief submitted on behalf of Borlem, pp. 12-13.

3/ Transcript of the conference, p. 136.

1988 compared with those in January-June 1987. Shipments to the United States \* \* \* by \*\*\* percent from 1985 to 1986, then \* \* \* by \*\*\* percent in 1987. Shipments to the United States \* \* \* by \*\*\* percent in January-June 1988 compared with those in the corresponding period of 1987. Fumagalli accounted for \*\*\* percent of shipments to the United States by the two producers. Shipments to the United States accounted for between \*\*\* and \*\*\* percent of Borlem's and Fumagalli's total shipments.

Yearend inventories in Brazil remained \* \* \* in 1986, then \* \* \* in 1987. End-of-period inventories were \* \* \* at the end of June 1988 compared with those at the end of June 1987. The ratio of inventories to shipments remained \* \* \* at approximately \*\*\* to \*\*\* percent.

In addition to the two Brazilian producers listed in the petition, there is another company in Brazil, Mangels Minas, which produces custom steel wheels for export to the United States. Its production process is somewhat different than that of the other Brazilian producers because of the low volume of its production runs and the additional steps required to chrome plate, polish, and otherwise finish the wheels. Custom wheels constitute approximately \*\*\* percent of Mangels' product lines. The company is primarily in the business of cold-rolling carbon steel strips, as well as stainless steel, high-resistance microalloyed steel, and tool steel. It also produces liquified petroleum gas cylinders and bottles, and high-technology equipment for storage, haulage, and utilization of liquid gasses.

Mangels reported the capacity, production, and shipment information on its steel wheel operations in Brazil as shown in table 12.

Table 12  
Steel wheels: Production, capacity, capacity utilization, and shipments of Mangels Minas, 1985-87, January-June 1987, and January-June 1988

Source	1985	1986	1987	January-June	
				1987	1988
Production (units).....	***	***	***	***	***
Capacity (units).....	***	***	***	***	***
Capacity utilization (percent).....	***	***	***	***	***
Shipments to—					
Brazil (units).....	***	***	***	***	***
United States (units)....	***	***	***	***	***
All other (units).....	***	***	***	***	***
Total (units).....	***	***	***	***	***

Source: Compiled from data submitted by Mangels.

U.S. inventories of steel wheels from Brazil

U.S. importers of steel wheels from Brazil reported that the following inventories of the subject product were being held in the United States:

<u>Period</u>	<u>End-of period inventories (1,000 units)</u>
1985.....	***
1986.....	***
1987.....	***
June:	
1987.....	***
1988.....	***

U.S. importers' inventories of wheels from Brazil were \*\*\* percent \* \* \* at the end of 1987 than they were at the end of 1985. They were \*\*\* percent \* \* \* at the end of June 1988 than they were at the end of June 1987. Fumagalli accounted for between \*\*\* and \*\*\* percent of the inventories. It reported that these inventories are of wheels that have been produced for particular customers and are being held by Fumagalli ready for shipment to these customers as the customers' production schedules require.

Consideration of the Causal Relationship Between Imports of the Subject Merchandise and the Alleged Injury

U.S. imports

U.S. imports of the steel wheels covered by these investigations are provided for in TSUSA item 692.3230. This tariff classification is a basket category that applies to all steel wheels designed to be mounted with pneumatic tires. For purposes of this report, data on U.S. imports and U.S. shipments of imports were compiled from responses to the Commission questionnaire. The six companies which reported imports from Brazil are believed to account for all imports of the subject wheels from that country. Imports from other countries may be understated.

Total imports of steel wheels from all countries increased by 10.4 percent from 1985 to 1986, then declined by 3.6 percent in 1987. Total imports increased by 27.4 percent in January-June 1988 compared with those in the corresponding period of 1987 (table 13).

Brazil and Canada accounted for most of the imports of steel wheels reported to the Commission. The bulk of the imports from Canada are brought in by U.S. producers of steel wheels that also have production facilities in Canada. Imports from Canada \* \* \* by \*\*\* percent from 1985 to 1987, then \* \* \* by \*\*\* percent in January-June 1988 compared with those in January-June 1987.

Table 13  
Steel wheels: U.S. imports, by principal sources, 1985-87, January-June 1987,  
and January-June 1988

Source	1985	1986	1987	January-June	
				1987	1988
Quantity (1,000 units)					
Imported from—					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Total..	4,082	4,510	4,347	2,289	2,918
Value (1,000 dollars)					
Imported from:					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Total.....	54,661	59,796	63,140	35,696	44,772
Unit value (per unit)					
Imported from:					
Brazil.....	\$***	\$***	\$***	\$***	\$***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Average.....	13.39	13.26	14.52	15.59	15.34

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

Imports from Brazil \* \* \* by \*\*\* percent from 1985 to 1986, then \* \* \* by \*\*\* percent in 1987. Imports from Brazil \* \* \* by \*\*\* percent in January-June 1988 compared with those in the corresponding period of 1987.

#### Market shares

Market penetration of imports of steel wheels from all sources, on the basis of quantity, increased from 8.1 percent of consumption in 1985 to 9.0 percent in 1986, then declined to 8.9 percent in 1987. Imports from all sources increased from 9.6 percent of consumption in January-June 1987 to 12.7 percent of consumption in January-June 1988. On the basis of value, imports from all countries increased from 8.7 percent of consumption in 1985 to 10.8 percent in 1987, then jumped to 15.4 percent in January-June 1988 compared with 11.5 percent in the corresponding period of 1987.

Imports from Brazil \* \* \* their share of the U.S. market, on the basis quantity, from \*\*\* percent in 1985 to \*\*\* percent in 1986, then \* \* \* to \*\*\* percent in 1987. Their share of the market \* \* \* to \*\*\* percent in January-June 1988 compared with \*\*\* percent in the corresponding period of 1987. On the basis of value, imports from Brazil \* \* \* from \*\*\* percent of consumption in 1985 to \*\*\* percent in 1987, then \* \* \* to \*\*\* percent in January-June 1988 compared with \*\*\* percent in the corresponding period of 1987 (table 14).

Table 14

Steel wheels: U.S. market shares, 1/ by sources, 1985-87, January-June 1987, and January-June 1988

(In percent)					
Source	1985	1986	1987	January-June--	
				1987	1988
Quantity					
U.S. produced.....	91.9	91.0	91.1	90.4	87.3
Imported from--					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Subtotal.....	8.1	9.0	8.9	9.6	12.7
Total apparent consumption.....	100.0	100.0	100.0	100.0	100.0
Value					
U.S. produced.....	91.3	90.0	89.2	88.5	84.6
Imported from--					
Brazil.....	***	***	***	***	***
Canada.....	***	***	***	***	***
Japan.....	***	***	***	***	***
All other countries.....	***	***	***	***	***
Subtotal.....	8.7	10.2	10.8	11.5	15.4
Total apparent consumption.....	100.0	100.0	100.0	100.0	100.0

1/ Market shares are based on producers' and importers' shipments.

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

## Prices

More than 93 percent of the demand for steel wheels is derived from the demand for new automobiles. 1/ The remaining demand, referred to in the industry as the aftermarket, 2/ is directly related to the need to replace damaged wheels, and with the desire to replace less aesthetically pleasing wheels with custom wheels. Wheel prices generally vary with the diameter, width, style, and with the volumes required by the vehicle manufacturers.

The primary substitutes for the product under investigation are aluminum wheels. According to the petitioner, the "demand for steel wheels has been affected by the increasing popularity of styled aluminum wheels which an increasing number of consumers are requiring on their cars and light trucks." 3/ These styled aluminum wheels can be included as an option in the original car purchase or obtained in the aftermarket.

Although each producer has its own standard for what constitutes a large-volume, medium-volume, or small-volume sale, questionnaire responses indicate that small volumes are generally less than 100,000 per year, medium volumes are generally between 100,000 and 500,000 per year, and large volumes are generally greater than 500,000 per year.

The market for passenger car and light-truck wheels consists primarily of the OEM's in the automobile and light-truck industry. The major OEM's include Chrysler Corp., General Motors, the Ford Motor Co., and Volkswagen of America. 4/ OEM's usually purchase wheels on an as-needed basis pursuant to annual or multiyear contracts. Typically, the contracts cover the expected life of the model automobile or truck. According to \* \* \*, during 1986-88 there have been few new wheel projects by the OEM's; \* \* \*. 5/ Chrysler stated that \* \* \*. 6/

After an OEM has determined the design for a wheel, usually for a new model vehicle, or when structural or style changes in a current model vehicle are made, the OEM solicits bids for production from a number of wheel producers. Solicitations usually contain design requirements and

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1/ According to the petitioner, lower priced cars, such as the base models of Chrysler's L cars and G.M.'s J cars, are the core market for steel wheels and the target of imports from Brazil.

2/ Some of the wheels shipped to a vehicle manufacturer are used in the aftermarket.

3/ Mr. Douglas MacIntyre, manager of production for Kelsey-Hayes, in his conference testimony stated that Kelsey-Hayes is the world's largest producer of cast aluminum wheels. Conference transcript, p. 27.

4/ Robert Dushaw, vice president of marketing for Kelsey-Hayes, stated in his conference testimony that his company estimates that General Motors, Ford, and Chrysler consume more than 90 percent of the steel wheels produced annually in the United States. Conference transcript, p. 30.

5/ \* \* \* questionnaire response.

6/ Telephone conversation with \* \* \*.

specifications for the wheel. The wheel producers develop the likely costs of production for the life of the vehicle model (as estimated by the OEM) and submit a bid, offering a quantity and price commitment to obtain all or a portion of the contract. Bid quotations are made 1.5 to 2 years in advance of production due to tooling and testing leadtimes. 1/

To be chosen to supply steel wheels, a wheel producer must first be an approved supplier who is qualified by the OEM's purchasing and engineering departments. Once a supplier has been approved, it achieves the same status as all other approved suppliers.

The preparation of a wheel producer's bid is a complex and costly undertaking, requiring engineering and design capabilities, expertise in finance necessary to estimate the present value of future production, and projections of future rates of inflation. An OEM's request for a quotation usually includes a set of specifications and criteria for the wheels, and may also include some reimbursable costs for tooling. Typically, a bid takes one to two months to prepare.

When an OEM designs a wheel, whether for a new model vehicle or a redesigned vehicle, they usually select a wheel producer to help the OEM engineers design and test prototypes. Petitioner and respondents agree that, usually, the wheel manufacturer who aids the OEM in the design and testing is likely to win the supply contract. 2/

After reviewing the bids, the OEM may choose two or three wheel producers for further negotiation on non-price aspects of the bid, such as design changes, before making a final selection. Generally, the OEM does not reveal the names of the competing firms to each other, but may discuss price differentials between the final competitors in an attempt to get the lowest bid possible. However, the bidder with the lowest price does not necessarily receive the bid if the OEM believes the producer is not likely to deliver the steel wheels at the times required. OEM's are also likely to stay with the producer that traditionally provided a particular model wheel. At this point, the OEM usually makes a final selection. However, price negotiations can continue as design and quantity changes often occur.

According to both petitioner and respondents, the steel wheel producing companies have very little bargaining power because of the market power wielded by the large automobile manufacturers. 3/ In fact, the OEM's usually require yearly price reductions based upon productivity improvements from the wheel producers. Petitioner states that "if steel wheels were to suddenly lose 50 percent of their value in the market the auto companies would not

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1/ \* \* \*

2/ Conference transcript, pp. 33 and 154. Petitioner states in their conference testimony that in recent years this pattern has not been as consistent as in the past.

3/ Conference transcript, pp. 80-81, 103, and 122.

purchase more wheels...because the market for steel wheels is static, from the standpoint that there are no new potential customers for wheels, price competition is severe." Respondents stated that because of the OEM's market power, they can force wheel producers to price at their long-run average costs. 1/

U.S. producers and importers of steel wheels, and the OEM's, were requested to provide information on the three largest winning bids and the three largest losing bids submitted by the firm between January 1986 and June 1988 that involved competition between U.S. and Brazilian suppliers. Six U.S. producers and one Brazilian importer submitted information on the bidding process; four producers and one importer provided detailed bid information on specific projects involving competition between Brazilian importers and U.S. producers. 2/ \* \* \*

Bid competition.—Because most transactions are made with OEM's through bid competition and subsequent negotiations, the discussion of prices is organized according to the OEM who requested the bid. The following information describes specific projects that were bid on from January 1986 to June 1988 reportedly involving both U.S. and Brazilian suppliers of steel wheels. 3/ The majority of projects occurred with Chrysler. 4/ Information on these bids is summarized in table 15.

\* \* \* \* \*  
\* \* \* \* \*

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1/ Testimony of Mr. Michael Stein, counsel for Rockwell/Fumagalli, Conference transcript, p. 125. Mr. Franco Calandra, director general for Rockwell/Fumagalli Brazil, stated in his conference testimony that Rockwell/Fumagalli recently increased their prices in the American market for all their wheels. Conference testimony, p. 154. \* \* \*

2/ The petitioner, Kelsey-Hayes, and Motor Wheel Corporation together accounted for \*\*\* percent of domestic open-market shipments. \* \* \*

3/ Lost sales and lost revenues were alleged based on the bids to the OEM's. Table 15 indicates the winners of the contracts for production of the major wheel models during the period of investigation and the value of the bid. According to all sources there were no second bids.

4/ Mr. Calandra states that their main customer, Chrysler Corp., accounts for approximately 90 percent of their imports into the United States. Conference transcript, p. 115.

Table 15

Steel wheels: Bid information on selected projects which reportedly involved competition between U.S. and Brazilian steel wheel producers, January 1986-June 1988

OEM/wheel model	Firms invited to bid	Country of origin	Wheels bid upon	Bid value	Wheels contracted for	winner
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*	*	*	*	*	*	*
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Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

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*	*	*	*	*	*	*
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Aftermarket.—In practice, the distinction between sales to OEM's for use on original equipment and sales to OEM-related dealers for aftermarket resale is not very clear. OEM's often aggregate their expected production-related needs with their aftermarket needs when requesting a bid. Also, OEM's often maintain parts depot warehouses across the country for their branches and dealers. Wheels originally purchased for production could be used for resale and vice versa as requirements dictate.

Sales to distributors are on a spot-sales basis in units of a full pallet, or approximately 40 wheels. Wheels are priced per wheel and vary depending on the diameter, width, and style of wheel.

Price trends of sales of wheels to the aftermarket are quite stable in all instances, varying by no more than 4 percentage points (table 16).

Table 16

Steel wheels: Domestic producers' and Brazilian price indexes for their aftermarket sales, by products and by quarters, January 1986-June 1988

(Per wheel)

Period	United States			Brazil
	15" diameter by 5.5" width	14" diameter by 5.5" width	16" diameter by 6.0" width	8" diameter by 6.5" width
1986:				
January-March.....	100.00	100.00	100.00	100.00
April-June.....	100.00	100.00	100.00	100.00
July-September....	100.00	100.18	100.00	100.00
October-December..	100.00	100.18	100.00	100.00
1987:				
January-March.....	97.74	100.18	100.00	100.26
April-June.....	97.74	100.18	100.00	100.26
July-September....	97.74	101.38	100.00	100.26
October-December..	97.74	101.38	100.00	100.00
1988:				
January-March.....	97.02	103.78	102.35	100.00
April-June.....	97.02	103.78	103.37	100.26

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

#### Exchange rates

Quarterly data reported by the International Monetary Fund indicate that during the period January 1985 through March 1988 the nominal value of the Brazilian cruzado registered an overall depreciation equivalent to 95.9 percent against the U.S. dollar (table 17). <sup>1/</sup> Adjusted for relative movements in producer price indices, the real value of the cruzado appreciated 21.5 percent as of the first quarter of 1988 relative to the 1985 first quarter level.

<sup>1/</sup> Exchange rate data for April-June 1988 is not available.

Table 17

Nominal exchange rates of the Brazilian cruzado in U.S. dollars, real exchange-rate equivalents, 1/ and producer price indicators in the United States and Brazil, 2/ indexed by quarters, January 1985-March 1988

Period	U.S.	Brazil	Nominal exchange- rate index	Real exchange- rate index <u>3/</u>
	Pro- ducer Price Index	Pro- ducer Price Index		
			<u>U.S. dollars/cruzado-</u>	
1985:				
Jan.-Mar.....	100.0	100.0	100.0	100.0
Apr.-June.....	100.1	127.9	71.9	91.9
July-Sept.....	99.4	168.0	55.4	93.6
Oct.-Dec.....	100.0	237.9	41.8	99.4
1986:				
Jan.-Mar.....	98.5	361.0	29.6	108.4
Apr.-June.....	96.6	375.2	27.2	105.6
July-Sept.....	96.2	382.1	27.2	108.0
Oct.-Dec.....	96.5	404.0	26.5	110.8
1987:				
Jan.-Mar.....	97.7	525.2	20.6	111.0
Apr.-June.....	99.2	937.9	12.0	113.6
July-Sept.....	100.3	1,354.2	8.0	107.3
Oct.-Dec.....	100.8	1,857.3	6.3	115.5
1988:				
Jan.-Mar.....	101.2	3,001.9	4.1	121.5

1/ Exchange rates expressed in U.S. dollars per unit of foreign currency.

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

3/ The indexed real exchange rate represents the nominal exchange rate adjusted for relative movements in producer price indices in the United States and Brazil. Producer prices in the United States increased 1.2 percent during January 1985-March 1988, compared with an increase of nearly 3,000 percent in Brazil during the same period.

Source: International Monetary Fund, International Financial Statistics, May 1988.

Note.—January-March 1985=100.



APPENDIX A

FEDERAL REGISTER NOTICES OF THE COMMISSION AND COMMERCE

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**INTERNATIONAL TRADE  
COMMISSION**

[Investigation No. 701-TA-296 (Preliminary)  
and Investigation No. 731-TA-420  
(Preliminary)]

**Certain Steel Wheels From Brazil**

**AGENCY:** United States International  
Trade Commission.

**ACTION:** Institution of preliminary  
countervailing duty and antidumping  
investigations and scheduling of a  
conference to be held in connection with  
the investigations.

**SUMMARY:** The Commission hereby gives  
notice of the institution of preliminary  
countervailing duty investigation No.  
701-TA-296 (Preliminary) under section  
703(a) of the Tariff Act of 1930 (19 U.S.C.  
1671b(a)) 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  
imports from Brazil of steel wheels.<sup>1</sup>

<sup>1</sup> For purposes of these investigations, the term  
"steel wheels" is defined as steel wheels  
(assembled or unassembled), designed to be  
mounted with pneumatic tires, in wheel diameter  
sizes ranging from 13.0 inches to 16.5 inches,  
inclusive, and designed for use on passenger  
automobiles and light trucks in Gross Vehicle  
Weight (GVW) classifications 1, 2, and 3 (the trucks

provided for in item 692.32 of the Tariff Schedules of the United States, that are alleged to be subsidized by the Government of Brazil.

The Commission hereby also gives notice of the institution of preliminary antidumping investigation No. 731-TA-420 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) 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 imports from Brazil of steel wheels that are alleged to be sold in the United States at less than fair value.

As provided in sections 703(a) and 733(a), respectively, the Commission must complete preliminary countervailing duty and antidumping investigations in 45 days, or in this case by September 12, 1988.

For further information concerning the conduct of these investigations and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 207, Subparts A and B (19 CFR Part 207), and Part 201, Subparts A through E (19 CFR Part 201).

**EFFECTIVE DATE:** July 29, 1988.

**FOR FURTHER INFORMATION CONTACT:** Judith Zeck (202-252-1199), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

**SUPPLEMENTARY INFORMATION:**

**Background**

These investigations are being instituted in response to a petition filed on July 29, 1988, by The Kelsey-Hayes Co., Romulus, MI.

**Participation in the investigations**

Persons wishing to participate in the investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in

covered by classes 1, 2, and 3, are, generally, light trucks, for example pickup trucks, panel vans and mini-vans with gross vehicle weights of from under 6,000 lbs. up to 14,000 lbs.), as provided for in items 692.3230 of the *Tariff Schedules of the United States Annotated* (1967) (TSUSA); they are provided for in subheading 8708.70.80 of the proposed Harmonized Tariff Schedules of the United States (USITC Pub. 2030).

§ 201.11 of the Commission's rules (19 CFR 201.11), not later than seven (7) days after publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

**Service list**

Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to these investigations upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) and 207.3 of the rules (19 CFR 201.16(c) and 207.3), each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

**Conference**

The Commission's Director of Operations has scheduled a conference in connection with these investigations for 9:30 a.m. on August 19, 1988, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Judith Zeck (202-252-1199) not later than August 17, 1988, to arrange for their appearance. Parties in support of the imposition of countervailing/antidumping duties in these investigations and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference.

**Written submissions**

Any person may submit to the Commission on or before August 23, 1988 a written statement of information pertinent to the subject of the investigations, as provided in § 207.15 of the Commission's rules (19 CFR 207.15). A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the rules (19 CFR 201.8). All written submissions except for confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired must be submitted separately. The envelope

and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6).

**Authority:** These investigations are being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.12 of the Commission's rules (19 CFR 207.12).

By order of the Commission.

**Kenneth R. Mason,**

*Secretary*

Issued: August 2, 1988.

[FR Doc. 88-18110 Filed 8-9-88; 8:45 am]

BILLING CODE 7020-02-M

**(A-351-801)****Initiation of Antidumping Duty  
Investigation: Steel Wheels From  
Brazil****AGENCY:** Import Administration,  
International Trade Administration,  
Department of Commerce.**ACTION:** Notice.

**SUMMARY:** On the basis of a petition filed in proper form with the U.S. Department of Commerce, we are initiating an antidumping duty investigation to determine whether imports of steel wheels from Brazil are being, or are likely to be, sold in the United States at less than fair value. We are notifying the U.S. International Trade Commission (ITC) of this action so that it may determine whether imports of this product materially injure, or threaten material injury to, a U.S. industry. If this investigation proceeds normally, the ITC will make its preliminary determination on or before September 12, 1988. If that determination is affirmative, we will make preliminary determination on or before January 5, 1989.

**EFFECTIVE DATE:** August 24, 1988.

**FOR FURTHER INFORMATION CONTACT:** J. David Dirstine or Laurie Lucksinger, Office of Compliance, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 377-5255.

**SUPPLEMENTARY INFORMATION:****The Petition**

On July 29, 1988, we received a petition in proper form filed by Kelsey-Hayes Company on behalf of U.S. producers of steel wheels. In compliance with the filing requirements of 19 CFR 353.36, petitioner alleges that imports of finished steel wheels 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 Tariff Act of 1930, as amended (the Act), and that these imports materially injure, or threaten material injury to, a U.S. industry.

The petitioner has alleged that it has standing to file the petition. Specifically, the petitioner has alleged that it is an interested party as defined under section 771(9)(C) of the Act and that it has filed the petition on behalf of the U.S. industry manufacturing the products that are subject to this investigation.

If any interested party as described under paragraph (C), (D), (E), or (F) of

section 771(9) of the Act wishes to register support of or opposition to this petition, please file written notification with the Commerce official cited in the "For Further Information Contact" section of this notice.

#### United States Price and Foreign Market Value

Petitioner based U.S. price on price quotes for steel wheels delivered to original equipment manufacturers in the United States. Petitioner deducted foreign inland freight, foreign warehousing, ocean freight and insurance, U.S. duty, U.S. inland freight, U.S. warehousing, brokerage and handling charges, and inventory carrying cost.

Petitioner based foreign market value on price quotes for steel wheels delivered to original equipment manufacturers in the Brazilian domestic market. Petitioner deducted the value added tax (VAT) on steel wheels.

Based upon a comparison of United States price and foreign market value, petitioner alleges dumping margins of 73.67 percent.

#### Initiation of Investigation

Under section 732(c) of the Act, we must determine, within 20 days after a petition is filed, whether it sets forth the allegations necessary for the initiation of an antidumping duty investigation and whether it contains information reasonably available to the petitioners supporting the allegations.

We examined the petition on steel wheels from Brazil and found that it meets the requirements of section 732(b) of the Act. Therefore, in accordance with section 732 of the Act, we are initiating an antidumping duty investigation to determine whether imports of steel wheels from Brazil are being, or are likely to be, sold in the United States at less than fair value. If our investigation proceeds normally, we will make our preliminary determination by January 5, 1989.

#### Scope of Investigation

The United States has developed a system of tariff classification based on the international harmonized system of Customs nomenclature. Pending adoption of this Harmonized System (HS), we will be providing both the appropriate *Tariff Schedules of the United States Annotated (TSUSA)* item numbers and the appropriate HS item numbers with our product descriptions on a test basis. As with the *TSUSA*, the HS item numbers are provided for convenience and Customs purposes. The written description remains dispositive.

We are requesting petitioners to include the appropriate HS item number(s) as well as the *TSUSA* item number(s) in all new petitions filed with the Department. A reference copy of the proposed HS schedule is available for consultation at the Central Records Unit, Room B-099, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230. Additionally, all Customs officers have reference copies and petitioners may contact the Import Specialist at their local Customs office to consult the schedule.

The products covered by this investigation are steel wheels consisting of a disc and a rim either welded or riveted together, having a diameter not less than 13 inches nor greater than 18.5 inches, designed to be mounted with both tube type and tubeless pneumatic tires generally for use on passenger automobiles, light trucks and other vehicles, as currently provided for under *TSUSA* item number 692.3230 and currently classifiable under HS item number 8708.70.80.

#### Notification of ITC

Section 732(d) of the Act requires us to notify the ITC of this action and to provide it with the information we used to arrive at this determination. We will notify the ITC and make available to it all nonprivileged and nonproprietary information. We will allow the ITC access to all privileged and business proprietary information in our files, provided it confirms in writing that it will not disclose such information either publicly or under administrative protective order without written consent of the Assistant Secretary of Import Administration.

#### Preliminary Determination by ITC

The ITC will determine by September 12, 1988 whether there is a reasonable indication that imports of steel wheels from Brazil materially injure, or threaten material injury to, a U.S. industry. If its determination is negative, the investigation will terminate; otherwise, it will proceed according to the statutory and regulatory procedures.

This notice is published pursuant to section 732(c)(2) of the Act.

Joseph A. Spetrini,  
Acting Assistant Secretary for Import Administration.

Date: August 17, 1988.

[FR Doc. 88-19204 Filed 8-23-88; 8:45 am]  
BILLING CODE 3510-05-M

(C-351-802)

#### Initiation of Countervailing Duty Investigation: Steel Wheels from Brazil

**AGENCY:** International Trade Administration/Import Administration Department of Commerce.

**ACTION:** Notice of initiation of countervailing duty investigation.

**SUMMARY:** On the basis of a petition filed in proper form with the U.S. Department of Commerce, we are initiating a countervailing duty investigation to determine whether manufacturers, producers, or exporters in Brazil of steel wheels, as described in the "Scope of Investigation" section of this notice, receive benefits which constitute subsidies within the meaning of the countervailing duty law. We are notifying the U.S. International Trade Commission (ITC) of this action, so that it may determine whether imports from Brazil materially injure, or threaten material injury to, U.S. industry. If this investigation proceeds normally, the ITC will make its preliminary determination on or before September 12, 1988, and we will make our preliminary determination on or before October 24, 1988.

**EFFECTIVE DATE:** August 24, 1988.

**FOR FURTHER INFORMATION CONTACT:** Philip Pia or Bernard Carreau, Office of Countervailing Compliance, Import Administration, Room B-099, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230; telephone: (202) 377-2786.

#### SUPPLEMENTARY INFORMATION:

##### The Petition

On July 29, 1988, we received a petition filed in proper form from the Kelsey-Hayes Company on behalf of the U.S. industry producing steel wheels. In compliance with the filing requirements of section 355.26 of the Commerce Regulations (19 CFR 355.26), the petition alleges that manufacturers, producers, or exporters in Brazil of steel wheels receive subsidies within the meaning of section 701 of the Act. In addition, the petition alleges that such imports materially injure, or threaten material injury to, the U.S. industry producing a like product.

Since Brazil 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 Brazil materially injure, or threaten material injury to, a U.S. industry.

The petitioner has alleged that it has standing to file the petition. Specifically, the petitioner has alleged that it is an interested party as defined under section 771(9)(C) of the Act and that it has filed the petition on behalf of the U.S. industry manufacturing the products that are subject to this investigation.

If any interested party as described under paragraphs (C), (D), (E), or (F) of section 771(9) of the Act wishes to register support of or opposition to this petition, please file written notification with the Commerce official cited in the "For Further Information Contact" section of this notice.

#### Initiation of Investigation

Under section 702(c) of the Act, we must determine, within 20 days after a petition is filed, whether the petition sets forth the allegations necessary for the initiation of a countervailing duty investigation, and whether it contains information reasonably available to the petitioner supporting the allegations. We have examined the petition on steel wheels from Brazil and have found that it meets the requirements of section 702(b) of the Act. Therefore, we are initiating a countervailing duty investigation to determine whether manufacturers, producers, or exporters in Brazil of steel wheels, as described in the "Scope of Investigation" section of this notice subsidies. If our investigation proceeds normally, we will make our preliminary determination on or before October 24, 1988.

#### Scope of Investigation

The United States has developed a system of tariff classification based on the international harmonized system of Customs nomenclature. Pending adoption of this Harmonized System (HS), we will be providing both the appropriate *Tariff Schedules of the United States Annotated* (TSUSA) item numbers and the appropriate HS item numbers with our product descriptions on a test basis, pending Congressional approval. As with the TSUSA, the HS item numbers are provided for convenience and Customs purposes. The written description remains dispositive.

We are requesting petitioners to include the appropriate HS item number(s) as well as the TSUSA item number(s) in all new petitions filed with the Department. A reference copy of the proposed HS schedule is available for consultation at the Central Records Unit, Room B-099, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230. Additionally, all Customs offices have reference copies and petitioners may

contact the Import Specialist at their local Customs office to consult the schedule.

The products covered by this investigation are finished steel wheels currently provided for in item 692.3230 of the TSUSA and currently classifiable under HS item number 8708.70.80.

The merchandise covered by this investigation includes finished steel wheels consisting of a disc and a rim either welded or riveted together, having a diameter not less than 13 inches nor greater than 16.5 inches, designed to be mounted with pneumatic tires generally for use on passenger automobiles, light trucks and other vehicles.

#### Allegations of Subsidies

The petition lists a number of practices by the Government of Brazil which allegedly confer subsidies on manufacturers, producers or exporters in Brazil of steel wheels. We are initiating an investigation on the following alleged programs:

- *Benefits under the BEFLEX Program*
- *Import Duty and IPI Tax Exemptions under Decree-Law 1189*
- *Preferential Working-Capital Financing for Exports*
- *Income Tax Exemption for Export Earnings*
- *Export Financing under the CIC-CREGE 14-11 Circular*
- *Exemption of IPI Tax and Customs Duties on Imported Capital Equipment (CDI)*
- *Resolution 68 (FINEX) Financing*
- *Accelerated Depreciation for Brazilian-made Capital Goods*
- *Resolution 330 of the Bando do Brasil*

Although alleged by the petitioner, we are not investigating the following programs:

- *Benefits under IPI Export Credit Premium*—The Department has previously investigated the IPI export credit premium and found that this program was terminated effective May 1, 1985. See *Brass Sheet*. Because the petitioner has presented no evidence that this program has been reinstated, we are not initiating an investigation on this program.
- *Government Provision of Equity Capital*—The petitioner has provided no evidence of provision of equity capital by the Brazilian government to the producers or exporters of the product under investigation.
- *Upstream Subsidy*—The petitioner has not provided "reasonable grounds to believe or suspect" that a competitive benefit is being bestowed. Under the terms of section 771A(b)(1),

a competitive benefit has been bestowed when the price for the input product \* \* \* is lower than the price that the manufacturer or producer of merchandise which is the subject of the countervailing duty proceeding would otherwise pay for the product in obtaining it from another seller in an arms-length transaction.

In order to determine whether a competitive benefit is bestowed, we must have the Brazilian market price of the alleged subsidized input to make an adequate price comparison to an unsubsidized price of the input. The petitioner has not provided the Department with a Brazilian market price for hot-rolled carbon sheet steel necessary to make this comparison. Therefore, we do not have sufficient information to determine whether a competitive benefit is bestowed on Brazilian producers of steel wheels. Moreover, the petitioner's allegation of below-cost sales of subsidized steel inputs does not, in and of itself, constitute a reasonable basis to believe or suspect that subsidies are being passed through. We will promptly reconsider this question on the basis of any additional information provided during the investigation.

#### Notification of ITC

Section 702(d) of the Act requires us to notify the ITC of this action and to provide it with the information we used to arrive at this determination. We will notify the ITC and make available to it all nonprivileged and nonproprietary information. We will also allow the ITC access to all privileged and business proprietary information in our files, provided it confirms in writing that it will not disclose such information either publicly or under administrative protective order without the written consent of the Assistant Secretary for Import Administration.

#### Preliminary Determination by ITC

The ITC will determine by September 12, 1988, whether there is a reasonable indication that imports from Brazil materially injure, or threaten material injury to, a U.S. industry. If its determination is negative the investigation will terminate; otherwise, it will proceed according to the statutory and regulatory procedures.

This notice is published pursuant to section 702(c)(2) of the Act.

Joseph A. Spetrini,

Acting Assistant Secretary for Import Administration.

August 18, 1988.

[FR Doc. 88-19205 Filed 8-23-88; 8:45 am]

BILLING CODE 3510-03-M

APPENDIX B  
CALENDAR OF THE PUBLIC CONFERENCE

CALENDAR OF THE PUBLIC CONFERENCE

Investigation No. 701-TA-296 (Preliminary) and  
Investigation No. 731-TA-420 (Preliminary)

STEEL WHEELS FROM BRAZIL

Those persons listed below appeared at the United States International Trade Commission's conference which was held in connection with the subject investigation on August 19, 1988, in the Hearing Room of the U.S. International Trade Commission, 500 E St., SW, Washington, DC.

In support of the imposition of antidumping duties

Barnes, Richardson & Colburn--Counsel  
Washington, DC  
on behalf of--

Kelsey-Hayes Company

Joseph F. McCarthy  
Counsel, Kelsey-Hayes Co.  
Robert D. Dushaw,  
Vice President, Marketing, Kelsey Hayes Co.  
Douglas MacIntyre  
Manager, Senior Technical Specialist

James Lundquist )--OF COUNSEL  
Matthew J. Clark )--OF COUNSEL

Dickinson, Wright, Moon, Van Dusen, & Freeman--Counsel  
Detroit, MI  
on behalf of--

Motor Wheel Corporation

A.N. McCotter,  
Vice President of Sales and Marketing  
David E. Haviland  
Director of Marketing of Automotive Products, Motor Wheel Corp.

Bruce Tassan )--OF COUNSEL  
Jeffrey M. Petrash )--OF COUNSEL

In opposition to the imposition of antidumping duties

Dewey, Ballantine, Bushby, Palmer & Wood-Counsel  
Washington, DC  
on behalf of--

Rockwell International Corporation

Franco Calandra  
Director General, Rockwell Fumagalli  
Geraia L. Kern  
Director of Marketing for North America, Rockwell-Fumagalli

Michael Stein )--OF COUNSEL  
Joseph Black )--OF COUNSEL  
Janet McLaughlin )--ECONOMIST

Bishop, Cook, Purcell & Reynolds--Counsel  
Washington, DC  
on behalf of--

Positrade Corporation

Mark Mangels  
General Manager, Positrade

William Alberger )--OF COUNSEL



APPENDIX C

IMPACT OF IMPORTS ON CAPITAL AND INVESTMENT

Impact of imports on capital and investment

\* \* \* \* \*



UNITED STATES DEPARTMENT OF COMMERCE  
International Trade Administration  
Washington, D.C. 20230

CV:PP  
A-351-801  
C-351-802

AUG 26 1988

MEMORANDUM FOR: The Files

FROM: Philip Pia *PP* 8/26/88  
Case Analyst  
Office of Countervailing Compliance

J. David Dirstine *JDD* 8/26/88  
Case Analyst  
Office of Antidumping Compliance

THROUGH: Richard W. Moreland *Rum 8/26/88* and Bernard Carreau  
Acting Office Directors  
Office of Antidumping Compliance  
Office of Countervailing Compliance

SUBJECT: Scope of AD and CVD investigations on steel wheels  
from Brazil

On August 24, 1988, we published in the Federal Register initiations of antidumping and countervailing duty investigations on steel wheels from Brazil (53 FR 32267). While our description of the product did not specifically state it as such, it was clearly intended that any unassembled parts of a wheel, whether shipped separately or together, are included in the scope. Therefore, in order to eliminate any misunderstanding, and to avoid potential circumvention of any orders we will use the following language, which is closer to that used by the ITC in its initiation, in all future references in these investigations:

The products covered by this investigation are steel wheels currently provided for in item 692.3230 of the TSUSA and currently classifiable under HS item number 8708.70.80. The merchandise includes steel wheels, assembled or unassembled, consisting of a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles.

cc: Joseph A. Black, Esq.  
Matthew J. Clark, Esq.  
Walter J. Spak, Esq.  
Olin L. Wethington, Esq.







INTERNATIONAL TRADE COMMISSION  
WASHINGTON, D.C. 20436

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