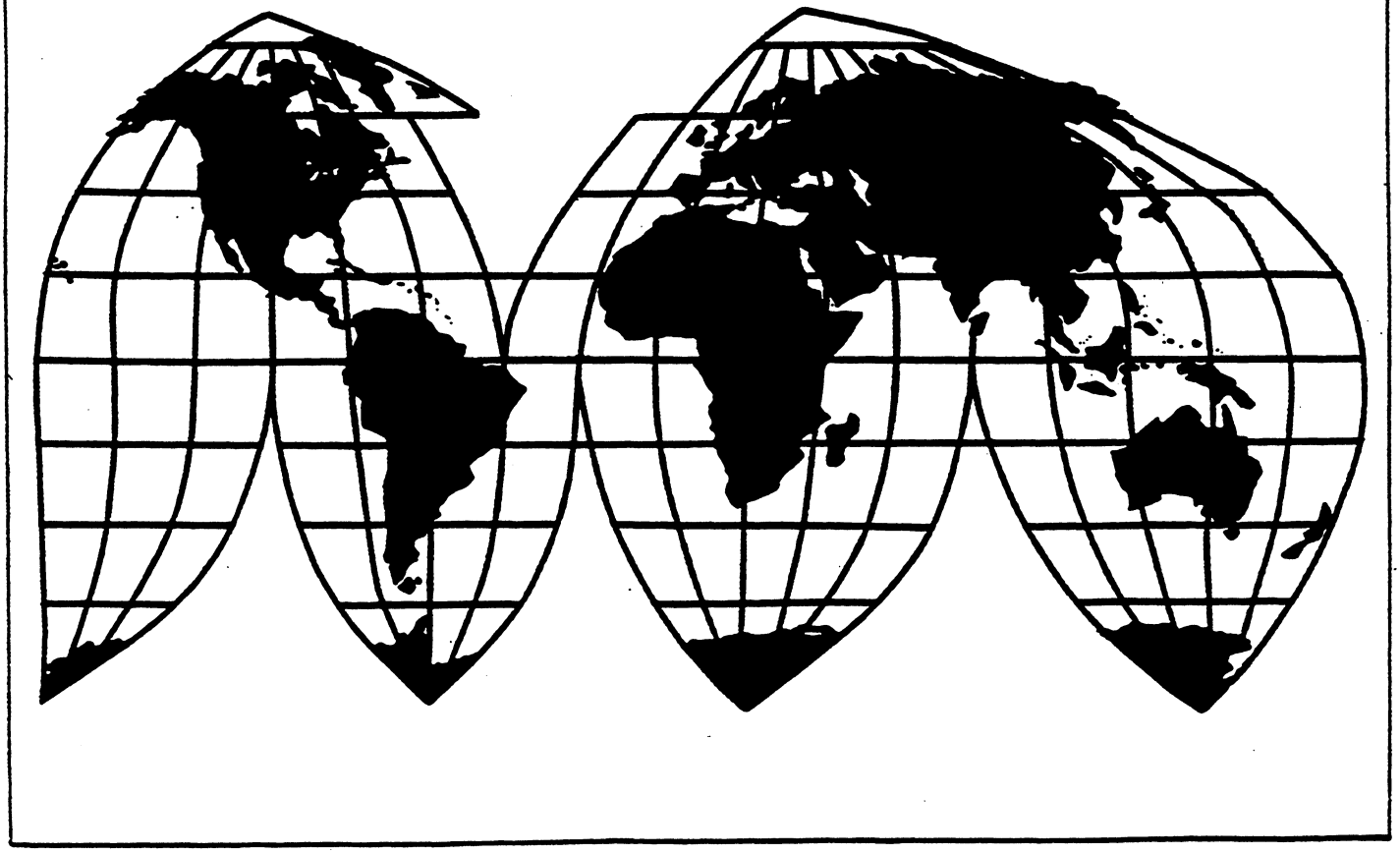
Certain Brake Drums and Rotors From China

Investigation No. 731-TA-744 (Preliminary)

Publication 2957 **April 1996**

U.S. International Trade Commission



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UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-744 (Preliminary)

CERTAIN BRAKE DRUMS AND ROTORS FROM CHINA

Determinations

On the basis of the record[1] developed in the subject investigation, the Commission determines,[2] pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)), that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of imports from China of certain brake drums that are alleged to be sold in the United States at less than fair value (LTFV).[3] The Commission also determines,[4] pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China of certain brake rotors that are alleged to be sold in the United States at LTFV. Both certain brake drums and brake rotors are provided for in subheading 8708.39.50 of the Harmonized Tariff Schedule of the United States.[5]

Background

On March 7, 1996, a petition was filed with the Commission and the Department of Commerce by the Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers,[6] alleging that industries in the United States are materially injured or threatened with material injury by reason of LTFV imports of certain brake drums and rotors from China. Accordingly, effective March 7, 1996, the Commission instituted antidumping investigation No. 731-TA-744 (Preliminary). Notice of the institution of the Commission's investigation 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,

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[1] The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).

[2] Chairman Peter S. Watson not participating.

[3] Commissioner Carol T. Crawford finds that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China of certain brake drums that are alleged to be sold in the United States at LTFV.

[4] Chairman Peter S. Watson not participating.

[5] Certain brake drums and certain brake rotors are made of gray cast iron, may be finished, semifinished, or unfinished, and range in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The subject products are for certain motor vehicles (namely, automobiles, all-terrain vehicles, vans and recreational vehicles under "one ton and a half," and light trucks designated as "one ton and a half"), and do not contain in the casting a logo of an original equipment manufacturer that produces vehicles sold in the United States. Brake drums and brake rotors covered in these investigations are not certified by OEM producers of vehicles sold in the United States. The scope also includes composite brake drums and rotors that are made of gray cast iron which contain a steel plate, but otherwise meet the above criteria.

[6] The members of the Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers consist of Brake Parts, Inc., McHenry, IL; Kinetic Parts Manufacturing, Inc., Harbor City, CA; Iroquois Tool Systems, Inc., North East, PA; and Wagner Brake Corp., St. Louis, MO.

DC, and by publishing the notice in the *Federal Register* of March 15, 1996 (61 FR 10788). The conference was held in Washington, DC, on March 28, 1996, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION[1]

Based on the record in this preliminary investigation, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of certain brake rotors from China that are alleged to be sold in the United States at less than fair value (LTFV).[2] We further find that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of imports of certain brake drums from China that are alleged to be sold in the United States at LTFV.[3]

I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard in preliminary antidumping investigations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured, or threatened with material injury, by reason of the allegedly LTFV imports.[4] In applying this standard, the Commission weighs the evidence before it and determines whether "(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."[5]

II. DOMESTIC LIKE PRODUCT AND INDUSTRY

A. Background and Product Description

To determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of the subject imports, the Commission first defines the "domestic like product" and the "industry."[6] Section 771(4)(A) of the Tariff Act of 1930, as amended ("the Act") defines the relevant industry as the "producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[7] In turn, the Act defines "domestic 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. . . ."[8]

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[1] Chairman Watson did not participate in this investigation.

[2] 19 U.S.C. § 1671 et seq., as amended. Whether there is a reasonable indication that the establishment of an industry in the United States is materially retarded is not an issue in this investigation.

[3] Commissioner Crawford determines that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of certain brake drums from China that are alleged to be sold in the United States at LTFV. See Additional Views of Commissioner Crawford. She joins sections I-IV of this opinion.

[4] 19 U.S.C. § 1673b(a); see also American Lamb Co. v. United States, 785 F.2d 994 (Fed. Cir. 1986); Calabrian Corp. v. United States, 794 F. Supp. 377, 381 (Ct. Int'l Trade 1992).

[5] American Lamb, 785 F.2d at 1001; see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

[6] 19 U.S.C. § 1677(4)(A).

[7] 19 U.S.C. § 1677(4)(A).

[8] 19 U.S.C. § 1677(10).

Our decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and we apply the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis.[9] No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.[10] The Commission looks for clear dividing lines among possible like products, and disregards minor variations.[11]

In its notice of initiation, the Department of Commerce (Commerce) has defined two classes or kinds of imported articles subject to investigation.[12] The first class or kind consists of brake drums from China, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches and in weight from 8 to 45 pounds. Brake drums within the scope do not contain in the casting a logo of an original equipment manufacturer (OEM) which produces vehicles sold in the United States. Such brake drums are not certified by such OEM producers.[13] This opinion will refer to brake drums meeting the specifications of the scope definition as to weight, dimension, and lack of OEM certification as "non-OEM drums."

The second class or kind consists of brake rotors from China, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches and in weight from 8 to 45 pounds. Brake rotors within the scope do not contain in the casting a logo of an OEM which produces vehicles sold in the United States. Such brake rotors are not certified by such OEM producers.[14] This opinion will refer to brake rotors meeting the specifications of the scope definition as to weight, dimension, and lack of OEM certification as "non-OEM rotors."

B. Domestic Like Product Issues

Two principal domestic like product issues exist in this investigation: (1) whether brake drums and rotors are distinct domestic like products; and (2) whether the domestic like product(s) should be limited, as is the scope, to non-OEM products, or should encompass OEM products as well. As explained below, we determine that there are two domestic like products in this investigation: non-OEM drums and non-OEM rotors.

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[9] See, e.g., Nippon Steel Corp. v. United States, 19 CIT __, Slip Op. 95-57 at 11 (Apr. 3, 1995). In analyzing domestic like product issues, the Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes and production employees; and, where appropriate, (6) price. See id. at 11 n.4, 18; Timken Co. v. United States, 20 CIT __, Slip Op. 96-8 at 9 (Jan. 3, 1996).

[10] See, e.g., S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

[11] Torrington Co. v. United States, 747 F. Supp. 744, 748-749 (Ct. Int'l Trade 1990), aff'd, 938 F.2d 1278 (Fed. Cir. 1991).

[12] See 19 U.S.C. § 1677(25).

[13] 61 Fed. Reg. 14740, 14740-41 (Apr. 3, 1996). Those brake drums within the scope are used in automobiles, all-terrain vehicles, vans and recreational vehicles under one and one-half tons, and light trucks designated as one and one-half tons. Id.

[14] 61 Fed. Reg. at 14741. Those brake rotors within the scope are used in automobiles, all-terrain vehicles, vans and recreational vehicles under one and one-half tons, and light trucks designated as one and one-half tons. Id.

1. Drums and Rotors as Distinct Domestic Like Products

No party argued that drums and rotors should be treated as a single domestic like product. Drums and rotors have generally similar uses insofar as they are both used as mechanisms in automotive braking systems. However, drums are the primary component in drum brakes, while rotors are used in disc brakes. Consequently, drums and rotors do not operate in the same manner, and there are physical differences between the two types of parts.[15]

Drums and rotors are not interchangeable. A drum cannot be used in a disc brake, and a rotor cannot be used in a drum brake.[16]

Drums and rotors are produced by one of the petitioning firms using some of the same production facilities and workers.[17] The other domestic producers, however, either do not produce both drums and rotors or produce drums and rotors on different equipment.[18]

Channels of distribution do not differ for drums and rotors.[19] Nevertheless, the record indicates that drums and rotors are generally perceived by producers as distinct products.[20] Questionnaire data indicate that average prices for U.S.-produced non-OEM drums are slightly higher than average prices for U.S.-produced non-OEM rotors.[21]

In light of the clear physical distinctions and lack of interchangeability between drums and rotors, and perceptions of drums and rotors as being two distinct products, we find that drums and rotors are separate domestic like products.

2. Whether the Domestic Like Products Should Be Limited to Non-OEM Products

The parties dispute whether OEM brake drums and OEM brake rotors should be included in the respective domestic like products. Petitioner argues that the domestic like products should be limited to those non-OEM drums and rotors corresponding to the types within Commerce's scope determinations. Respondents contend that the domestic like products should include OEM, as well as non-OEM, articles.

The parties' arguments have treated drums and rotors collectively. In other words, the parties appear to agree that the same factors that either distinguish or fail to distinguish OEM drums from non-OEM drums also distinguish or fail to distinguish OEM rotors from non-OEM rotors. Hence, in the discussion below we, like the parties, will generally discuss drums and rotors collectively.

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[15] Confidential Report (CR) at I-8, Public Report (PR) at I-5.

[16] CR at I-9, PR at I-6.

[17] Tr. at 77 (Orlando). This producer uses some different production equipment for rotors than for drums. See Petitioner's Postconference Brief, public ex. 6 at 3.

[18] Tr. at. 77 (LaVarra); Petition at 4; CR at I-17 n.61, PR at I-10 n.61.

[19] Tr. at 77; Petitioner's Postconference Brief at 15.

[20] W. Toboldt, L. Johnson & S. Olive, AUTOMOTIVE ENCYCLOPEDIA 639 (1989); Wagner brochure, "Wagner brake drums and rotors."

[21] See Tables V-1 through V-4, CR at V-6-9, PR at V-3 .

Physical Characteristics and End Use. Petitioner has cited several physical distinctions between OEM drums and rotors and their non-OEM counterparts.[22] These physical differences appear to be pertinent to the question of whether a specific drum or rotor meets OEM specifications.[23] Petitioner has not contended, however, that these differences affect the functionality of a drum or rotor. A non-OEM drum or rotor must be able to fit and function in an automobile in the same manner as the OEM part it replaces; consequently, non-OEM drum and rotor producers must maintain a required level of fit, finish, and safety.[24] That OEM and non-OEM drums or rotors are intended to function in the same manner is indicated by one petitioning firm official's explanation of how his firm's non-OEM rotors are designed: his company takes the OEM part and reverse-engineers it.[25]

Interchangeability. Interchangeability between OEM brake drums or rotors and their non-OEM counterparts is limited. Non-OEM drums or rotors cannot be substituted for OEM products in applications such as new car assembly and warranty work because they are not certified for use as original equipment.[26] However, either an OEM or non-OEM product for a given automobile model may be used in other circumstances.[27]

Channels of Distribution. There are distinct channels of distribution for the OEM and non-OEM products at issue. Non-OEM brake drum and rotor manufacturers generally sell their products to warehouse distributors, which sell to jobbers, which in turn sell to service stations, retail outlets, and garages.[28] By contrast, OEM manufacturers sell the bulk of their product directly to firms that manufacture automobile assemblies, parts, and components. OEM brake drums or rotors that are not to be installed in new vehicles are generally sold through licensed parts distributors and motor vehicle distributors.[29]

Respondents argue that whatever distinctions between the channels of distribution for OEM products and non-OEM products that may exist in form collapse in practice and there is in fact considerable overlap in the channels of distribution.[30] The record in this preliminary investigation indicates that although there is, in

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[22] An OEM rotor is balanced to tighter specifications than a non-OEM rotor, is turned in certain places where a non-OEM rotor is cast to size, and has a ground braking surface while the non-OEM rotor's surface is turned. Additionally, an OEM rotor is painted, unlike a non-OEM rotor, and has more holes than a non-OEM rotor. Tr. at 23-24 (Orlando); Petitioner's Postconference Brief, Public Ex. 1 at 1. Similarly, an OEM drum has more precise balancing than a non-OEM drum, has a double lip dust groove while that of the non-OEM drum has a single lip, and is painted while the non-OEM drum is not. Petitioner's Postconference Brief, Public Ex. 1 at 2.

[23] See Tr. at 19-20 (Breslow).

[24] Tr. at 19 (Breslow).

[25] Tr. at 70-71 (Orlando).

[26] Tr. at 34 (Gladner), 64-65 (LaVarra); Petitioner's Postconference Brief, public ex. 3.

[27] See CR at I-9, PR at I-6. In any final investigation, we will investigate further the degree to which OEM brake drums or rotors and their non-OEM counterparts are in fact competitive products for "aftermarket" work not done under warranty.

[28] CR at I-11-12, PR at I-7-8.

[29] CR at I-13, PR at I-8.

[30] Respondents have appended a substantial number of press clippings to their postconference brief in an effort to substantiate their argument. These materials, in our view, are of limited probative value. The clippings do not speak specifically to the domestic like product issue the parties have defined -- the difference between brake drums or rotors

(continued...)

fact, some overlap in channels, the overlap is minor. As explained below, production of OEM drums and rotors is overwhelmingly undertaken by manufacturers distinct from those that produce non-OEM drums and rotors. OEM drum and rotor manufacturers sell a substantial portion of their output to vehicle manufacturers and their suppliers, or internally consume their production.[31] Vehicle manufacturers, however, do not use non-OEM products as original equipment on their production lines.[32] Although manufacturers of both OEM and non-OEM drums and rotors sell their products to distributors for sale as replacement parts in the "aftermarket," the distributors who handle OEM products are generally distinct from the distributors who handle non-OEM products.[33] Consequently, the current record indicates that the bulk of OEM brake drum and rotor production is sold by different manufacturers through different channels of distribution than non-OEM brake drum and rotor production.[34]

Production Processes, Facilities, and Employees. The record indicates that there are differences in the manner that production of OEM and non-OEM drums and rotors is undertaken. Non-OEM drum or rotor production machinery is often clustered in stand-alone cells operated by one or two employees that produce a finished part ready for shipment. Each cell contains two or three pieces of equipment used to accomplish all machining and finishing operations.[35] By contrast, OEM brake drums or rotors are often produced on an automated transfer line to obtain production efficiencies because of the larger volumes of articles produced. The assembly lines generally consist of seven to ten pieces of equipment, each of which is dedicated to a particular task. Production of OEM brake drums or rotors entails some specialized equipment, which is not used to produce non-OEM articles, to ensure conformance with OEM specifications.[36]

Production of OEM drums or rotors is, with what appear to be minor exceptions, undertaken at separate facilities from those used to produce non-OEM drums or rotors. The firms, such as those that constitute the petitioning coalition, that focus on production of non-OEM drums or rotors do not produce OEM drums or rotors except in isolated instances.[37] Some producers who focus on OEM drum or rotor production, by contrast, do produce some non-OEM articles. This production, however, is either excess production or production intended to be OEM that fails to meet OEM specifications. The information

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[30](...continued)
that have OEM certification and those that do not. Moreover, many of the clippings speak of automotive parts generally and do not specifically pertain to brake drums or rotors. See, e.g., Respondents' Postconference Brief, ex. 1, sixth article (description of Raysbestos "Brake Bath").

[31] CR at III-4, PR at III-3.

[32] See CR at III-9, PR at III-5.

[33] See CR at I-11, PR at I-7.

[34] We anticipate that responses to purchasers' questionnaires will permit us to have a more complete record with respect to this issue in any final investigation. Additionally, we will investigate further the extent to which entities such as automobile dealers, service stations, and independent garages stock both OEM and non-OEM drums or rotors.

[35] CR at I-16, PR at I-10.

[36] CR at I-17, PR at I-10.

[37] CR at III-8, PR at III-4. In any final investigation we will explore further the extent to which production of original equipment service (OES) drums or rotors for older or discontinued automobile models may be outsourced by an OEM producer to a non-OEM producer, such as the petitioning firms.

available indicates that such non-OEM output accounts for only a very small portion of these producers' total drum or rotor production.[38]

Customer and Producer Perceptions. Testimony presented at the conference supports the conclusion that customers and producers perceive non-OEM brake drums or rotors as distinct products from OEM brake drums or rotors. One of the petitioning firm's customers, an executive of an automotive parts distributor, testified that his firm served the aftermarket exclusively and that it never carried or sold OEM drums or rotors.[39] Petitioner also submitted testimony from the non-OEM brake drum and rotor producers who support the petition that the market their firms serve is distinct from the OEM market.[40]

Marketing literature that brake drum and rotor manufacturers prepare in the ordinary course of business corroborates the conference testimony. Product brochures prepared by one of the petitioning firms specifically references its brake drum and rotor products as being for the "aftermarket."[41] Similarly, promotional material prepared by an OEM rotor manufacturer specifically mentions that the manufacturer's major customers are OEMs.[42]

Price. The record contains only limited information pertinent to the relative prices of OEM brake drums or rotors as compared to non-OEM drums or rotors.[43] Petitioner has submitted information indicating that, as compared to non-OEM products sold by Wagner Brake Corp., the comparable OEM brake rotor is priced 291 percent higher and the comparable OEM brake drum is priced 43 percent higher.[44] Two importers reported in their questionnaire responses their impression that OEM product is priced higher.[45]

Conclusion. We have determined that, for purposes of this preliminary investigation, the domestic like products should be limited to non-OEM brake drums and non-OEM brake rotors. The record indicates that an OEM brake drum or rotor and its non-OEM counterpart are physically very similar -- the distinctions cited by petitioner are superficial -- and perform the same function in the same manner in a particular motor vehicle. Notwithstanding their similarities in physical characteristics and end-uses, however, the record in this preliminary investigation indicates that several factors distinguish non-OEM drums or rotors from their OEM counterparts. OEM drums and rotors and non-OEM drums and rotors have largely separate channels of distribution, are overwhelmingly made by separate manufacturers in distinct facilities using different types of production lines, and generally are perceived to be separate products by producers and distributors. These characteristics, and particularly the fact that the current record indicates that OEM and non-OEM producers are largely separate entities serving distinct markets, distinguish this investigation from several prior investigations where the Commission has stated that differences in channels of distributions are by

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[38] CR at III-5, III-8, PR at III-3-5.

[39] Tr. at 33-34, 56-57 (Gladner).

[40] Tr. at 27-28 (Painter), 62-63 (Breslow).

[41] Wagner product brochures.

[42] Petitioner's Postconference Brief, public ex. 5.

[43] Although Commission staff sent out questionnaires to producers of OEM drums and rotors, it received few responses containing financial or unit value information. We will attempt in any final investigation to generate further information about relative prices of OEM and non-OEM drums and rotors.

[44] Petitioner's Postconference Brief, public ex. 1.

[45] CR at I-19, PR at I-11.

themselves an insufficient basis for separating like products.[46] On balance, we conclude that the current record indicates that the distinctions between the OEM and non-OEM products at issue are greater than the similarities, and are sufficiently strong to indicate a "clear dividing line" between the products. Accordingly, we have determined not to include OEM brake drums or rotors in the domestic like products.[47] As we have noted throughout the preceding discussion, however, the current record is incomplete in several respects, and we will revisit this issue in any final investigation.

For the foregoing reasons, we have determined that there are two domestic like products in this investigation. The first domestic like product consists of non-OEM brake rotors; the second domestic like product consists of non-OEM brake drums.[48]

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[46] See Defrost Timers from Japan, Inv. No. 731-TA-643 (Final), USITC Pub. 2740 at I-6-7 (Feb. 1994); Chrome-Plated Lug Nuts from the People's Republic of China and Taiwan, Inv. Nos. 731-TA-474-475 (Preliminary), USITC Pub. 2342 at 14-15 (Dec. 1990); Yuasa-General Battery Corp. v. United States, 661 F. Supp. 1214, 1217 (Ct. Int'l Trade 1987).

[47] Commissioner Newquist notes that the role of OEM specifications, whether or not they affect functionality, remains an important question in the analysis of whether OEM and non-OEM rotors, and OEM and non-OEM drums, are "like products." Whether products meet specifications has served as the primary basis for like product determinations in many other Title VII investigations. Therefore, he leaves open the question of whether such an analysis based on specification compliance or "qualified product" might merit more attention in any final investigation.

[48] The imported articles subject to investigation include "unfinished" and "semifinished" drums and rotors. 61 Fed. Reg. at 14740-41. Commerce's scope determination defines "unfinished" drums or rotors as "those which have undergone some grinding or turning," and "semifinished" drums or rotors as "those on which the surface is not entirely smooth, and has undergone some drilling." Because these articles are within the scope, the Commission must determine what domestic like product(s) correspond to these articles.

In cases involving semifinished products, the Commission examines: (1) whether the upstream article is dedicated to the production of the downstream article or has independent uses; (2) whether there are perceived to be separate markets for the upstream and downstream articles; (3) differences in the physical characteristics and functions of the upstream and downstream articles; (4) difference in the costs of value of the vertically differentiated articles; and (5) significance and extent of the processes used to transform the upstream into the downstream articles. Large Newspaper Printing Presses and Components Thereof, Whether Assembled or Unassembled, from Germany and Japan, Inv. Nos. 731-TA-736-737 (Preliminary), USITC Pub. 2916 at I-8 & n.30 (Aug. 1995); Certain Cased Pencils from the People's Republic of China, Inv. No. 731-TA-669 (Final), USITC Pub. 2837 at I-6-7 n.14 (Dec. 1994).

Unfinished and semifinished brake drums or rotors are used only to produce the finished product. CR at I-16 n.58, PR at I-10 n.58. They differ from the finished product in the amount of grinding and boring they have received. One of the petitioner's witnesses characterized the finishing process as "they just put it in a machine and finish it [by touching off the braking surface] real quick." Tr. at 79 (Arenson). Nevertheless, a drum or rotor cannot be installed in a vehicle until and unless the finishing process is completed. CR at I-16, PR at I-9-10. The finishing process adds approximately 35 to 40 percent of the total value of the product. CR at III-10, PR at III-6. There do not appear to be any independent markets for U.S.-produced unfinished or semifinished drums or rotors. Id.

Because of the relatively minor nature of the processing used to finish brake drums and rotors, and because the semifinished forms of the product are dedicated to production of the finished forms, we have included that unfinished and semifinished drums and rotors "like" those subject to investigation within the same domestic like products as the finished forms of the products.

C. Domestic Industry

In making its determination, the Commission is directed to consider the effect of the imports on the industry, defined as "the producers as a [w]hole of a domestic like product. . ."[49] Based on our definition of the domestic like products, there are two domestic industries in these investigations. The first consists of domestic producers of non-OEM brake rotors. The second consist of domestic producers of non-OEM brake drums.

We must further determine whether certain producers of the domestic like products should be excluded from the pertinent industry as related parties.[50] If the Commission determines that a domestic producer satisfies the definition of a related party, the Commission may exclude such producer from the domestic industry if "appropriate circumstances" exist.[51] Exclusion of a related party is within the Commission's discretion based upon the facts presented in each case.[52]

Three domestic producers of non-OEM rotors, AlliedSignal, Kinetic, and Wagner, imported subject rotors from China during the period of investigation.[53] Consequently, these three firms are related parties

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[49] 19 U.S.C. § 1677(4)(A). In doing so, the Commission generally includes all domestic production, including tolling operations and captively consumed product, within the domestic industry. See United States Steel Group v. United States, 873 F. Supp. 673, 682-83 (Ct. Int'l Trade 1994), appeal docketed, No. 95-1245 (Fed. Cir. March 21, 1995).

[50] A domestic producer is a related party if it is either related to the exporters or importers of subject merchandise, or is itself an importer of the subject merchandise. Parties are considered to be related if one party directly or indirectly controls another party. Direct or indirect control exists when "the party is legally or operationally in a position to exercise restraint or direction over the other party." 19 U.S.C. § 1677(4)(B).

[51] 19 U.S.C. § 1677(4)(B). The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include:

(1) the percentage of domestic production attributable to the importing producer;

(2) the reason the U.S. producer has decided to import the product subject to investigation, i.e., whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market, and

(3) the position of the related producer vis-a-vis the rest of the industry, i.e., whether inclusion or exclusion of the related party will skew the data for the rest of the industry.

See, e.g., Torrington Co. v. United States, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), aff'd without opinion, 991 F.2d 809 (Fed. Cir. 1993). The Commission has also considered whether each company's books are kept separately from its "relations" and whether the primary interests of the related producers lie in domestic production or in importation. See, e.g., Certain Carbon Steel Butt-Weld Pipe Fittings from France, India, Israel, Malaysia, the Republic of Korea, Thailand, the United Kingdom, and Venezuela, Inv. Nos. 701-TA-360 and 361, 731-TA-688-695 (Final), USITC Pub. 2870 at I-18 (April 1995).

[52] Torrington, 790 F. Supp. at 1168; Empire Plow Co. v. United States, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987); S. Rep. No. 249, 96th Cong. 1st Sess. at 83 (1979) ("where a U.S. producer is related to a foreign exporter and the foreign exporter directs his exports to the United States so as not to compete with his related U.S. producer, this should be a case where the ITC would not consider the related U.S. producer to be a part of the domestic industry").

[53] Table III-3, CR at III-12-13, PR at III-6: see Tr. at 185.

with respect to the non-OEM rotor industry.[54] We determine that a fourth domestic producer of non-OEM rotors, ITT Automotive (ITT), is also a related party because it ***.[55]

One domestic producer of non-OEM drums, AlliedSignal, imported subject drums from China during the period of investigation.[56] Consequently, this firm is a related party with respect to the domestic non-OEM brake drum industry.

With respect to the non-OEM rotor industry, we determine that appropriate circumstances do not exist for the exclusion of ITT, Kinetic, or Wagner. Each of these firms maintains a substantial domestic production presence.[57] Moreover, these firms' financial results indicate that their importation activities have not caused their financial performance with respect to their domestic production to benefit *vis a vis* the domestic non-OEM brake rotor producers that do not import subject rotors from China.[58] AlliedSignal, ***.[59] *** we determine that appropriate circumstances exist to exclude AlliedSignal from the domestic non-OEM rotor industry.

Similarly, AlliedSignal's production of non-OEM brake drums ***.[60] Accordingly, we determine that appropriate circumstances also exist to exclude AlliedSignal from the domestic non-OEM drum industry.

III. CONDITION OF THE DOMESTIC INDUSTRIES

In assessing whether there is a reasonable indication that the domestic industries are materially injured or threatened with material injury by reason of allegedly LTFV imports, we consider all relevant economic factors that bear on the state of each industry in the United States.[61] These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow,

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[54] Additionally, ***. CR at III-11 & n.97, PR at III-6 & n.24. The *** also serves to make Kinetic a related party. See Uranium from the U.S.S.R., Inv. No. 731-TA-539 (Preliminary), USITC Pub. 2471 at 14 (Dec. 1991).

[55] In previous investigations, the Commission has concluded that a domestic producer that does not itself import subject merchandise, or does not share a corporate affiliation with an importer, may nonetheless be deemed a related party if it controls large volumes of imports. The Commission has found such control to exist where the domestic producer was responsible for a predominant proportion of an importer's purchases and the importer's purchases were substantial. See Certain Special Quality Carbon and Alloy Hot-Rolled Steel Bars and Rods and Semifinished Products from Brazil, Inv. No. 731-TA-572 (Final), USITC Pub. 2662 at 18-19 (July 1993); Certain Carbon Steel Butt-Weld Pipe Fittings from China and Thailand, Inv. Nos. 731-TA-520-521 (Final), USITC Pub. 2528 at 12-13 (June 1992). Here, ITT ***. CR at III-11 n.96, PR at III-6 n.23. ***. Table IV-1, CR at IV-1-2, PR at IV-1. ***. CR at III-11 n.96, PR at III-6 n.23.

[56] Table III-3, CR at III-12-13, PR at III-7; see Tr. at 185.

[57] Table III-2, CR at III-5, PR at III-3.

[58] Table VI-5, CR at VI-7-8, PR at VI-3. Nevertheless, we note that ***, which raises the question of whether their primary interests lie in production or importation. Tables III-2, III-3, CR at III-5, III-12-13, PR at III-3, III-6. Additionally, Kinetic states that it has imported product from China to benefit from the lower prices for Chinese product. Petitioner's Postconference Brief, Rebuttal ex. 1 at 6. ***. Table III-3, CR at III-13, PR at III-6. In light of these facts, we will again examine during any final investigation whether appropriate circumstances exist to exclude ITT and Kinetic from the pertinent domestic rotor industry. We expect that the parties will address this issue in any final investigation.

[59] Tables III-2, III-3, CR at III-5, III-12-13, PR at III-3, III-6.

[60] Tables III-2, III-3, CR at III-5, III-12-13, PR at III-3, III-6.

[61] 19 U.S.C. § 1677(7)(C)(iii).

return on investment, ability to raise capital, and research and development. No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[62]

A. The Non-OEM Rotor Industry

Conditions of competition[63] pertinent to our analysis of the domestic non-OEM rotor industry stem from the fact that such rotors are used as replacement parts in vehicles.[64] The industry has been characterized by increasing demand since 1993 because the number of older cars on the road has increased and such older automobiles are more likely to need replacement rotors.[65] Additionally, demand is increasing because recently-manufactured automobiles are more likely to have disc brakes, whose rotors wear out relatively quickly.[66]

Reflecting these demand conditions, apparent consumption in the United States of non-OEM rotors increased throughout the period of investigation, which encompasses calendar years 1993, 1994, and 1995.[67] The domestic industry's U.S. shipments also increased each year from 1993 to 1995.[68] U.S. producers' share of total domestic consumption increased by quantity, but decreased by value, from 1993 to 1995.[69]

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[62] 19 U.S.C. § 1677(7)(C)(iii).

[63] Commissioner Crawford notes that the conditions of competition applicable to the brake rotor market are applicable to the brake drum market as well. In her determination that there is a reasonable indication that the domestic brake drum industry is materially injured by reason of allegedly LTFV imports of brake drums from China, Commissioner Crawford evaluated the conditions of competition in the brake drum market that are relevant to her analysis. See Additional Views of Commissioner Carol T. Crawford, infra. The facts pertinent to the brake drum market are virtually identical to the facts pertinent to the brake rotor market. Consequently, Commissioner Crawford finds that the overall elasticity of demand for brake rotors is relatively low; that subject imports, nonsubject imports and domestic brake rotors are fairly good substitutes for each other; and that the elasticity of supply of brake rotors is moderate to high.

[64] The parties alleged further conditions of competition. Petitioner alleged that domestic producers earn higher profits on their highest-volume models, and that the subject imports have focused on these models and displaced sales of domestically-produced product. Respondents, in turn, argued that a significant percentage of the subject imports were models not manufactured in the United States. Although the issues raised by these contentions may be pertinent to our analysis, the record in this preliminary investigation is insufficient to permit us to evaluate either contention. We will explore these issues further in any final investigation, and request that the parties submit evidence to corroborate the assertions they make and provide suggestions for data collection.

[65] CR at II-5, PR at II-3.

[66] Tr. at 45 (Button); 71 (Breslow).

[67] Apparent consumption increased by *** percent from 1993 to 1994 from *** units to *** units, and by *** percent, to *** units, from 1994 to 1995. Table IV-5, CR at IV-11, PR at IV-7. Apparent consumption and certain other aggregated data for the non-OEM rotor industry are confidential in these views because the Commission did not receive a complete questionnaire response from one domestic non-OEM rotor producer. It is anticipated that this producer will provide a complete questionnaire response in any final investigation. Consequently, the Commission is treating certain non-OEM rotor industry data in these views as confidential so that it will be able to make fully public the data that it gathers in any final investigation.

[68] U.S. shipments increased by *** percent from 1993 to 1994 from *** units to *** units, and by *** percent, to *** units, from 1994 to 1995. Table III-6, CR at III-20, PR at III-9-10.

[69] Measured by quantity, U.S. producers' share of domestic consumption increased from *** percent in 1993 to *** percent in 1994 and to *** percent in 1995. Measured by value, U.S. producers' share of domestic consumption

(continued...)

The domestic industry's production increased from 1993 to 1994, but declined by a lesser amount from 1994 to 1995.[70] Production capacity rose throughout the period of investigation, as one new producer began operations in 1994 and several existing producers increased their productive capacity. Capacity increased from 10.8 million units in 1993 to 14.9 million units in 1994, and to 15.5 million units in 1995, an increase of 44.1 percent.[71] Because capacity expansion outstripped production increases, capacity utilization declined from 90.8 percent in 1993 to 75.3 percent in 1994 and to 70.0 percent in 1995.[72] Consequently, there was significant unused capacity in the industry in 1995. Inventory levels and the ratios of inventories to U.S. shipments increased throughout the period of investigation.[73]

The number of production and related workers increased during each year of the period of investigation.[74] The number of hours worked increased from 1993 to 1994, but declined by a lesser amount from 1994 to 1995.[75] Hourly wages declined throughout the period of investigation.[76]

The domestic non-OEM rotor industry's aggregate operating income declined from 1993 to 1994, and increased by a lesser amount from 1994 to 1995.[77] From 1993 to 1994, sales revenues increased, but average unit sales values declined. Simultaneously, average unit values for cost of goods sold (COGS) and selling, general, and administrative (SG&A) expenses increased. Consequently, average unit values for gross profit and operating income and operating margins fell from 1993 to 1994. By contrast, from 1994 to 1995, both sales revenues and average unit sales values increased. COGS, on a per unit basis, increased, but per

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[69](...continued)
declined from *** percent in 1993 to *** percent in 1994 and to *** percent in 1995. Table IV-5, CR at IV-11, PR at IV-7.

[70] Production increased by *** percent from 1993 to 1994, from *** units to *** units, and then declined by *** percent, to *** units, from 1994 to 1995. Table III-5, CR at III-17, PR at III-8. (Because AlliedSignal has been excluded from the domestic industry, its data concerning production of non-OEM rotors have been excluded from this total. AlliedSignal provided ***.)

One reason for the possible disparity in shipment and production trends from 1994 to 1995 is that ***, a non-OEM rotor producer whose production *** throughout the period of investigation, reported production but not shipment data. Because *** also did not report employment and financial data, the reported industry trends with respect to these indicators may be somewhat more favorable than they would be if they included ***.

[71] Table III-4, CR at III-16, PR at III-8. See also Table III-5, CR at III-17; PR at III-8 (providing data for individual producers).

[72] Tables III-4, III-5, CR at III-16-17, PR at III-8.

[73] Inventories increased by *** percent from 1993 to 1994, from *** units to *** units, and by *** percent, to *** units from 1994 to 1995. The ratio of inventories to total U.S. shipments increased from *** in 1993 to *** in 1994 and *** in 1995. Table III-7, CR at III-23, PR at III-11.

[74] The number of such workers increased from *** in 1993 to *** in 1994 and to *** in 1995. Table III-8, CR at III-24, PR at III-12.

[75] Hours worked increased by *** percent from 1993 to 1994, from *** to *** , and then declined by *** percent, to ***, from 1994 to 1995. Table III-8, CR at III-24, PR at III-12.

[76] Hourly wages declined from *** in 1993 to *** in 1994 and to *** in 1995. Table III-8, CR at III-24, PR at III-12.

[77] Operating income declined from *** in 1993 to *** in 1994, and then increased to *** in 1995. Table VI-4, CR at VI-6, PR at VI-3.

unit SG&A expenses declined by a amount greater than the increase in COGS. Thus, the industry's operating margin increased from 1994 to 1995, although it did not recover to its 1993 level.[78]

Capital expenditures by the domestic non-OEM rotor industry increased irregularly from 1993 to 1995.[79] Research and development expenditures increased throughout each year of the period of investigation.[80] [81]

B. The Non-OEM Drum Industry

The conditions of competition described above with respect to the non-OEM rotor industry are generally applicable to the non-OEM drum industry as well.[82] [83] The non-OEM drum industry, however, is considerably smaller than the non-OEM rotor industry.

Apparent consumption in the United States of non-OEM drums rose throughout the period of investigation. Apparent consumption increased from 4.4 million units in 1993 to 5.0 million units in 1994 and to 5.3 million units in 1995, a total increase of 21.1 percent.[84] The domestic industry's U.S. shipments increased from 1.8 million units in 1993 to 2.2 million units in 1994 and to 2.5 million units in 1995, a total increase of 40.5 percent.[85] Because shipments increased at a greater rate than domestic consumption, U.S. producers' share of the quantity of domestic consumption increased from 40.6 percent in 1993 to 43.1 percent in 1994 and 47.2 percent in 1995.[86]

The domestic industry's production, capacity, and capacity utilization also increased throughout the period of investigation. Production rose from 2.0 million units in 1993 to 2.6 million units in 1994 and to 2.9

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[78] Table VI-4, CR at VI-6, PR at VI-3.

[79] Capital expenditures increased by *** percent from 1993 to 1994, from *** to ***, and then declined by *** percent, to ***, from 1994 to 1995. Table VI-9, CR at VI-12, PR at VI-4.

[80] Such expenses increased by *** percent from 1993 to 1994, from *** to ***, and by *** percent, to ***, from 1994 to 1995. Table VI-10, CR at VI-13, PR at VI-4.

[81] Based on the foregoing, Commissioner Rohr and Commission Newquist determine that there is a reasonable indication that the domestic non-OEM rotor industry is experiencing material injury.

[82] See CR at II-5-6, PR at II-3-4.

[83] Commissioner Crawford concurs that the conditions of competition applicable to the brake rotor market are applicable to the brake drum market as well. In her determination that there is a reasonable indication that the domestic brake drum industry is materially injured by reason of allegedly LTFV imports of brake drums from China, she found that the overall elasticity of demand for brake drums is relatively low; that subject imports, nonsubject imports and domestic brake drums are fairly good substitutes for each other; and that elasticity of supply of brake drums is moderate to high. See Additional Views of Commissioner Carol T. Crawford, infra. As noted earlier, she finds that these same conditions of competition apply to the brake rotor market.

[84] Table IV-4, CR at IV-12, PR at IV-7.

[85] Table III-6, CR at III-20, PR at III-9-10.

[86] Table IV-4, CR at IV-12, PR at IV-7. Measured by value, U.S. producers' share of U.S. consumption fluctuated within a narrow range. Id.

million units in 1995, an increase of 42.8 percent.[87] Capacity increased from 3.0 million units in 1993 to 3.2 million units in 1994, and to 3.4 million units in 1995, a total increase of 15.2 percent.[88] Capacity utilization increased from 67.6 percent in 1993 to 83.0 percent in 1994 and to 83.9 percent in 1995.[89] Inventories declined from 467,000 units in 1993 to 465,000 units in 1994, and then increased to 603,000 units in 1995, an increase of 29.1 percent from 1993 to 1995.[90]

The number of production and related workers increased from 164 in 1993 to 174 in 1994 and to 209 in 1995.[91] Hours worked increased from 363,000 in 1993 to 449,000 in 1994 and to 483,000 in 1995.[92] Hourly wages declined from $14.40 in 1993 to $14.37 in 1994, and then increased to $14.81 in 1995.[93]

Financial results for the domestic non-OEM drum industry were positive from 1993 to 1995. Sales revenues, gross profits, and operating income went up during each year of the period of investigation.[94] Operating margins fluctuated within a fairly narrow range.[95] [96]

Capital expenditures increased throughout the period of investigation.[97] Research and development expenditures were low and stable.[98] [99]

IV. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY LTFV IMPORTS OF CERTAIN BRAKE ROTORS

In preliminary antidumping investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured by reason of the imports under

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[87] Table III-5, CR at III-17, PR at III-8. (Because AlliedSignal has been excluded from the domestic industry, its data concerning production of non-OEM drums have been excluded from this total. AlliedSignal provided ***.)

[88] Table III-4, CR at III-16, PR at III-8.

[89] Tables III-4, III-5, CR at III-16-17, PR at III-8.

[90] Table III-7, CR at III-23, PR at III-11.

[91] Table III-8, CR at III-24, PR at III-12.

[92] Table III-8, CR at III-24, PR at III-12.

[93] Table III-8, CR at III-24, PR at III-12.

[94] Gross profit increased from *** in 1993 to *** in 1994 and *** in 1995. Operating income increased from *** in 1993 to *** in 1994 and *** in 1995. Table VI-1, CR at VI-2, PR at VI-1.

[95] The ratio of gross profit to net sales was *** percent in 1993, *** percent in 1994, and *** percent in 1995. The ratio of operating income to net sales declined from *** percent in 1993 to *** percent in 1994, and then increased *** percent in 1995. Table VI-1, CR at VI-2, PR at VI-1.

[96] Commissioner Rohr notes that operating margins for the non-OEM brake drum industry were quite high and overall financial results could be characterized as very favorable.

[97] Capital expenditures increased from *** in 1993 to *** in 1994 and then declined to *** in 1995, an overall increase of *** from 1993 to 1995. Table VI-9, CR at VI-12, PR at VI-4.

[98] Table VI-10, CR at VI-13, PR at VI-4.

[99] Based on the foregoing, Commissioner Rohr and Commissioner Newquist determine that there is no reasonable indication that the domestic non-OEM drum industry is experiencing material injury. Their analysis of drums proceeds directly to the issue of reasonable indication of threat of material injury, discussed in section VI.

investigation.[100] In making this determination, the Commission must consider the volume of imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.[101] Although the Commission may consider causes of injury to the industry other than the allegedly LTFV imports,[102] it is not to weigh causes.[103] [104] [105]

For the reasons discussed below, we find that there is a reasonable indication that the domestic non-OEM rotor industry is materially injured by reason of allegedly LTFV imports from China.

Volume of Subject Rotor Imports. Measured by quantity, subject rotor imports increased from 2.1 million units in 1993 to 4.7 million units in 1994 and to 6.9 million units in 1995. Measured by value, subject rotor imports increased from $13.7 million in 1993 to $30.2 million in 1994 and $46.9 million in 1995.[106] The market penetration of Chinese rotor imports also increased by large proportions from 1993 to 1995. By 1995, Chinese rotor import market penetration, measured by quantity, had risen to a level that was

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[100] 19 U.S.C. § 1673b(a). The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." 19 U.S.C. § 1677(7)(A).

[101] 19 U.S.C. § 1677(7)(B)(I). The Commission "may consider such other economic factors as are relevant to the determination," but shall "identify each [such] factor . . . and explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B).

[102] Alternative causes may include the following:

> [T]he volume and prices of imports sold at fair value, contraction in demand or changes in patterns of consumption, trade, restrictive practices of and competition between the foreign and domestic producers, developments in technology, and the export performance and productivity of the domestic industry.

S. Rep. No. 249, 96th Cong., 1st Sess. 74 (1979). Similar language is contained in the House Report. H.R. Rep. No. 317, 96th Cong., 1st Sess. 46-47 (1979).

[103] See, e.g., Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1101 (Ct. Int'l Trade 1988).

[104] Commissioner Rohr and Commissioner Newquist further note that the Commission need not determine that imports are "the principal, a substantial, or a significant cause of material injury." S. Rep. No. 249, at 57, 74. Rather, a finding that imports are a cause of material injury is sufficient. See, e.g., Metallverken Nederland B.V. v. United States, 728 F. Supp. 730, 741 (Ct. Int'l Trade 1989); Citrosuco Paulista, 704 F. Supp. at 1101.

[105] Commissioner Crawford notes that the statute requires that the Commission determine whether a domestic industry is "materially injured by reason of" the allegedly LTFV imports. She finds that the clear meaning of the statute is to require a determination of whether the domestic industry is materially injured by reason of allegedly LTFV imports, not by reason of the allegedly LTFV imports among other things. Many, if not most, domestic industries are subject to injury from more than one economic factor. Of these factors, there may be more than one that independently are causing material injury to the domestic industry. It is assumed in the legislative history that the "ITC will consider information which indicates that harm is caused by factors other than less-than-fair-value imports." S. Rep. No. 249, 96th Cong., 1st Sess. 75 (1979). However, the legislative history makes it clear that the Commission is not to weigh or prioritize the factors that are independently causing material injury. Id. at 74; H.R. Rep. No. 317, 96th Cong., 1st Sess. 46-47 (1979). The Commission is not to determine if the allegedly LTFV imports are "the principal, a substantial or a significant cause of material injury." S. Rep. No. 96-249 at 74 (1979). Rather, it is to determine whether any injury "by reason of" the allegedly LTFV imports is material. That is, the Commission must determine if the subject imports are causing material injury to the domestic industry. "When determining the effect of imports on the domestic industry, the Commission must consider all relevant factors that can demonstrate if unfairly traded imports are materially injuring the domestic industry." S. Rep. No. 71, 100th Cong., 1st Sess. 116 (1987) (emphasis added).

[106] Table IV-2, CR at IV-6, PR at IV-3.

substantial in relationship to both domestic production and the market as a whole.[107] Accordingly, we find both the volume of imports of rotors from China, and the increase in that volume, are significant.

Price Effects of Subject Rotor Imports. Pricing data were collected in this preliminary investigation on two non-OEM rotor models. The imports from China undersold the domestically-produced product in every pricing comparison.[108]

The underselling margins were high and increased over the period of investigation.[109] In light of the consistent, high, and increasing margins of underselling, we determine that the underselling is significant.[110] [111]

The record in this preliminary investigation indicates price suppression attributable to the underselling and the increasing volumes of rotors imported from China. Even assuming that a U.S.-produced

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[107] Measured by quantity, subject rotor import market penetration increased from *** percent in 1993 to *** percent in 1994 and *** percent in 1995. Measured by value, subject rotor import market penetration increased from *** percent in 1991 to *** percent in 1994 and *** percent in 1995. Table IV-5, CR at IV-11, PR at IV-8.

[108] Tables V-3, V-4, CR at V-8-9, PR at V-3.

[109] Tables V-3, V-4, CR at V-8-9, PR at V-3.

[110] Perceived quality and marketing differences may explain in part the pervasive underselling. Importers generally stated that Chinese imports were perceived as being lower in quality than the U.S.-produced product, and were priced lower in light of such perceptions. CR at I-14-15, PR at I-8-9. Additionally, some producers and importers sell two lines of rotors -- a "premium" line, which is typically produced in the United States or Canada, and a lower-priced line, which is typically imported from a country other than Canada. See CR at II-2; PR at II-1. Nevertheless, these factors can explain neither the size of the underselling margins nor why these margins increased over time.

[111] Commissioner Crawford rarely gives much weight to evidence of underselling since, as noted above, it usually reflects some combination of differences in quality, other nonprice factors, or fluctuations in the market during the period in which price comparisons were sought. In this market, Commissioner Crawford finds that subject imports are not having significant effects on domestic prices for brake rotors. To evaluate the effects of the dumping on domestic prices, Commissioner Crawford compares domestic prices that existed when the imports were dumped with what domestic prices would have been if the imports had been fairly traded. In most cases, if the subject imports had not been traded unfairly, their prices in the U.S. market would have increased. In this investigation, the alleged dumping margins for subject imports from China are quite large (52.08 to 62.55 percent), so that subject imports likely would have been priced significantly higher had they been fairly traded. Subject imports and domestic brake rotors are fairly good substitutes, and thus some of the demand for subject imports likely would have shifted to domestic brake rotors had subject imports been fairly traded. However, nonsubject imports and subject imports also are fairly good substitutes, and thus some of the demand for subject imports likely would have shifted to nonsubject imports as well. Since subject imports held a market share of *** percent by quantity in 1995, the shift in demand away from subject imports likely would have been substantial, and it is likely that the domestic industry would have captured a significant share of it. The elasticity of demand indicates that domestic suppliers should have been able to increase prices in respo nse to this significant shift in demand. However, any attempt by the domestic industry to increase its prices in response to the shift in demand would have been unsuccessful. There is significant competition among brake rotor suppliers in the U.S. market. The domestic industry has available production capacity, and some inventories and exports with which they would have competed among themselves for sales, had demand shifted away from subject imports. Furthermore, suppliers of the large volume of nonsubject imports, which accounted for *** of consumption in 1995, also would have competed for sales, and thus provided additional price discipline. In these circumstances, any effort by a domestic supplier to raise its prices would have been beaten back by its competitors. Therefore, significant effects on domestic prices cannot be attributed to the unfair pricing of subject imports. Consequently, Commissioner Crawford finds that subject imports are not having significant effects on prices for domestic brake rotors.

non-OEM rotor would sell at a premium over a Chinese rotor due to marketing practices and perceptions of superior quality, the interchangeability of the products would limit the size of that premium. The overwhelming majority of importers responding to the Commission's questionnaire indicated that U.S.-produced non-OEM rotors were interchangeable with rotors imported from China.[112] Because either a Chinese or domestically-produced rotor could be used for an application requiring a non-OEM rotor, if the pricing premium for the domestic product became too high relative to the Chinese rotor, domestic customers would likely switch to the Chinese rotor. Although domestic non-OEM rotor prices did not decline during the period of investigation, they fluctuated within a narrow range.[113] At the same time, however, domestic industry's per unit COGS was increasing.[114] We believe that the presence of significant and increasing volumes of LTFV subject imports sold at much lower prices that were interchangeable with the domestic like product prevented price increases for the domestic like product, which otherwise might have occurred, to a significant degree.[115]

Impact of Subject Rotor Imports. The domestic industry's inability to increase its prices commensurate with increases in costs in light of the increasing volumes of low-priced subject imports adversely affected its financial performance.[116] Although sales revenues increased during the period of investigation, operating income fell.[117] Operating income margins also fell, and an increasing number of producers experienced operating losses.[118]

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[112] CR at II-6, PR at II-4.

[113] Tables V-3, V-4, CR at V-8-9, PR at V-3.

[114] Table VI-4, CR at VI-6, PR at VI-3.

[115] As part of its consideration of the impact of imports in an antidumping proceeding, the statute as amended by the URAA now also specifies that the Commission is to consider "the magnitude of the margin of dumping." 19 U.S.C. § 1677(7)(C)(iii)(V). The SAA indicates that the amendment "does not alter the requirement in current law that none of the factors which the Commission considers is necessarily dispositive in the Commission's material injury analysis." SAA at 180. The statute defines the "magnitude of the margin of dumping" to be used by the Commission in a preliminary determination as "the dumping margin or margins published by the administering authority [Commerce] in its notice of initiation of the investigation." 19 U.S.C. § 1677(35)(C). The estimated dumping margins identified by Commerce in its notice of initiation for brake rotors are from 52.08 percent to 62.55 percent. 61 Fed. Reg. at 14741.

[116] Vice Chairman Nuzum notes that the alleged dumping margins range between 52.08 and 62.55 percent, which exceed the margins by which the Chinese brake rotors undersell U.S. non-OEM brake rotors. During the period examined, domestic prices remained relatively flat while subject import prices declined, but domestic cost of goods sold increased. See Tables V-3, V-4, VI-4, CR at V-8, V-9, VI-6, PR at V-3, VI-2. Given the high degree of interchangeability of the Chinese and domestic rotors, she finds that dumping of the magnitude alleged here likely contributed to the price pressure that subject imports were putting on domestic producers, preventing them from increasing prices to cover increasing costs.

[117] Table VI-4, CR at VI-6, PR at VI-3. We note that the decline in financial performance occurred principally from 1993 to 1994. Profitability did increase from 1994 to 1995, but this increase was insufficient to offset the previous year's decline. Id..

[118] Table VI-4, CR at VI-6, PR at VI-3.

Moreover, notwithstanding that domestic consumption of non-OEM rotors continued to increase from 1994 to 1995, domestic production declined.[119] Domestic producers were unable to exploit their increased capacity, as capacity utilization fell significantly.[120] [121]

We conclude that the industry's declines in profitability and capacity utilization indicate that the volume and price effects of the subject imports are injurious. Because of their significant volumes and price suppressing effects, rotor imports from China have prevented the domestic non-OEM rotor industry from benefitting fully from increased demand in the market. Accordingly, we determine that there is a reasonable indication that the domestic non-OEM rotor industry is materially injured by reason of allegedly LTFV imports from China.

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[119] Table III-5, CR at III-17, PR at III-8.

[120] Table III-4, CR at III-16, PR at III-8. The existence of significant amounts of unused capacity refutes respondents' arguments that the domestic industry is simply unable to supply the quantities the market demands.

[121] Commissioner Crawford concurs in the above discussion that the domestic industry has the inability to increase prices, for the reasons she noted in her finding that subject imports are not having significant effects on domestic prices. She also agrees that the domestic industry's capacity utilization is important in evaluating the impact of subject imports, and concurs that subject imports are having a significant impact on the domestic industry. In her analysis of material injury by reason of dumped imports, Commissioner Crawford evaluates the impact on the domestic industry by comparing the state of the industry when the imports were dumped with what the state of the industry would have been had the imports been fairly traded. In assessing the impact of the subject imports on the domestic industry, she considers, among other relevant factors, output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development and other relevant factors as required by 19 U.S.C. § 1677(7)(C)(iii). These factors together either encompass or reflect the volume and price effects of the dumped imports, and so she gauges the impact of the dumping through those effects. In this regard, the impact on the domestic industry's prices, sales and overall revenues is critical, because the impact on the other industry indicators (e.g., employment, wages, etc.) is derived from this impact. As noted above, the domestic industry would not have been able to increase its prices significantly if subject imports had been sold at fairly traded prices. Therefore, any impact of allegedly dumped imports on the domestic industry would have been on the domestic industry's output and sales. Had subject imports not been dumped, competition from the large volume of nonsubject imports would have prevented the domestic industry from capturing the entire demand satisfied by subject imports. Nonetheless, the increase in demand for domestic brake rotors likely would have been significant. Domestic suppliers could have increased their production and sales to satisfy the significant increase in demand. Accordingly, the domestic industry likely would have captured enough of the demand for subject imports that its output and sales, and therefore its revenues, would have increased significantly had subject imports not been dumped. Consequently, the domestic industry likely would have been materially better off if the subject imports had been fairly traded. Therefore, Commissioner Crawford determines that there is a reasonable indication that the domestic industry producing brake rotors is materially injured by reason of allegedly LTFV imports of brake rotors from the People's Republic of China.

V. NO REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY LTFV IMPORTS OF CERTAIN BRAKE DRUMS[122]

The legal standards we apply to determine whether there is a reasonable indication that the domestic non-OEM drum industry is materially injured by reason of subject drum imports are the same ones discussed in the first paragraph of section IV. The volume of subject drum imports increased throughout the period of investigation. Measured by quantity, subject drum imports increased from 138,000 units in 1993 to 383,000 units in 1994, and to 432,000 units in 1995. The value of these imports rose from $1.5 million in 1993 to $3.9 million in 1994 and $4.6 million in 1995.[123] Market penetration of subject drum imports also increased from 1993 to 1995. That the percentage increases in both import quantities and market penetration are large is a function of the very low levels of import volumes and market penetration at the beginning of the period of investigation. Notwithstanding the increases, in 1995 subject drum import penetration was still small both in absolute terms and in comparison to the share of the U.S. market held by the domestic non-OEM drum industry.[124]

Pricing data were collected for two non-OEM drum products. The Chinese product undersold the U.S.-produced product in every comparison. The prices of both the U.S.-produced drums and the Chinese product generally declined from 1993 to 1995.

We cannot conclude, however, that either the volume or price effects of the subject drum imports are significant. The record shows no material adverse impact on the domestic non-OEM drum industry that can be attributed to the subject drum imports. Notwithstanding the increase in import volumes, U.S. producers' share of the quantity of U.S. non-OEM drum consumption increased from 1993 to 1995.[125] Notwithstanding the price declines and underselling, sales revenues, gross profits and operating income of the domestic non-OEM drum industry all increased throughout the period of investigation, and operating margins remained generally stable.[126] Production, shipments, capacity utilization, and employment levels increased as well.[127] Because there is no material adverse impact on the domestic non-OEM drum industry that can be attributed to the subject drum imports, we conclude that there is no reasonable indication that the domestic non-OEM drum industry is materially injured by reason of allegedly LTFV imports from China.[128]

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[122] Vice Chairman Nuzum and Commissioner Bragg join this section of the opinion. Commissioner Crawford has determined that there is a reasonable indication that the domestic non-OEM drum industry is materially injured by reason of allegedly LTFV imports from China, and does not join the remainder of the opinion. See Additional Views of Commissioner Crawford. Commissioner Rohr and Commissioner Newquist, having determined that there is no reasonable indication that the domestic non-OEM drum industry is experiencing material injury, proceed directly to the question of threat of material injury discussed in section VI.

[123] Table IV-2, CR at IV-6, PR at IV-3.

[124] Measured by quantity, market penetration of subject drum imports increased from 3.1 percent in 1993 to 7.6 percent in 1994 and 8.1 percent in 1995. Measured by value, market penetration of subject drum imports increased from 2.8 percent in 1993 to 6.0 percent in 1994 and 6.3 percent in 1995. Table IV-4, CR at IV-12, PR at IV-7.

[125] Table IV-4, CR at IV-12, PR at IV-7.

[126] Table VI-1, CR at VI-2, PR at VI-1.

[127] Tables III-4-6 and III-8, CR at III-16-17, III-20, III-24, PR at III-8-9, III-12.

[128] Tables V-1, V-2, CR at V-6, V-7, PR at V-3. We have also considered the magnitude of the margin of dumping, pursuant to the authorities discussed in footnote 115 above. The estimated dumping margins identified by Commerce for brake drums in its notice of initiation are from 46.76 percent to 105.56 percent. 61 Fed. Reg. at 14741.

(continued...)

VI. REASONABLE INDICATION OF THREAT OF MATERIAL INJURY BY REASON OF ALLEGEDLY LTFV IMPORTS OF CERTAIN BRAKE DRUMS

Section 771(7)(F) of the Act directs the Commission to consider whether the U.S. industry is threatened with material injury by reason of the subject imports "on the basis of evidence that the threat of material injury is real and that actual injury is imminent."[129] The Commission may not make such a determination "on the basis of mere conjecture or supposition,"[130] and considers the threat factors "as a whole" in determining "whether further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued. . . ."[131] In making our determination, we have considered, in addition to other relevant economic factors, all statutory factors that are relevant to this investigation.[132]

The record in this investigation concerning non-OEM drums is largely devoid of the information we need to conduct our analysis of threat. The record does contain some information pertinent to statutory threat factor (V) concerning inventories of drums from China. U.S. inventories of the subject drums increased irregularly from 1993 to 1995; however, the record contains no information concerning inventories in China.[133] Indeed, the record does not contain **any** information concerning the non-OEM drum industry in

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[128](...continued)

Vice Chairman Nuzum notes that the alleged dumping margins range between 46.76 and 105.56 percent, which generally exceed the magnitude by which Chinese brake drums undersell U.S. non-OEM brake drums. As with rotors, the record indicates a relatively high degree of interchangeability between the Chinese and domestic brake drums. Consequently, dumping of this magnitude might be expected to contribute to the ability of the Chinese product to take revenues and sales opportunities away from its U.S. competitors through lower prices. Nonetheless, the record does not indicate that subject imports currently are having an adverse impact on the domestic industry. Unlike the situation facing the rotor industry, the drum industry was not experiencing an increase in cost of goods sold. See Tables VII-1, VI-4, CR at VI-2, VI-6, PR at VII-2, VI-3. Consequently, the magnitude of the dumping alleged with respect to brake drums did not appear to have any current adverse impact on the domestic brake drum industry.

[129] 19 U.S.C. §§ 1673b(a) and 1677(7)(F)(ii).

[130] 19 U.S.C. § 1677(7)(F)(ii). An affirmative threat determination must be based upon "positive evidence tending to show an intention to increase the levels of importation." Metallverken Nederland B.V. v. United States, 744 F. Supp. 281, 287 (Ct. Int'l Trade 1990). See also Calabrian, 794 F. Supp. at 387-88 (citing H.R. Rep. No. 1156, 98th Cong., 2d Sess. 174 (1984)).

[131] While the language referring to imports being imminent (instead of "actual injury" being imminent and the threat being "real") is a change from the prior provision, the SAA indicates the "new language is fully consistent with the Commission's practice," the existing statutory language, "and judicial precedent interpreting the statute." SAA at 184.

[132] 19 U.S.C. § 1677(7)(F)(i); see also Suramerica de Aleaciones Laminadas, C.A. v. United States, 44 F.3d 978 (Fed. Cir. 1994). Two statutory threat factors have no relevance to this investigation and need not be discussed. Because there are no subsidy allegations, factor I is not applicable. Factor VII regarding raw and processed agriculture products is also inapplicable to the product at issue. In this preliminary investigation, we find no actual or potential negative effects on the development and production efforts of the domestic industry nor do we find any other demonstrable adverse trends indicating the probability that there is likely to be material injury. Moreover, there are currently no outstanding dumping findings in third countries with respect to brake drums from China. See 19 U.S.C. § 1677(7)(F)(iii)(I).

[133] End-of-period U.S. inventories of non-OEM drums from China increased from 74,000 units in 1993 to 188,000 units in 1994, and then declined to 139,000 units in 1995. Table VII-6, CR at VII-3, PR at VII-2.

China.[134] Without such information, we cannot determine whether there is existing unused production capacity in China or whether substantial increases in brake drum capacity are planned, pursuant to statutory threat factor (II); ascertain the likelihood of substantially increased imports, pursuant to statutory threat factor (III); or determine the potential for product-shifting in China, pursuant to statutory threat factor (VI). Moreover, the lack of information on the likelihood of substantially increased import volumes makes us unable to ascertain the likely price effects of the imports pursuant to statutory threat factor (IV).

The missing information is critical in light of the material in the current record indicating that there were large percentage increases in subject drum imports during the period of investigation, that subject drum imports consistently undersold the domestic like product, and that price levels for domestically-produced non-OEM drums declined over the period of investigation. Although Commissioner Rohr and Commissioner Newquist found that the current record does not indicate a reasonable indication of current material injury in light of the domestic industry's condition, and Vice Chairman Nuzum and Commissioner Bragg found no adverse impact on the domestic industry attributable to the subject drum imports, we cannot conclude that no likelihood exists that evidence will arise in a final investigation that would support a determination of threat of material injury. We therefore cannot reach determination of no reasonable indication of threat of material injury by reason of allegedly LTFV drum imports from China under the legal standard for preliminary investigations discussed in section I of these Views.[135] Accordingly, we have made an affirmative threat determination with respect to non-OEM drums.

CONCLUSION

In this preliminary investigation, we have determined that there is a reasonable indication of material injury to the domestic non-OEM rotor industry by reason of allegedly LTFV rotor imports from China. We have also determined that there is a reasonable indication of threat of material injury to the domestic non-OEM drum industry by reason of allegedly LTFV drum imports from China.

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[134] The very limited information presented by petitioner in its petition and postconference brief concerning the industry in China discussed solely the rotor industry, and did not specifically mention drums. A questionnaire prepared by Commission staff and directed to Chinese commercial and governmental entities through the U.S. Embassy in Beijing received no response. A questionnaire prepared by Commission staff and directed to foreign producers through U.S. importing firms received a response only from one Chinese rotor producer. No Chinese drum or rotor producer entered an appearance during this investigation. See CR at VII-1-2, PR at VII-1.

[135] See American Lamb, 785 F.2d at 1001.

ADDITIONAL VIEWS OF COMMISSIONER CAROL T. CRAWFORD

On the basis of information obtained in this preliminary investigation, I determine that there is a reasonable indication that the industry in the United States producing non-OEM brake drums ("brake drums") is materially injured by reason of imports of brake drums from the People's Republic of China ("China") that are allegedly sold in the United States at less-than-fair-value ("LTFV"). I join my colleagues in finding two like products, brake drums and non-OEM brake rotors ("brake rotors"), and I join their discussion of the condition of the two respective industries. I also join in the determination that there is a reasonable indication that the domestic industry producing brake rotors is materially injured by reason of allegedly LTFV imports of brake rotors from China. However, I do not concur in their determination that there is a reasonable indication that the domestic industry producing brake drums is threatened with material injury by reason of imports of allegedly LTFV brake drums. Rather, I determine that there is a reasonable indication that the industry in the United States producing brake drums is materially injured by reason of the allegedly LTFV imports of brake drums from China. Because my determination with respect to brake drums differs from my colleagues', my separate views follow.

I. ANALYTICAL FRAMEWORK

In determining whether there is a reasonable indication that a domestic industry is materially injured by reason of the allegedly LTFV imports, the statute directs the Commission to consider:

> (I) the volume of imports of the merchandise which is the subject of the investigation,
>
> (II) the effect of imports of that merchandise on prices in the United States for like products, and
>
> (III) the impact of imports of such merchandise on domestic producers of like products, but only in the context of production operations within the United States. . . .[1]

In making its determination, the Commission may consider "such other economic factors as are relevant to the determination."[2] In addition, the Commission "shall evaluate all relevant economic factors which have a bearing on the state of the industry . . . within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[3]

The statute directs that we determine whether there is a reasonable indication of "material injury by reason of the dumped imports." Thus we are called upon to evaluate the effect of allegedly dumped imports on the domestic industry and determine if there is a reasonable indication that they are causing material injury. There may be, and often are, other "factors" that are causing injury. These factors may even be causing greater injury than the alleged dumping. However, the statute does not require us to weigh or prioritize the factors that are independently causing material injury. Rather, the Commission is to determine whether there is a reasonable indication that any injury "by reason of" the allegedly dumped imports is material. That is, the Commission must determine if there is a reasonable indication that the subject imports are causing material injury to the domestic industry. "When determining the effects of imports on the domestic industry, the Commission must consider all

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[1] 19 U.S.C. § 1677(7)(B)(i).

[2] 19 U.S.C.§ 1677(7)(B)(ii).

[3] 19 U.S.C. § 1677(7)(C)(iii).

relevant factors that can demonstrate if unfairly traded imports are materially injuring the domestic industry."[4] It is important, therefore, to assess the effects of the allegedly dumped imports in a way that distinguishes those effects from the effects of other factors unrelated to the dumping. To do this, I compare the current condition of the industry to the industry conditions that would have existed without the dumping, that is, had subject imports all been fairly priced. I then determine whether the change in conditions constitutes material injury. The Court of International Trade has held that the "statutory language fits very well" with my mode of analysis.[5]

In my analysis of material injury, I evaluate the effects of the alleged dumping[6] on domestic prices, domestic sales, and domestic revenues. To evaluate the effects of the alleged dumping on domestic prices, I compare domestic prices that existed when the imports were allegedly dumped with what domestic prices would have been if the imports had been priced fairly. Similarly, to evaluate the effects of dumping on the quantity of domestic sales,[7] I compare the level of domestic sales that existed when imports were allegedly dumped with what domestic sales would have been if the imports had been priced fairly. The combined price and quantity effects translate into an overall domestic revenue impact. Understanding the impact on the domestic industry's prices, sales and overall revenues is critical to determining the state of the industry, because the impact on other industry indicators (e.g., employment, wages, etc.) is derived from the impact on the domestic industry's prices, sales, and revenues.

I then determine whether the price, sales and revenue effects of the alleged dumping, either separately or together, demonstrate that there is a reasonable indication that the domestic industry would have been materially better off if the imports had been priced fairly. If so, there is a reasonable indication that the domestic industry is materially injured by reason of the allegedly dumped imports.

For the reasons discussed below, I determine that there is a reasonable indication that the domestic industry producing brake drums is materially injured by reason of allegedly LTFV imports of brake drums from China.

II. CONDITIONS OF COMPETITION

To understand how an industry is affected by unfair imports, we must examine the conditions of competition in the domestic market. The conditions of competition constitute the commercial environment in which the domestic industry competes with unfair imports, and thus form the foundation for a realistic assessment of the effects of the dumping. This environment includes demand conditions, substitutability among and between products from different sources, and supply conditions in the market.

A. Demand Conditions

An analysis of demand conditions tells us what options are available to purchasers, and how they are likely to respond to changes in market conditions, for example an increase in the general level of prices in the

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[4] S. Rep. No. 71, 100th Cong., 1st Sess. 116 (1987)(emphasis added).

[5] U.S. Steel Group v. United States, 873 F.Supp. 673, 695 (Ct. Int'l Trade 1994), appeal docketed, No. 95-1245 (Fed. Cir. March 22, 1995).

[6] As part of its consideration of the impact of imports, the statute as amended by the URAA now specifies that the Commission is to consider in an antidumping proceeding, "the magnitude of the margin of dumping." 19 U.S.C. § 1677(7)(C)(iii)(V).

[7] In examining the quantity sold, I take into account sales from both existing inventory and new production.

market. Purchasers generally seek to avoid price increases, but their ability to do so varies with conditions in the market. The willingness of purchasers to pay a higher price will depend on the importance of the product to them (e.g., how large a cost factor), whether they have options that allow them to avoid the price increase, for example by switching to alternative products, or whether they can exercise buying power to negotiate a lower price. An analysis of these demand-side factors tells us whether demand for the product is elastic or inelastic, that is, whether purchasers will reduce the quantity of their purchases if the price of the product increases. For the reasons discussed below, I find that the overall elasticity of demand for brake drums is relatively low.

Importance of the Product and Cost Factor. Two key factors that measure the willingness of purchasers to pay higher prices are the importance of the product to purchasers and the significance of its cost. In the case of products that are incorporated into other products (e.g., a component), the importance will depend on whether the component is critical to the other product in which it is used and its cost relative to the total cost of the product in which it is used. When a component is critical to the functioning ability of another product, changes in the price of the component are less likely to affect its purchase. Similarly, when the price of the component is a small portion of the total cost of the product in which it is used, changes in the price of the component are less likely to affect its purchase.

Although the purchase of an automobile may be considered discretionary by many consumers, the purchase of brake components generally is not. The nature of the products makes brake components very important to purchasers (e.g., for safety reasons). Moreover, the cost of replacing brake components is relatively low compared to the safety risk represented by failing to replace them and the cost of a new automobile.[8]

Alternative Products. Another important factor in determining whether purchasers would be willing to pay higher prices is the availability of viable alternative products. Often purchasers can avoid a price increase by switching to alternative products. If such an option exists, it can impose discipline on producer efforts to increase prices.

There appear to be no viable alternative products for brake drums because when brake drums are worn or damaged, they must be replaced with other brake drums. Thus, brake drums do not face competition from alternative products.[9]

I find that the nature of the product indicates an inelastic demand for brake drums. The lack of viable alternative products further reduces the price sensitivity of demand. Thus, I find that the overall elasticity of demand for brake drums appears to be relatively low. That is, purchasers will not reduce significantly the amount of brake drums they buy in response to a general increase in the price of brake drums.

B. Substitutability

Simply put, substitutability measures the similarity or dissimilarity of imported versus domestic products from the purchaser's perspective. Substitutability depends upon 1) the extent of product differentiation, measured by product attributes such as physical characteristics, suitability for intended use, design, convenience or difficulty of usage, quality, etc.; 2) differences in other non-price considerations such as reliability of delivery, technical support, and lead times; and 3) differences in terms and conditions of sale. Products are close

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[8] CR at II-5; PR at II-3.

[9] CR at I-7 and II-6; PR at I-5 and II-4.

substitutes and have high substitutability if product attributes, other non-price considerations and terms and conditions of sale are similar.

While price is nearly always important in purchasing decisions, non-price factors that differentiate products determine the value that purchasers receive for the price they pay. If products are close substitutes, their value to purchasers is similar, and thus purchasers will respond more readily to relative price changes. On the other hand, if products are not close substitutes, relative price changes are less important and are therefore less likely to induce purchasers to switch from one source to another.

Because demand elasticity for brake drums appears to be relatively low, overall purchases will not decline significantly if the overall prices of brake drums increase. However, purchasers can avoid price increases from one source by seeking other sources of brake drums. In addition to any changes in overall demand for brake drums, the demand for brake drums from different sources will decrease or increase depending on their relative prices and their substitutability. If brake drums from different sources are substitutable, purchasers are more likely to shift their demand when the price from one source (i.e., subject imports) increases. The magnitude of this shift in demand is determined by the degree of substitutability among the sources.

Purchasers have three potential sources of brake drums: domestically produced brake drums, subject imports, and nonsubject imports. Purchasers are more or less likely to switch from one source to another depending on the similarity, or substitutability, between and among them. I have evaluated the substitutability among brake drums from different sources as follows.

For purposes of this preliminary investigation, I find that subject imports, nonsubject imports and domestic brake drums are all fairly good substitutes for each other. Thus, a shift in demand away from subject imports would increase demand for both nonsubject imports and domestic brake drums.

Brake components from all sources are sold according to part number, with each part number generally corresponding to a motor vehicle platform and model years.[10] There are more than 400 part numbers, and every part is not available from all sources.[11] Thus, there is not complete substitutability among sources for <u>all</u> parts. However, all brake components of a particular part number must meet the same general specifications, and thus are quite good substitutes for each other. In addition, subject imports, nonsubject imports and domestic brake drums are sold through similar channels of distribution, with distributors stocking imported and domestic brake drums with identical part numbers.[12] Finally, there are only minor differences among sources in terms of delivery, technical support and the terms and conditions of sale.[13]

For these reasons, I find that subject imports, nonsubject imports, and domestic brake drums are fairly good substitutes for each other. Therefore, I find that purchasers would have switched from purchases of subject imports to purchases of nonsubject imports and domestic brake drums had subject imports been fairly priced.

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[10] Conference transcript at 70.

[11] CR at II-2; PR at II-1.

[12] CR at I-13 - 14 and III-14, n. 99; PR at I-8 and III-7, n.27.

[13] CR at V-3; PR at V-2.

C. Supply Conditions

Supply conditions in the market are a third condition of competition. Supply conditions determine how producers would respond to an increase in demand for their product, and also affect whether producers are able to institute price increases and make them stick. Supply conditions include producers' capacity utilization, their ability to increase their capacity readily, the availability of inventories and products for export markets, production alternatives and the level of competition in the market. For the reasons discussed below, I find that the elasticity of supply of brake drums appears to be moderate to high.

Capacity Utilization and Capacity. Unused capacity can exercise discipline on prices, if there is a competitive market, as no individual producer could make a price increase stick. Any attempt at a price increase by any one producer would be beaten back by its competitors who have the available capacity and are willing to sell more at a lower price. In 1995, only 16.1 percent of the domestic industry's capacity to produce brake drums was not used and therefore was available to increase production.[14] However, the total quantity of subject imports was less than reported available domestic capacity in 1995.[15] Thus, the domestic industry had capacity available to supply the demand for subject imports.

Inventories and Exports. The domestic industry had 603,000 brake drums in inventories available at the end of 1995 which it could have shipped into the U.S. market.[16] In addition, the domestic industry's exports in 1995 were about the same as the volume of subject imports in 1995.[17] Thus, the domestic industry had available inventories and exports that could have filled the demand supplied by subject imports.

Level of Competition. The level of competition in the domestic market has a critical effect on producer responses to demand increases. A competitive market is one with a number of suppliers in which no one producer has the power to influence price significantly. There are three large domestic producers of brake drums that compete actively with each other in the U.S. market. In addition, nonsubject imports are a substantial source of competition in this market, accounting for nearly 45 percent of consumption in 1995.[18] The record thus indicates that there is substantial competition among domestic producers and from nonsubject imports. Consequently, I find that there is a high level of competition in the U.S. market for brake drums.

Because of the high level of competition in the U.S. market and the domestic industry's ability to supply the demand for subject imports, I find that the elasticity of supply is moderate to high.

III. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY LTFV IMPORTS OF BRAKE DRUMS FROM CHINA

The statute requires us to consider the volume of subject imports, their effect on domestic prices, and their impact on the domestic industry. I consider each requirement in turn.

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[14] Table III-4, CR at III-16; PR at III-8.

[15] Table III-4 and table IV-2, CR at III-16 and IV-6; PR at III-8 and IV-3.

[16] Table III-7, CR at III-23; PR at III-11.

[17] Table III-6 and table IV-2, CR at III-20 and IV-6; PR at III-9 - 10 and IV-3.

[18] Table IV-4, CR at IV-12; PR at IV-7.

A. Volume of Subject Imports

Subject imports of brake drums increased from 138,000 units in 1993 to 383,000 units in 1994, and to 432,000 units in 1995. The value of subject imports was $1,508,000 in 1993, $3,882,000 in 1994, and $4,581,000 in 1995.[19] By quantity, subject imports held a market share of 3.1 percent in 1993, 7.6 percent in 1994, and 8.1 percent in 1995. Their market share by value was 2.8 percent in 1993, 6.0 percent in 1994, and 6.3 percent in 1995.[20] While it is clear that the larger the volume of subject imports, the larger the effect they will have on the domestic industry, whether the volume is significant cannot be determined in a vacuum, but must be evaluated in the context of its price and volume effects. Based on the market share of subject imports and the conditions of competition in the domestic market, I find that the volume of subject imports is significant in light of its price and volume effects.

B. Effect of Subject Imports on Domestic Prices

To determine the effect of subject imports on domestic prices, I examine whether the domestic industry could have increased its prices if the subject imports had not been dumped. As discussed, both demand and supply conditions in the brake drums market are relevant. Examining demand conditions helps us understand whether purchasers would have been willing to pay higher prices for the domestic product, or buy less of it, if subject imports had been sold at fairly traded prices. Examining supply conditions helps us understand whether available capacity and competition among suppliers to the market would have imposed discipline and prevented price increases for the domestic product, even if subject imports had not been unfairly priced.

If the subject imports had not been dumped, their prices in the U.S. market would have increased significantly. Thus, if subject imports had been fairly priced, they would have become more expensive relative to domestic brake drums. In such a case, if subject imports are good substitutes with other brake drums, purchasers would have shifted towards the relatively less expensive products.

In this investigation, the alleged dumping margins for subject imports from China are quite large (46.76 to 105.56 percent), so that subject imports likely would have been priced significantly higher had they been fairly traded. Subject imports and domestic brake drums are fairly good substitutes, and thus some of the demand for subject imports likely would have shifted to domestic brake drums had subject imports been fairly traded. However, nonsubject imports and subject imports also are fairly good substitutes, and thus some of the demand for subject imports likely would have shifted to nonsubject imports as well. Since subject imports held a market share of 8.1 percent by quantity in 1995,[21] the shift in demand away from subject imports would not have been large. Nonetheless, the elasticity of demand indicates that domestic suppliers should have been able to increase prices in response to this shift in demand.

Notwithstanding the low elasticity of demand for brake drums, any attempt by the domestic industry to increase its prices in response to the shift in demand would have been unsuccessful. There is significant competition among brake drum suppliers in the U.S. market. The domestic industry has available production capacity, and some inventories and exports with which they would have competed among themselves for sales, had demand shifted away from subject imports. Furthermore, suppliers of the substantial volume of nonsubject

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[19] Table IV-2, CR at IV-6; PR at IV-3.

[20] Table IV-4, CR at IV-12, PR at IV-7.

[21] Table IV-4, CR at IV-12; PR at IV-7.

imports also would have competed for sales, and thus provided additional price discipline. In these circumstances, any effort by a domestic supplier to raise its prices would have been beaten back by its competitors. Therefore, significant effects on domestic prices cannot be attributed to the unfair pricing of subject imports. Consequently, I find that subject imports are not having significant effects on prices for domestic brake drums.

C. Impact of Subject Imports on the Domestic Industry

To assess the impact of subject imports on the domestic industry, I consider output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development and other relevant factors.[22] These factors together either encompass or reflect the volume and price effects of the dumped imports, and so I gauge the impact of the dumping through those effects.

The domestic industry would not have been able to increase its prices significantly if subject imports had been sold at fairly traded prices. Therefore, any impact of allegedly dumped imports on the domestic industry would have been on the domestic industry's output and sales.

As I have discussed above, had subject imports not been dumped, competition from the substantial volume of nonsubject imports would have prevented the domestic industry from capturing the entire demand satisfied by subject imports. Thus, the increase in demand for domestic brake drums likely would have been, at most, moderate. Domestic suppliers could have increased their production and sales to satisfy the increased demand. Notwithstanding the competition from nonsubject imports, the domestic industry likely would have captured enough of the demand for subject imports that its output and sales, and therefore its revenues, would have increased significantly had subject imports not been dumped. Consequently, the domestic industry likely would have been materially better off if the subject imports had been fairly traded.

IV. CONCLUSION

On the basis of the foregoing analysis, I determine that there is a reasonable indication that the domestic industry producing brake drums is materially injured by reason of allegedly LTFV imports of brake drums from the People's Republic of China.

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[22] 19 U.S.C. § 1677(7)(C)(iii).

PART I: INTRODUCTION

BACKGROUND

This investigation results from a petition filed by counsel for the Coalition for the Preservation of American Brake Drum & Rotor Aftermarket Manufacturers[1] on March 7, 1996, alleging that an industry in the United States is materially injured and threatened with material injury by reason of imports from China of certain brake drums and rotors[2] that are alleged to be sold in the United States at less than fair value (LTFV).[3] Information relating to the background of the investigation is provided below:[4]

Date	*Action*
March 7, 1996	Petition filed with Commerce and the Commission; institution of Commission investigation (61 F.R. 10788, Mar. 15, 1996)
March 28, 1996	Commission's conference[5]
April 3, 1996	Commerce's notice of initiation (61 F.R. 14740, Apr. 3, 1996)
April 19, 1996	Commission's votes
April 22, 1996	Commission determinations to Commerce
April 29, 1996	Commission views transmitted to Commerce.

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[1] The members of the Coalition for the Preservation of American Brake Drum & Rotor Aftermarket Manufacturers consist of Brake Parts, Inc., McHenry, IL; Kinetic Parts Manufacturing, Inc., Harbor City, CA; Iroquois Tool Systems, Inc., North East, PA; and Wagner Brake Corp., St. Louis, MO.

[2] Effective Apr. 3, 1996, Commerce initiated two separate investigations, one pertaining to certain brake drums and one pertaining to certain brake rotors. Both certain brake drums and certain brake rotors are made of gray cast iron, may be finished, semifinished, or unfinished, and range in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The subject products are for certain motor vehicles (namely, automobiles, all-terrain vehicles, vans and recreational vehicles under "one ton and a half," and light trucks designated as "one ton and a half"), and do not contain in the casting a logo of an original equiment manufacturer (OEM) that produces vehicles sold in the United States. Brake drums and brake rotors covered in this investigation are not certified by OEM producers of vehicles sold in the United States. The scope also includes composite brake drums and rotors that are made of gray cast iron which contain a steel plate, but otherwise meet the above criteria. Additional parameters specified by Commerce are cited in the section of this report entitled "The Product."

Certain brake drums and certain brake rotors are currently provided for in subheading 8708.39.50 of the *Harmonized Tariff Schedule of the United States* (*HTS*). The 1996 most-favored-nation tariff rate, applicable to China, is 2.9 percent ad valorem.

[3] A summary of the data collected in the investigation is presented in app. A. The Commission has not conducted any previous investigations on certain brake drums or certain brake rotors. However, it did conduct an investigation under section 201 of the Trade Act of 1974 (inv. No. TA-201-58, June 1986) on various foundry products which included castings for brake drums and rotors.

[4] *Federal Register* notices cited in the tabulation are presented in app. B.

[5] A list of witnesses appearing at the conference is presented in app. C.

ALLEGED SALES AT LTFV

The petitioner alleges that LTFV margins range from 50 percent to 122 percent; Commerce revised petitioner's calculated dumping margins to 46.76 percent to 105.56 percent for certain brake drums and 52.08 percent to 62.55 percent for certain brake rotors. Export prices provided by the petitioner were based on prices charged by U.S. distributors of Chinese brake drums and brake rotors. The petitioner asserts that China is a nonmarket economy and, for normal market value, employed "factors of production" methodology, using India as the primary surrogate country for selecting the values to be used in the analysis.

DEFINITION OF THE SUBJECT PRODUCTS

Commerce's scope of its investigations, and thus the definitions of the subject products, was presented at the beginning of this report. The scope is essentially a reverse definition in that it defines the subject products (generally understood to be brake drums and rotors produced for the aftermarket) in terms of what they are not (generally brake drums and rotors produced for or by original equipment manufacturers (OEMs)). As will be discussed in greater detail in this report, the use of the terms "aftermarket" and "OE product" is not always precise and the two groups may not be mutually exclusive. For example, product may meet the definition of OEM product, yet be sold into the aftermarket. Therefore, for clarity, the subject brake drums and rotors will be referred to as "non-OEM" product in this report.

Commerce's scope defines OEM product both as that "containing in the casting a logo of an original equipment manufacturer (OEM)" and as that "certified by OEM producers of vehicles sold in the United States." Not all OEM product contains a logo in the casting.[6] However, the OEM product typically is "certified."[7]

The language used by Commission staff in the preliminary questionnaires was based on that contained in the petition and differs somewhat from Commerce's scope definitions. The Commission's questionnaires defined OEM product as that containing an OEM logo or part number.[8] Further, the logo could be cast into either the part and/or placed on the box in which the products are packed. However, any product containing an OEM part number is typically OEM-certified and the group of products defined by the combination of these parameters is believed to correspond to the scope as defined by Commerce in its initiation notice.[9]

In its initiation notice defining the scope of its investigations, Commerce further modified the language in the petition (and that contained in the Commission's questionnaires) that describes "unfinished" drums and rotors. Unfinished product within the scope is that which has undergone

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[6] For example, General Motors manufactures brake drums and rotors internally (at Delphi Chassis Systems) and purchases from a series of suppliers. ***. Staff conversations with ***, General Motors Tax Staff, General Motors Corp., Mar. 23, 1996, and ***, Delphi Chassis Systems, Mar. 26, 1996. Chrysler ***. Staff conversation with ***, Chrysler, Mar. 28, 1996.

[7] "Certification" usually refers to the practice of meeting the international OEM standard (QS-9000 certification). Transcript of the Commission's conference (transcript), p. 65. The question of whether or not all OEM product is "certified" to QS-9000 standards has not been fully addressed. However, presumably all OEM product is "certified" in some manner by the accepting OEM.

[8] OEM product is typically believed to carry an OEM part number.

[9] Transcript, p. 67.

some grinding or turning.[10] Apparently because this language provides clearer delineation between unfinished brake drums and rotors and the input for unfinished brake drums and rotors (or castings), Commerce did not follow the Commission's example in its questionnaires of specifically stating that castings were excluded. Notwithstanding that fact, castings are not included as products subject to these investigations.[11]

The Commission sent questionnaires both to aftermarket producers of non-OEM product and to the OEMs.[12] Data received in response to the questionnaires are presented separately (i.e., for certain (or non-OEM) brake drums and certain (or non-OEM) brake rotors and, where available, for OEM product) within the body of this report and in combined form in the summary tables in app. A. (However, responding OEM producers generally were able only to provide data on the number of parts manufactured.)

THE PRODUCT

Commerce defined the products subject to this investigation as--

> certain brake drums and certain brake rotors made of gray cast iron, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The size parameters (dimension and weight) of these products limit their use to the following types of motor vehicles: automobiles, all-terrain vehicles, vans and recreational vehicles "under one ton and a half," and light trucks designated as "one ton and a half."
>
> Finished brake drums and finished brake rotors are those that are ready for sale and installation without any further operations. Semifinished brake drums and semifinished brake rotors are those on which the surface is not entirely smooth, and has undergone some drilling. Unfinished brake drums and unfinished brake rotors are those which have undergone some grinding or turning.
>
> The subject brake drums and brake rotors are for motor vehicles, and do not contain in the casting a logo of an original equipment manufacturer (OEM) which produces vehicles sold in the United States (e.g., General Motors, Ford, Chrysler, Honda, Toyota, Volvo). Brake drums and rotors covered in this investigation are not certified by OEM producers of vehicles sold in the United States. The scope also includes composite brake drums and composite brake rotors that are made of gray cast iron, which contain a steel plate, but otherwise meet the above criteria.

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[10] Commerce's scope states that "Finished brake drums [and rotors] are those that are ready for sale and installation without any further operations. Semifinished drums [and rotors] are those on which the surface is not entirely smooth, and has undergone some drilling. Unfinished drums [and rotors] are those which have undergone some grinding or turning." 61 F.R. 14740, Apr. 3, 1996.

[11] Staff conversation with ***, Commerce, Apr. 8, 1996.

[12] The data gathered for OEM brake drums and rotors were limited to those OEM brake drums and rotors which, like the subject products, are of gray cast iron, whether finished, semifinished, or unfinished, and range in diameter from 8 to 16 inches and in weight from 8 to 45 pounds.

This section presents information on both imported and domestic non-OEM brake drums and rotors, as well as information related to the Commission's "domestic like product" determination.[13]

The petitioner argues that non-OEM brake drums and rotors are different products designed for use in drum brake and disc brake systems, respectively. The petitioner contends that non-OEM brake drums and rotors and OEM brake drums and rotors are different products because of their separate distribution channels, different physical characteristics resulting from tighter OEM production specifications,[14] and distinct manufacturing facilities. In addition, the petitioner argues that non-OEM and OEM brake drums and rotors are not interchangeable in the aftermarket[15] because of the higher price of OEM products; in the OEM market, lack of OEM certification prevents the interchangeability of non-OEM brake drums and rotors for OEM products.[16] [17]

The respondents also consider drums and rotors to be separate products;[18] however, they argue that no distinction should be made between non-OEM and OEM parts. They contend that non-OEM and OEM brake drums and rotors have the same basic physical characteristics and uses, are completely interchangeable in the aftermarket, have overlapping channels of distribution, and are produced in similar manufacturing facilities.[19]

The following sections address, in turn, the comparability of, first, non-OEM brake drums and rotors and, then, non-OEM and OEM products.

Physical Characteristics and Uses

As parts of motor vehicle brake assemblies, brake drums and rotors are subjected to high temperatures, extreme friction, and heavy loads. Gray iron is generally selected for the production of the subject products because of its high wear resistance, excellent machinability, relatively high

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[13] The Commission's decision regarding the appropriate domestic products that are "like" the subject imported products is based on a number of factors including (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions; (5) common manufacturing facilities and production employees; and, where appropriate, (6) price.

[14] Balance and brake surface run-out tolerances, rotor finishes, metallurgical composition, and structural and design specifications are typically different for OEM and non-OEM brake drums and rotors, for example. Questionnaire responses of ***. See further discussion in the section of the report entitled "Physical Characteristics and Uses." One producer, ***, indicated that there were no significant differences between OEM and non-OEM brake drums and rotors.

[15] The "aftermarket" includes any products purchased for a vehicle after it is driven away from the dealership, such as fuel, accessories, waxes, and replacement parts. "What is the "Aftermarket"?," *1993 APAA Aftermarket Guide.*

[16] Petitioners' postconference brief, pp. 3-10.

[17] ***. The absence of an OEM logo or part number on a brake drum or rotor, however, does not necessarily determine its use as an aftermarket product.

[18] Transcript, p. 151.

[19] Respondents' postconference brief, pp. 14-29.

coefficient of friction, and vibration absorption.[20] This metal is also easily cast into rather complex shapes at a relatively low cost.[21]

Brake drums and rotors are critical elements in two different motor-vehicle-braking systems. Brake drums are bowl-shaped parts used in brake drum assemblies found primarily on rear wheels. The drums enclose the mechanical parts[22] that are attached to a backing plate. When the brake pedal is applied, hydraulic pressure at the wheel cylinder increases and overcomes the pressure of the retracting springs, which allows the brake shoes to push against the brake drum to slow or stop the vehicle.[23]

Rotors are parts of disc brake assemblies. The rotor is a circular rotational component attached to the wheel hub. Rotors often are made with ventilating fins between the two rotor surfaces to improve rotor cooling. An hydraulic caliper and disc brake pads are mounted on an adapter that straddles the rotor. The hydraulic braking process is the same as that of drum brakes, but in the case of disc brakes, the calipers force the braking pads against the rotating disc in a clamping action to slow or stop the vehicle.[24]

Increased U.S. production of front-wheel drive motor vehicles has resulted in a shift to disc braking systems, and, therefore, greater demand for rotors. Disc brakes are generally more efficient in transferring the heat resulting from braking action because the braking unit is not enclosed. This is particularly important for front-wheel drive vehicles, where the greater portion of vehicle weight and braking pressure is applied to the front wheel brake assemblies.

Although OEM and non-OEM brake drums and rotors are used for the same applications in motor vehicles, their physical characteristics differ somewhat. OEM parts are made to stricter tolerances[25] and more rigid materials specifications[26] than non-OEM parts in order to meet OEM certification standards. OEM suppliers are also subject to first-party audits (self-assessments) and/or inspections by OEM personnel or independent auditors to verify compliance with OEM customer

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[20] An aluminum rotor is available in the U.S. market for the Plymouth Prowler, a high-performance motor vehicle with limited production. The advantage of an aluminum brake rotor is its light weight. Staff conversation with a representative of ***. As indicated in questionnaire responses, gray cast iron is the only metal used by all U.S. producers to manufacture the subject products.

[21] Charles F. Walton and Timothy J. Opar, eds., "Economic Considerations and Procurement," ch. in *Iron Castings Handbook* (Iron Castings Society, Inc., 1981), p. 57, and *Automotive Encyclopedia*, pp. 636-637.

[22] Typical parts include brake shoes, shoe retracting springs, hold-down spring assemblies, self-adjusting assemblies, and parking brake parts.

[23] William K. Toboldt, Larry Johnson, and Steven W. Olive, "Automotive Brakes," ch. in *Automotive Encyclopedia: Fundamental Principles, Operation, Construction, Service, Repair* (South Holland, IL: The Goodheart-Willcox Company, Inc., 1989), pp. 638-639, and 642.

[24] Ibid., pp. 638-639.

[25] Specifications exist for concentricity of parts; lateral, circumferential, and radial runout; thickness variation; brake surface imperfections; casting finish; brake surface finish; static balance; chemical composition; strength/hardness of material; and flatness of brake surface relative to mounting face. Producer questionnaire response of ***.

[26] The industries producing non-OEM brake drums and rotors target the Society of Automotive Engineers (SAE) G-3000 grade metal specification for automotive gray iron castings. Transcript, p. 20. Motor vehicle manufacturers generally stipulate metal requirements for specific applications, based on SAE and American Society of Testing Materials (ASTM) specifications, to the OEM parts supplier. Respondents' postconference brief, p. 17.

standards requirements (e.g., QS-9000 standards and statistical process control).[27] In addition, OEM parts are offered with a warranty that covers a designated number of miles or months.

Manufacturers of non-OEM brake drums and rotors indicate that they meet less exacting standards, offer no parts warranty, and are not subject to any formal certification procedures. However, these manufacturers maintain "a required level of fit, function, and safety related issues."[28] The respondents argue that these products are essentially made to the same specifications and that the quality of the non-OEM brake drum and rotor may actually exceed that of the OEM product.[29] According to questionnaire responses, however, non-OEM producers reported no production of original equipment brake drums and rotors for use by motor vehicle manufacturers.[30]

Interchangeability

As discussed above, both non-OEM and OEM brake drums and brake rotors have individual design and functional characteristics that limit their use to a particular braking system and to specific motor vehicles.[31] Rotors are components solely of disc braking systems, whereas drums function only in drum brake systems.

The petitioner and respondents consider the subject imported and domestic non-OEM brake drums and brake rotors as interchangeable (i.e., they meet fit and function criteria) for use as replacement parts in the U.S. aftermarket.[32] There are no existing product standards or certification requirements to differentiate the subject non-OEM imported and domestic products, which are used for the same or similar motor vehicles.[33]

Non-OEM brake drums and brake rotors are not considered interchangeable for original equipment parts in the OEM market because the non-OEM brake drum and rotor manufacturers are not certified as OEM parts suppliers.[34] Both non-OEM and original equipment service (OES) brake drums and brake rotors, however, are available in the automotive parts aftermarket.[35]

Despite their simultaneous availability in the aftermarket, OEM and non-OEM production of the same brake drum and rotor models rarely overlaps. Non-OEM brake drums and rotors usually appear in the aftermarket within 2 years after the introduction of new motor vehicle platforms and the corresponding change in brake drum and rotor models. During that interval, non-OEM producers reverse engineer the new brake drum and rotor models and complete the retooling necessary for production. As a result, aftermarket availability of the subject products generally coincides with the initial demand for replacement parts for the originally-installed OEM brake drums

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[27] *Quality System Requirements QS-9000* manual (February 1995) for Ford, Chrysler, and General Motors, as well as producer questionnaire responses. Also see transcript, pp. 24 and 64-65.

[28] Transcript, pp. 19 and 34.

[29] Respondents' postconference brief, pp. 15-16.

[30] Questionnaire responses of non-OEM producers (***).

[31] Transcript, p. 76.

[32] Transcript, pp. 36 and 108.

[33] Petition, p. 34.

[34] Transcript, p. 42.

[35] Original equipment brake drums and rotors sold in the aftermarket are designated original equipment service (OES) parts, and are essentially the same as the OEM-certified parts. Staff conversations with representatives of ***.

and rotors.[36] Non-OEM producers manufacture a wide selection of non-OEM brake drum and rotor models to supply the large variety of these older motor vehicles on the road,[37] but often in small quantities.

At the same time, motor vehicle manufacturers are required to supply warranty replacement parts for their respective platforms for a minimum of 10 years,[38] even though production of a particular motor vehicle platform may have been discontinued. These parts are usually sourced from inventory or outsourced from other brake drum and rotor manufacturers, including non-OEM producers. Less commonly, OES parts can be sourced from current output if the volume is large enough to warrant continued production or if a short production line has been established.[39]

Channels of Distribution

Non-OEM brake drums and rotors are sold through the same rather complicated aftermarket distribution system.[40] This system is dominated by two main distribution channels (traditional[41] and retail outlets) that provide a variety of automotive aftermarket products. Because the aftermarket is broadly defined by the automotive industry to include any product sold for a motor vehicle after its initial sale, another segment of the aftermarket encompasses the primary distribution channels for OES brake drums and rotors that are sold as replacement parts. Unlike non-OEM brake drums and rotors, OES parts are generally supplied through licensed parts distributors and approved motor vehicle dealers.

U.S. producers manufacturing non-OEM brake drums and rotors generally sell the subject products to warehouse distributors that are traditional wholesalers of automotive parts and supplies. These distributors generally supply jobbers, who then wholesale these parts to service stations, garages, and retail outlets, for example. Inventories are held throughout the distribution chain, with frequent deliveries often required. Jobbers can make numerous calls in a day to their buyers to keep high-demand parts in supply.

In some cases, warehouse distributors and jobbers have banded together under a common promotional banner. Called programmed distributors,[42] these associations provide common purchasing, marketing, or other services to gain better pricing from suppliers. The programmed distributor certifies manufacturers as approved vendors based on price criteria, at which point member companies can purchase from any of the approved vendors. Buying groups serve a similar function for independent retail outlets that purchase large quantities at discount prices. Retail outlets, in general, have traditionally bought directly from aftermarket parts manufacturers, and less commonly through jobbers. Secondary channels of distribution for domestic producers of non-OEM

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[36] Transcript, pp. 68-75.

[37] According to questionnaire responses, ***.

[38] Staff conversation with *** representative. Petitioners estimated the supply requirement at seven years. Transcript, p. 72.

[39] Transcript, pp. 68-75 and 103.

[40] Transcript, p. 77.

[41] The traditional segment of the aftermarket refers to the professional service outlets (i.e., warehouse distributors, jobbers, and service stations/independent garages). *1993 APAA Aftermarket Guide.*

[42] NAPA and CARQUEST Auto Parts Stores are examples of programmed distributors.

brake drums and rotors include sales through their own distribution centers, sales to comanufacturers,[43] and purchases by automotive dealers for installation in used motor vehicles.

Evolutionary changes in the market, however, have tended to diminish the distinctions between these two distribution channels. Programmed distributors have come to resemble retail outlets, and retail outlets are offering a greater variety and a larger amount of stock similar to distributors. In addition, some warehouse distributors and jobbers have vertically integrated their operations with the addition of captive stores that broaden their access to the parts aftermarket.

OEM brake drums and OEM brake rotors are sold directly to first-tier[44] automotive suppliers for the production of brake assemblies or to the major motor vehicle manufacturers. In the automotive aftermarket, OES parts are sold primarily through licensed parts distributors and approved motor vehicle dealers as warranty replacement parts.[45] The brake drums and rotors sold through these different channels are usually the same product as the OEM product, having been manufactured on the same production line to the same specifications.[46] In addition, OES brake drums and rotors can be sold through traditional outlets such as service stations and repair shops. This scenario occurs when an end user specifies the use of an OES replacement part to an installer or repair shop, which then purchases the OES brake drum or rotor from a licensed parts distributor or dealer.[47]

The subject imported products enter the U.S. market at the warehouse distributor level, where U.S. manufacturers and importing "agents" compete for sales among buying groups and programmed distributors. Once approved by these groups, the imported products are marketed in the same retail and traditional outlets as domestic aftermarket parts. In addition, Chinese brake drums and rotors are purchased from distributors by U.S. non-OEM manufacturers for finishing and then marketed through the U.S. manufacturers' distribution chain.[48]

Customer and Producer Perceptions

Customer and producer perceptions of non-OEM and OEM products differ. The petitioner perceives OEM and non-OEM brake drums and rotors as distinct products, with differences based on the higher quality, tighter specifications, and certification of OEM products.[49] While arguing that they are not separate "like products," respondents note that customers' perceived difference in quality allows OEM producers to sell their products at higher prices than most non-OEM brake drums and

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[43] Co-manufacturers are generally U.S. producers that purchase non-OEM brake drums and rotors from other manufacturers to broaden their product offerings or to supply customer requests, for example.

[44] First-tier automotive suppliers are those that provide major motor vehicle assemblies, such as braking systems and transmissions. Second-tier suppliers manufacture the parts and components for these assemblies, such as brake parts and seat belts.

[45] Transcript, p. 13.

[46] The products may differ in cases where OES parts are manufactured by non-OEM manufacturers to supply a small volume or out-of-stock part for an OEM. See discussion in the section of this report entitled "Interchangeability." In addition, a representative from ***.

[47] Respondents' postconference brief, p. 25.

[48] Transcript, p. 135.

[49] Transcript, pp. 43-44.

rotors.[50] In addition, one importer cited the "consumer perception that aftermarket product is lower in quality than OEM product."[51]

The petitioner has indicated that the quality of the subject imported brake drums and brake rotors is good and has improved during recent years. In addition, the petitioner states that U.S. end users (i.e., the motor vehicle owner) generally are not aware that the Chinese product is being installed or purchased by repair facilities.[52]

Respondents generally agree that the quality of the subject Chinese products is acceptable, with recent improvements in quality. They indicate, however, that Chinese brake drums and rotors are not perceived as having the high quality of U.S. products in the aftermarket.[53]

Importers responding to questions concerning differences generally also cited the perceived lower quality of the subject Chinese products. ***, for example, stated that "consumer perception plays an important role in pricing. The perception that Chinese product is lower quality will continue to keep the price lower than U.S. made rotors and drums."[54] Another importer, ***, indicated that "Chinese products are perceived as lesser value/quality than product made in the USA." This same importer cited limited product range, longer lead and delivery times, and lack of brand recognition as other disadvantages of Chinese brake drums and rotors in the U.S. market.[55]

Common Manufacturing Facilities and Production Employees

The two principal stages of production of the subject brake drums and rotors are casting and machining. There are three main casting methods: cupola, induction, and arc.[56] In all three methods, gray iron (primarily sourced from scrap) is the metal produced. The casting step accounts for the majority of the value of the finished brake drum and rotor.[57] After the casting is formed, the article undergoes machining, such as grinding and drilling, to reach the finished product.

As previously discussed, unfinished brake drums and rotors have undergone some grinding but are not functional as brake system products. Semifinished brake drums and rotors have also undergone initial grinding and have been drilled or pierced. Such parts still require additional finish

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[50] Respondents' postconference brief, p. 41.

[51] Questionnaire response of ***.

[52] Transcript, pp. 37 and 45-46.

[53] Transcript, p. 143.

[54] Questionnaire response of ***.

[55] Questionnaire response of ***.

[56] Domestic producers either use, or purchase from foundries that use, all three casting methods in their production of the subject products. (Petition, pp. 10-12.) The *cupola method* involves loading coke into a holding vessel and layering chips of scrap iron or iron ingots over the coke. The coke is then fired, and melting occurs. The *induction method* uses high frequency power to melt the metal charge placed in the furnace. A water-cooled copper coil that conducts current surrounds the furnace lining. Heat is generated from the resistance to current induced by a magnetic field produced when current is flowing through the coil, thus melting the metal charge. The *arc method* is conducted at very high temperatures in electric arc furnaces. The metal charge is placed in a refractory-lined bowl within the furnace. Melting results when an electric arc is passed through electrodes in contact with the metal charge. The electrodes are consumed during this process, and new sections must be added as replacements.

[57] U.S. producers of non-OEM brake drums and rotors indicated in their questionnaire responses that the casting represented *** percent of the value of a brake drum and *** percent of the value of a brake rotor.

grinding and boring to be considered serviceable.[58] Finished brake drums and rotors are ready for installation and meet fit and function criteria.

The petitioner states that production of non-OEM brake drums and brake rotors is characterized by relatively short production runs and quick changeover times. To reduce costs and speed changeovers in machining and finishing operations, production machinery is often clustered in stand-alone "cells" operated by one or two employees that produce a finished part ready for shipment. All of the machining and finishing operations are accomplished with two or three pieces of equipment within each cell.[59] Such equipment is used by Wagner, a petitioner, to produce both non-OEM brake drums and non-OEM brake rotors in the same plant with the same employees.[60] Another petitioner, Brake Parts, indicated that different equipment was used to produce each of the subject products at its facility.[61] None of the non-OEM producers manufacture any brake drums or rotors other than the subject products, and all indicate that the equipment is unique to the production of brake drums and rotors.[62]

Similar manufacturing steps are used to produce OEM product; however, OEM brake drums and rotors require several additional procedures such as turning,[63] painting, and inspection of major characteristics. In further contrast to non-OEM production, OEM brake drums and brake rotors are often produced on an automated transfer line because of the efficiencies gained in longer production runs of fewer parts and larger volumes.[64] These assembly line operations generally consist of 7 to 10 pieces of equipment, each dedicated to a specific phase of production, such as turning or grinding.[65] Because production of OEM brake parts is subject to greater oversight and stricter specifications than non-OEM products, other specialized equipment is required for OEM parts manufacturing, such as certain types of grinders that produce nondirectional finishes on rotors to reduce noise levels and electronic monitoring equipment. As previously discussed, OEM manufacturing facilities also undergo first-party audits or independent inspections to verify compliance with OEM specifications, such as QS-9000 standards. In addition, these firms are required to provide proof of process capability, on-going statistical analysis, and material certifications to their OEM customers.[66]

OES brake drums and rotors are generally produced in large quantities on the same transfer lines used to produce OEM parts, and then dispersed to approved parts distributors and dealers from inventory. In instances where a part is no longer available from inventory or an OEM supplier, the part can be outsourced from a non-OEM manufacturer.

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[58] There is no standard industry concept of the terms "unfinished" and "semifinished" brake drums and rotors. These products are not traded in significant quantities, and are not suitable for any other use.

[59] Transcript, pp. 96-97, and field visit with ***.

[60] Transcript, p. 77.

[61] Ibid. *** also manufactures non-OEM brake drums on equipment that differs and is separate from machinery used to produce non-OEM brake rotors. Staff conversation with ***, Apr. 10, 1996.

[62] Questionnaire responses from ***.

[63] Turning is the process of removing material by forcing a cutting tool against the surface of a rotating article. Howard E. Boyer and Timothy L. Gall, eds., "Glossary of Terms Related to Metals and Metalworking," ch. in *Metals Handbook* (American Society for Metals: Metals Park, OH, 1985), p. 1-40.

[64] A representative from *** indicated that because of the emphasis on just-in-time (JIT) delivery by the automotive industry, OEM suppliers are moving to shorter production runs to reduce inventory and be more responsive to their customers.

[65] Petitioners' postconference brief, p. 10.

[66] Questionnaire response of ***.

Price[67]

U.S. producers of OEM and non-OEM brake drums and rotors appear to engage in discrete sales practices. The petitioner indicates that U.S. producers of non-OEM brake drums and rotors typically do not have sales contracts with their customers, operating primarily on an order-by-order, or spot-sales, basis.[68] These producers determine their production mix and quantity on the basis of historical data trends and, more recently, on actual sales data because of changing market conditions. In contrast, U.S. manufacturers of OEM brake drums and rotors are typically awarded long-term contracts to supply parts for a motor vehicle platform of a domestic manufacturer.[69]

The petitioner indicates that OEM brake drums and rotors sell at a premium to non-OEM products because of their higher quality, tighter specifications, and OEM certification, as well as the rigid separation of these markets.[70] The respondents, on the other hand, argue that prices for OEM brake drums and rotors may be slightly higher than those for non-OEM brake drums and rotors because of customers' perceptions that the quality of the two products is different. They believe, however, that prices for OEM and non-OEM brake drums and rotors overlap.[71]

One importer indicated that non-OEM brake drum and rotor prices are not comparable with OEM product prices "because it is a different market."[72] Another importer stated that "pricing in aftermarket product is lower than OEM because of testing standards and consumer perception that aftermarket product is lower in quality than OEM product."[73]

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[67] More detailed information on pricing of the subject products and OEM and non-OEM brake drums and rotors is discussed in the Part V of this report entitled "Pricing and Related Data."

[68] According to questionnaire responses, *** of sales by three of the non-OEM producers were on a spot basis. However, one non-OEM producer, ***, has a *** for *** of its output, and another producer, ***, indicated that ***.

[69] Field visit to ***.

[70] Transcript, p. 44.

[71] Respondents' postconference brief, p. 30.

[72] Questionnaire response of ***.

[73] Questionnaire response of ***.

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

MARKET SEGMENTS AND CHANNELS OF DISTRIBUTION

The market for non-OEM brake drums and rotors is distinguished from the OEM market by its lack of a rigorous certification process. Because of the OEMs' requirements, the U.S. producers of non-OEM brake drums and rotors and importers of the Chinese products that responded to the Commission's questionnaires reported that they sell only in the non-OEM market because they are not qualified OEM suppliers.[1]

The petitioners stated that OEM products are sold to vehicle manufacturers and their dealerships and that non-OEM products are sold through a separate distribution channel consisting of wholesale and retail brake service outlets."[2] The respondents dispute this assertion and reported that OEM and non-OEM products compete in the replacement parts market.[3]

The non-OEM market for the subject brake drums and rotors is characterized by a large number of parts, approximately 700 rotor models and 400 drum models, and several layers of distribution between the producer and the final consumer. Most U.S. producers and importers sell to warehouses/distributors and large retail automotive supply chains.[4] Most warehouses/distributors belong to one of approximately 20 programmed distribution groups (PDGs); membership in a PDG allows a warehouse/distributor to obtain better prices than it could by acting alone. The producer or importer makes price proposals to the PDG, and then warehouses/distributors make individual arrangements at the group price. Warehouses/distributors sell to jobbers who sell to retail outlets that install the subject brake drums and rotors. Some of the subject brake drums and rotors are sold to automotive supply chains for installation by the consumer. More typically, installation is performed at a retail brake outlet, and Wagner stated that it targets its marketing effort at the professional installer and not the consumer, who is usually unaware of the origin of the brake part installed or his or her car.[5] A producer or importer may sell under different labels. For example, *** stated that it has had arrangements with different distribution chains to produce parts under the chains' labels.[6] Sometimes an importer or a U.S. producer will carry two product lines. For example, ***.[7] *** sells a line of the subject products imported from China under a different label at a price *** its U.S.-produced products. The *** brands are marketed through similar channels.

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[1] The U.S. producers and 8 out of 14 responding importers stated that certification is not required in the aftermarket, but that some purchasers test samples before buying large quantities and inspect incoming shipments. There are also standards for gray cast iron.

[2] Transcript, p. 43.

[3] Exhibit 1 of the respondents' postconference brief contained an article stating that OEM suppliers control 38 percent of the brake aftermarket while U.S. producers control 43 percent and importers the remainder. They also cite a *Chicago Tribune* (Jul. 17, 1994) article stating that the "Mr. Goodwrench" chain, which is a firm related to GM, uses OES parts and has the most retail outlets in the "quick lube" business.

[4] *** in a site visit reported that about *** percent of its sales are to programmed distribution groups or large retailers.

[5] Transcript, p. 85.

[6] ***. They stated that this does not affect selling price.

[7] Questionnaires from ***.

The large number of different models of the subject products makes it difficult for one manufacturer to produce every model. As a result, co-manufacturing arrangements[8] exist, and there is trade among producers and importers. For example, *** of *** has alleged that *** purchases the *** models that *** produces and buys the rest from China and other countries.[9] One importer (***) reported that it has only one customer, ***. *** apparently produces the subject product in the United States and Canada, purchases from importers, and imports directly.[10]

SUPPLY AND DEMAND CONSIDERATIONS

U.S. Supply

Such factors as production capacity, availability of alternative markets, and the existence of inventories influence the responsiveness of supply of the subject products to price changes. These factors are discussed in more detail in Parts III and IV of the report. Questionnaire data suggest that supply may be somewhat responsive to price.

U.S. Production

U.S. production of non-OEM brake drums and rotors increased between 1993 and 1995. Capacity utilization for non-OEM brake drums ranged from 67.6 percent in 1993 to 83.9 percent in 1995. Capacity utilization for non-OEM brake rotors fell from 90.8 percent in 1993 to 70 percent in 1995.

With these capacity utilization rates, the respondents have argued that domestic producers lack the foundry capacity to supply the U.S. market and that nonsubject countries would benefit from any actions limiting imports of the subject products from China.[11] The petitioners dispute this claim and stated that they were aware of foundries operating at 35 percent of capacity.[12] Several petitioners had also closed parts of their operations or were working reduced work weeks.[13]

Domestic shipments by U.S. producers increased between 1993 and 1995 for both the subject drums and the subject rotors. Despite the positive trend from total U.S. shipments, the petitioners contend that the Chinese importers have targeted the highest volume models. Unit production costs are lower for high-volume models because no time is lost in changing machine settings. The petitioners claim that they now sell a less concentrated mix of models, thus increasing their production costs and reducing their profits. Questionnaire data indicate that the five top-selling models accounted for a greater percentage of importer sales than of U.S. producer sales.[14]

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[8] For example, *** stated in its questionnaire response that it deals with 2 levels of customers, the co-manufacturer and the aftermarket distributor.

[9] Telephone conversation, Apr. 4, 1996.

[10] See Part III for a more complete discussion.

[11] Transcript, p. 111.

[12] Independent foundries were not part of our data set, but petitioning firms' postconference brief contained letters from 4 foundries *** stating that they have significant additional capacity. See discussion of capacity utilization in Part III.

[13] Transcript, pp. 180-184.

[14] The five top-selling non-OEM drum models together accounted for 24 percent of sales for the reporting U.S. producers and 50 percent of sales for the reporting importers of the Chinese products. The five top-

(continued...)

Questionnaire responses from almost all U.S. producers of non-OEM brake drums and rotors indicate that their plant and equipment are unique to the production of the subject drums and rotors and that employees have been trained in the production of the subject products. Plant and equipment thus cannot easily be switched to other types of production.

End-of-period inventories for non-OEM brake drums remained fairly constant between 1993 and 1995. End-of-period inventories for non-OEM brake rotors increased, especially in 1995.

Subject Imports from China

U.S. imports of non-OEM brake drums from China amounted to 432,000 units in 1995, which was more than triple the 1993 level of 138,000 units. The 1995 level of imports represented 8.1 percent of apparent U.S. consumption. U.S. imports from China of non-OEM brake rotors amounted to 6.9 million units in 1995, or *** percent of apparent U.S. consumption.

Nonsubject Imports

Data from the Department of Commerce indicate that Canada is the largest source of imported brake drums and rotors, but it is unclear whether such imports are principally OEM or non-OEM products. The quantity and value of imports from Canada increased between 1993 and 1995.

*** of *** stated that every brake and drum part is available from multiple sources.[15]

U.S. Demand

Apparent U.S. consumption of both the subject brake drums and rotors increased between 1993 and 1995. Reasons for the overall growth in consumption of non-OEM brake drums and rotors include the increased number of automobiles on the road, lighter drums and rotors installed as original equipment which wear out faster, and the tendency to keep automobiles for longer periods of time. In addition, the demand for non-OEM brake rotors has increased because of the increased number of automobiles with front-wheel drive and front disc brakes.

The petitioners have argued that vehicle owners replace brake drums and rotors when they wear out because of safety and inspection concerns.[16] Price changes are therefore unlikely to have a large effect on the quantity demanded.

Importers responding to the Commission's questionnaire uniformly stated that they had perceived an increase in quantity demanded. Most of these same importers stated that the demand increase was coupled with a drop in their prices. Four importers noted that their product range had increased.

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[14] (...continued)
selling non-OEM rotor models together accounted for 13 percent of sales for the reporting U.S. producers and 36 percent of sales for the reporting importers of the Chinese products.

[15] Telephone conversation, Apr. 4, 1996.

[16] Transcript, p. 44.

U.S. producers responding to the Commission's questionnaire were unanimous in stating that, despite increases in overall demand, demand for U.S.-produced drums and rotors was stagnant or decreasing because of shifts to the lower-priced Chinese products. Two U.S. producers noted that, while the Chinese had originally targeted the highest volume models, they were now expanding their product line.

Both U.S. importers and U.S. producers noted a new trend towards replacing and discarding old rotors instead of machining them. This is because the new lighter rotors are not as conducive to machining as the older heavier models. Also, with the lower priced Chinese products, replacement may be the cheaper alternative.

Substitute Products

There are no practical substitute products for non-OEM brake drums and rotors. Research has focused on improving the existing drum and rotor systems instead of developing new approaches. OES drums and rotors could substitute for non-OEM products, but OES prices are allegedly higher. There is little, if any, substitution among different models of drums and rotors because the dimensions must be exact. Sometimes a "composite cast" model can be substituted for an "all cast" model or a "vented" model for a solid model with little performance problems if the dimensions conform to the necessary specifications.[17]

Comparison of Domestic Products and Subject Imports

U.S. producers and importers were asked if U.S.-produced and imported brake drums and rotors from China could be used interchangeably. All five responding U.S. manufacturers stated that the products from the U.S. and Chinese sources were interchangeable, and 16 out of 17 importers agreed that the products are interchangeable.

When asked to identify any nonprice differences between the U.S.-produced and imported Chinese subject products, seven importers said there were no differences. Eight importers stated that the Chinese products suffered from, inter alia, lack of brand recognition, limited product ranges, perceived lower value, difficult warranty recovery, and longer lead times. All four petitioning firms agreed that nonprice differences between the subject products from the U.S. and Chinese sources were not significant; however, ***.

[17] *** producer questionnaire.

PART III: CONDITION OF THE U.S. INDUSTRY

INFORMATION PRESENTED IN THIS SECTION

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the alleged margins of dumping was presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Part IV, entitled "U.S. Imports, Apparent Consumption, and Market Shares," and in Part V, entitled "Pricing and Related Data," respectively. Information on the other factors specified is presented in this part and in Part VI and is based on the questionnaire responses from all known participants in the brake rotor and drum aftermarkets. The information is believed to account for virtually all production of the subject products during the period for which data were collected in this investigation.

U.S. PRODUCERS

Description of U.S. Producers

Non-OEM brake drums and rotors are manufactured in the United States by six firms whose orientation is directed primarily towards the automotive aftermarket. In contrast, OEM brake drums and rotors are produced by a number of firms for use both as original equipment installed onto motor vehicles on OE production lines and as OE replacement or service (OES) parts typically made available or sold through automotive dealers.[1] The automotive market (both aftermarket and OE) can be described as encompassing the entire North American continent. International firms frequently have plants located in both the United States and Canada (and sometimes Mexico) and there are extensive cross-border shipments of both finished and non-finished product.

The six aftermarket producers consist, in part, of the four members of the petitioning coalition (Brake Parts, Kinetic, Iroquois, and Wagner). In addition, ITT Automotive, Inc. (or ITT Automotive) and Excel Industries, Inc. (or Excel) produce non-OEM brake drums and rotors. The producing firms typically serve all geographical markets within the United States.

Information on the aftermarket manufacturers (and on firms producing OEM product) is provided in table III-1. With the exception of Brake Parts and Wagner, firms producing for the aftermarket are independently owned. Brake Parts is part of a division of Echlin, Inc., a Fortune 500 company that manufactures brake parts in over 28 facilities across North America, including both Canada and Mexico. ITT Automotive is owned by ITT Automotive Enterprises, a major independent automotive supplier.

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[1] OES brake drums and rotors can be described as being part of the automotive aftermarket, albeit the OE aftermarket. However, at least in the case of ***, OEM product that is used for internal consumption (i.e., installed on motor vehicles at OE assembly plants) is produced on the same production lines as OES product distributed into the OE aftermarket. The two products are identical, except that OEM product for internal consumption is generally shipped in large containers and OES product receives consumer packaging. Both OEM product for internal consumption and OES brake drums and rotors may or may not contain logos. Staff conversation with ***, Mar. 26, 1996.

As referred to in this report, an "aftermarket" producer is understood to be a firm manufacturing non-OEM product and is not meant to encompass a firm producing OEM (or OES) product that is distributed through OES channels. Within this report, OES product that otherwise meets the definition of OEM product (i.e., contains an OEM logo or is OEM-certified) is considered to be just that, OEM product.

Table III-1
Brake drums and rotors: U.S. producers, plant location(s), positions on the petition, and input material used

Firm name	Plant location(s)	Position on the petition	Input material used
Non-OEM manufacturers:			
Airtex[1] [2]	Fairfield, IL	***	No longer manufactures[2]
Brake Parts (Hydraulics)[3]	McHenry, IL	Support	***
Excel[1]	Toledo, OH	Support	***
Iroquois[1]	North East, PA	Support	***
ITT Automotive[4]	Tonawanda, NY	***	***
Kinetic[1]	Harbor City, CA	Support	***
Wagner[5]	St. Louis, MO	Support	***
OEM manufacturers:			
AlliedSignal[6]	***	***	***
Kelsey Hayes[7]	***	***	***
Motor Wheel	***	***	***
Simpson Industries[1]	([8])	***	***

[1] Not owned, in whole or in part, by any other firm.
[2] Airtex' production was small, approximately *** non-OEM rotors during the period reviewed. The firm stated in its questionnaire response that it has ceased manufacturing operations and that ***.
[3] Brake Parts is owned by Echlin, Inc., Branford, CT. Its related firm, Distex - IPI, manufactures in Ontario, Canada.
[4] ITT Automotive is owned by ITT Automotive Enterprises, Inc., White Plains, NY. Its related firm, ITT Industries of Canada, Ltd., manufactures brake drums and rotors in Ontario, Canada.
[5] Wagner is owned by Cooper Industries, Houston, TX.
[6] AlliedSignal is ***.
[7] Kelsey Hayes is owned by the Varity Corp., Buffalo, NY.
[8] Plants located in ***.

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

OEM brake drums and rotors are produced in the United States both by the domestic automobile and light truck manufacturers[2] and by several outside suppliers that maintain long-term contracts with the OEMs.[3] Delphi Chassis Systems (part of the Delphi Group supply umbrella for General Motors) provides OEM parts both to General Motors and to other OEM manufacturers as well as producing for the OEM aftermarket. Some OEM product is sold directly to automotive manufacturers by suppliers; additional OEM brake drums and rotors are sold through such firms as Dana Corp.[4] and Rockwell Plus, which sell subassemblies containing brake drums and rotors to OEM customers. General Motors is believed to be supplied by its internal supply system, as well as by ***. Ford obtains OEM brake drums and rotors from ***. Chrysler reportedly purchases domestically from ***. Domestic automotive manufacturers also import from Canada and Mexico. Supply arrangements among the automotive manufacturers and their suppliers can be relatively complex. For example, ***.[5]

Table III-2 provides data, by firm, on the production of non-OEM and OEM brake drums and rotors.

Table III-2
Brake drums and rotors: U.S. production in 1995, by firm and by product

* * * * * * *

Note.--All known producers of non-OEM parts provided at least a partial response to the Commission's questionnaires. However, only limited information (mainly production data) was received from OEM producers. Non-responding OEMs consist of ***. In addition, there are almost certainly additional firms supplying OEM parts (particularly specialty parts and parts to transplant automotive manufacturers) that were not originally included on the Commission's mailing list. (For example, ***.) The Commission mailed a total of 29 producers' questionnaires. Eleven firms provided at least a partial response to the questionnaire, 11 firms indicated that they did not, in fact, manufacture, and 7 firms did not respond.

Although data are incomplete (there is significant underreporting of OEM product, particularly for ***), the extent of OEM production in the United States is clearly larger than that of the non-OEM aftermarket. In 1995, at least 80 percent of total brake drum production in the United States was for OEMs (table III-2). OEM brake rotor production in 1995 accounted for a minimum of *** percent of aggregate production of brake rotors. If data were complete the OEM shares would, of course, rise. Publicly available data show that 11.6 million cars and light trucks were produced in the United States in 1995;[6] such production would require the use of 46.4 million brake

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[2] Actually, staff is aware only of in-house production of OEM product at General Motors. Transplant producers (which include Honda Motor Co., Toyota Motor Corp., Nissan Motor Co., Mazda Motor Corp., and Mitsubishi Motor Corp.) are believed to be served mainly by imports from Japan and, to a lesser extent, Canada. ***.

[3] OEM contracts are often called "lifers" and typically run for the life of the part, including service time. Staff conversation with ***.

[4] Dana Corp. (Spicer Division) manufactures axles and assembles purchased brake drums and rotors onto the axle. Staff conversation with ***, Dana Corp., Apr. 4, 1996.

[5] Staff conversation with ***, Mar. 26, 1996.

[6] *Ward's Automotive Reports*, Jan. 29, 1996.

drums and rotors, not including the additional manufacture of OES parts.[7] Data presented in the staff report show 32.7 million units of domestically-produced OEM brake drums and rotors (table III-2), to which 10.6 million imported units[8] must be added for total reported OEM consumption of 43.3 million units in 1995. Therefore, OEM production data reported in response to Commission questionnaires (and additional import data estimated by staff) account for 43.3 million units of a universe of 46.4 million units of OEM brake drums and rotors used for automotive production plus an unknown number of OES parts. The following tabulation presents data on OEM production received in response to Commission questionnaires (in *1,000 units*):

Item	1993	1994	1995
OEM brake drums	11,878	12,360	11,408
OEM brake rotors	18,207	22,694	21,273
Total	30,085	35,054	32,681

Producer Product Interchangeability[9]

Respondents allege that the aftermarkets and OE markets are not "hermeticaly sealed, different industries," but, rather, one industry selling brake drums and rotors with the same basic characteristics and uses that can be sold interchangeably into overlapping channels of distribution.[10] Table III-2 presents data showing the quantities of non-OEM and OEM product manufactured by the various producers. As shown, non-OEM manufacturers only produce non-OEM brake drums and rotors and OEM producers almost exclusively deal with OEM product. This is not particularly surprising (and does not necessarily rebut the respondents' assertions) since the definitions of non-OEM and OEM products are largely tied to the identity of the manufacturing firms. (The key parameters in the definition of the subject products are the absence of an OEM logo and OEM certification.)

Staff notes that there are several levels where interchangeability among non-OEM and OEM products could be measured: one, at the point of the production line; two, at the point of the supplier; three, at the distributive level; or four, at the point of the ultimate end user (the aftermarket installer or the OEM automotive production line).

As noted above (with the minor exception of *** and possibly other OEM manufacturers[11]), there appears to be minimal overlap of non-OEM product and OEM product on the production lines (level one). The petitioner asserts that OE suppliers of brake drums and rotors have between 2 and 3 percent of their total production going into the non-OEM aftermarket. This includes "non-conforming OE product" (that which does not meet OE specifications or rejects) and a certain

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[7] Estimate was calculated using figure of four brake drums or rotors per vehicle.

[8] This figure was estimated following methodology presented in Part IV of this report. Data for OEM imports of brake drums and rotors are not shown elsewhere. However, the 10.6 million unit figure comprises 8.8 million units imported from Canada and 1.9 million units imported from all other sources.

[9] The word "interchangeability" is not necessarily used here in the context of the Commission's domestic like product considerations. The broader issue of whether or not the non-OEM product is "like" the OEM product was addressed in Part I of this report. Largely owing to the size and breadth of their operations, staff has experienced some difficulty in obtaining precise information from OEM manufacturers. Accordingly, much of the information presented in this part of the report is somewhat incomplete.

[10] Respondents' postconference brief, pp. 3-5 and pp. 14-25.

[11] See footnote 2 to table III-2 of this report.

amount of overruns.[12] Also, testimony was presented at the Commission's conference that OEMs will outsource some aftermarket parts, especially for much older cars, to firms like the petitioners. Further, there was some suggestion that this product could be made to OEM specification.[13] Both non-OEM and OEM manufacturers may acquire through purchase a certain amount of OEM or aftermarket product, respectively (level two). In their responses to Commission questionnaires, both *** and *** listed *** as suppliers.[14] AlliedSignal ***.[15] Interchangeability among the downstream channels of distribution (level three) was addressed in Part I of this report. Finally (addressing level four), respondents assert in their postconference brief that some installers (specifically service stations and repair shops) upon request will purchase an OEM part from dealers. Further, some OEM dealers stock and install aftermarket parts designed for automobiles and light trucks that they did not themselves manufacture.[16] The extent of these practices is not known. There is, presumably, no circumstance where a non-OEM product would be used as original equipment on an automotive manufacturing line.

Producer Purchases of Castings and Unfinished or Semifinished Product

As described in Part I, brake drums and rotors are machined from castings which are themselves created by a process of pouring or injecting liquid metal into a mold cavity and then cooling the output. Most U.S. aftermarket producers purchase castings from outside firms; only Wagner operates its own foundry in the United States (table III-1).[17] [18] Large U.S. foundries that produce brake drum and rotor castings are operated by Dayton Walther, General Motors, Kelsey Hayes, Motor Wheel, The Wheland Foundry, Wagner, and Waupacca Foundry.[19] [20]

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[12] They conclude that "the OE product getting into the after market channels is minimal in quantity and is primarily 'seconds.'" Rebuttal exhibit 1, p. 5, to the petitioners' postconference brief.

[13] Transcript, pp. 73-74. However, the inference was that such outsourcing is not numerically significant.

[14] AlliedSignal considers ***, Kelsey Hayes ***, and the status of Dayton Parts is unclear.

[15] In order to better measure the extent of product overlap, staff requested at the Commission's conference that petitioning firms provide additional data as to the amounts of product that each firm sold to and purchased from OEMs in 1995. Transcript, p. 148. However, the petitioning firms were not able to provide the requested information.

[16] Respondents' postconference brief, pp. 3-5.

[17] ***.

[18] Respondents contend that a lack of casting capacity in the United States constrains the ability of downstream manufacturers to produce the finished product. Transcript, p. 127. Petitioner disagrees and provides letters from several foundries stating that they, in fact, have excess capacity. Public exhibit 7 of petitioner's postconference brief. A Canadian firm that machines brake drums and rotors from purchased castings commented that, prior to January 1, 1993, foundries in the United States (and Canada) were busy and had back orders. Currently, foundries actively solicit his firm for business and report that their orders are down with employee layoffs. Mar. 21, 1996 letter from ***.

[19] A more complete listing of U.S. foundries may be found in *Certain Metal Castings*, Report to the President on Investigation No. TA-201-58 Under Section 201 of the Trade Act of 1974, USITC Publication 1849, June 1986.

[20] *** and *** produce only castings that they sell in that form (or without any additional machining). Staff conversations with ***, Mar. 28, 1996.

Also, finished brake drums and rotors may, on occasion, be machined from purchased product which has been advanced beyond the casting stage (and which is, thus, subject product when acquired). Kinetic is the only U.S. manufacturer that purchases unfinished or semifinished brake drums or rotors. The other U.S. aftermarket producers either manufacture the casting input or purchase castings that have not been advanced.[21] Of the final brake or rotor products sold by Kinetic, approximately 20 to 25 percent are machined from semifinished or unfinished rotors purchased from from Mexico and China; the remaining 75 to 80 percent are made in the firm's California facility.[22]

The following tabulation presents the weighted average of the value-added by various production steps for non-OEM brake drums and rotors (*in percent*):

Item	Brake drums	Brake rotors
Manufacturing cost and/or purchase price of casting	61.6	64.8
Manufacturing cost of machining	38.4	35.2
Total	100.0	100.0

Note.--Data are calculated from responses to the producers' questionnaire by ***. There was *** in the cost data provided among the various producers. Staff also requested value-added cost data for the steps required to reach both the unfinished and semifinished stages. Only two firms provided such data; the data are not provided above. However, both responding firms *** showed *** between the casting and unfinished stages.

Imports and Other Purchases by U.S. Producers of Non-OEM Product

Table III-3 presents data concerning U.S. producers' imports and purchases of non-OEM brake drums and rotors from all sources (including other U.S. producers). As shown, a number of the domestic aftermarket manufacturers imported or purchased some product from China during the period reviewed. Specifically, ***.[23] [24]

Table III-3
Non-OEM brake drums and rotors: U.S. producers' imports and purchases, by product and by firm, 1993-95

* * * * * * *

Footnotes to table III-3 cite the reasons provided by domestic producers as to why they imported subject products. It is general industry practice for domestic suppliers to distribute more than one brand of product. U.S.-produced product is sold under the premium label and imports (sometimes from China) are distributed under a second label. ***'s imports are marketed under a

[21] ***.

[22] Rebuttal exhibit 1, p. 2, to the petitioner's postconference brief, with clarification obtained from Barry Breslow, Kinetic, Apr. 9, 1996. Kinetic purchases U.S.-manufactured castings from ***.

[23] ***.

[24] ***.

discounted label.[25] ITT Automotive offers ***.[26] [27] The domestically produced product that Autospecialty purchases from Kinetic is sold under a premium label; its Chinese imports are marketed as a value product.[28] Finally, the part numbers that Wagner imports (or purchases) from China are also not mingled with its domestic production, but sold under another brand name.[29]

A comparison of the import and purchase data shown in table III-3 with production data presented in table III-5 (located later in this part of the report) shows the relative size of the imports and purchases of subject product to the U.S. manufacturing operations of each firm producing for the non-OEM market. The following summarizes that comparison:

* * * * * * *

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Data on U.S.manufacturers' capacity to produce non-OEM brake drums and rotors and their utilization of that capacity are presented in table III-4. As shown, capacity to produce both subject products rose during the period reviewed. Utilization of that capacity for the manufacture of non-OEM brake drums rose steadily, reflecting a 42.8-percent rise in non-OEM brake drum production since 1993. In contrast, reported capacity utilization of non-OEM brake rotor facilities declined from 1993 to date and production of that product increased in 1994 and decreased in 1995 to a level above that of 1993.

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[25] Staff conversation with ***, Apr. 9, 1996.

[26] The part numbers used by ITT Automotive for its AIMCO brand have become the industry standard and are typically used by other manufacturers (both U.S. and offshore) along with their own part numbers.

[27] ***.

[28] Staff conversation with ***.

[29] Transcript, pp. 94-95.

Table III-4
Non-OEM brake drums and rotors: U.S. capacity, production, and capacity utilization, 1993-95

Item	1993	1994	1995
	Average-of-period capacity (*1,000 units*)		
Non-OEM brake drums	2,968	3,168	3,418
Non-OEM brake rotors	10,774	14,934	15,520
Total	13,742	18,102	18,938
	Production (*1,000 units*)		
Non-OEM brake drums	2,008	2,630	2,868
Non-OEM brake rotors	9,824	11,272	10,885
Total	11,832	13,902	13,753
	Capacity utilization (*percent*)		
Non-OEM brake drums	67.6	83.0	83.9
Non-OEM brake rotors	90.8	75.3	70.0
Average	85.8	76.7	72.5

Note 1.--Production divided by average-of-period capacity data do not exactly result in capacity utilization data due to incomplete reporting.

Note 2.--Data for Brake Parts is for fiscal year September through August. Iroquois data for non-OEM rotors includes ***.

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

Table III-5 shows capacity and production data, by firm. Several firms (***) reported increased capacity to produce at least one of the subject products. There was some variation in capacity utilization data for the reporting firms. Capacity utilization ratios to produce both subject products were typically above 80 percent for *** during the entire period since January 1, 1993. *** reported much lower utilization rates.

Table III-5
Non-OEM brake drums and rotors: U.S. capacity, production, and capacity utilization, by product and by firm, 1993-95

* * * * * * *

Respondents allege that petitioners cannot expand their capacity to produce for the entire market.[30] Apparent U.S. consumption is presented in Part IV of this report. As shown in Part IV

[30] Respondents' postconference brief, pp. 39 and 43.

(tables IV-4 and IV-5), the U.S. market is supplied by imports from a number of sources, including China, and the quantity of U.S. consumption does, in fact, exceed current production capacity in the United States.[31]

U.S. PRODUCERS' SHIPMENTS AND INVENTORIES

Table III-6 presents data on U.S. shipments. There were *** company transfers of either subject drums or subject rotors. *** reported exports of both products were to Canada.[32] U.S. shipments of non-OEM brake drums and of non-OEM brake rotors increased steadily throughout the period reviewed. Petitioner contends that any examination of shipment data should be structured so that it is possible to clearly see the inroads Chinese imports have made on the high-volume items. Sales of high-volume items generate the large margins that are necessary for profitability; it is these items that importers have reportedly targeted. Further, importers are expanding their lines, adding more models.[33]

Table III-6
Non-OEM brake drums and rotors: U.S. producers' shipments, 1993-95

Item	1993	1994	1995
	Quantity (*1,000 units*)		
Non-OEM brake drums:			
Commercial shipments	1,793	2,164	2,520
Internal shipments	0	0	0
Export shipments	279	306	457
Total	2,072	2,470	2,977
Non-OEM brake rotors:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Total	***	***	***
Total:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Total	***	***	***

Table continued on the following page.

[31] This statement is based on capacity data as reported in the Commission's questionnaires. Those questionnaires did not gather information as to the number of shifts capacity was based on.

[32] ***, which did not provide actual export data, ships product to ***.

[33] Transcript, pp. 25-27, and staff fieldtrip to Wagner, Mar. 20, 1996.

Table III-6--Continued
Non-OEM brake drums and rotors: U.S. producers' shipments, 1993-95

Item	1993	1994	1995
	Value(*1,000 dollars*)		
Non-OEM brake drums:			
Commercial shipments	33,203	39,503	44,366
Internal shipments	0	0	0
Export shipments	5,107	5,238	7,813
Total	38,310	44,741	52,179
Non-OEM brake rotors:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Total	***	***	***
Total:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Total	***	***	***
	Unit value (*dollars per unit*)		
Non-OEM brake drums:			
Commercial shipments	$18.52	$18.25	$17.61
Internal shipments	-	-	-
Export shipments	18.30	17.12	17.10
Average	18.49	18.11	17.53
Non-OEM brake rotors:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Average	***	***	***
Total:			
Commercial shipments	***	***	***
Internal shipments	***	***	***
Export shipments	***	***	***
Average	***	***	***

Note 1.--Staff requested that firms provide separate data for their commercial shipments to automotive parts distributors and to retailers. Firms responded that shipments are, in fact, directed towards four classes of customers, namely (1) automotive parts distributors, (2) installers, (3) retailers, and (4) other producers (or co-manufacturers). Incomplete data were received and are not presented in the above table.

Note 2.--Data for Brake Parts are for fiscal year September through August. Iroquois' data for non-OEM rotors include ***.

Note 3.--Does not include shipment data for *** or for ***.

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

Although shipments by petitioners are up, the unit values of those shipments declined steadily for both non-OEM brake drums and non-OEM brake rotors from 1993 to 1995. The unit values for U.S. shipments of subject brake drums declined from $18.52 per unit in 1993 to $17.61 per unit in 1995, or by 4.9 percent (table III-6). The decline in the unit values shown for subject rotors was somewhat less: unit values of subject rotors declined from $*** per unit in 1993 to $*** per unit in 1995, or by *** percent. Information on the unit values reported by each responding firm, in 1995, are presented in the following tabulation:

Firm	Non-OEM brake drums	Non-OEM brake rotors
Brake Parts.....	$***	$***
Kinetic.....	***	***
ITT.....	***	***
Iroquois.....	***	***
Wagner.....	***	***
Average.....	$17.61	***

***.[34] ***.

Both the ratios of inventories to production and inventories to U.S. shipments of non-OEM brake drums declined during the period reviewed (table III-7). In contrast, the comparable ratios for non-OEM brake rotors increased since 1993.

Table III-7
Non-OEM brake drums and rotors: U.S. producers' end-of-period inventories, 1993-95

Item	1993	1994	1995
Non-OEM brake drums:			
EOP inventories (*1,000 units*)	467	465	603
Ratio to production (*percent*)	23.3	17.7	21.0
Ratio to U.S. shipments (*percent*)	26.0	21.5	23.9
Non-OEM brake rotors:			
EOP inventories (*1,000 units*)	***	***	***
Ratio to production (*percent*)	***	***	***
Ratio to U.S. shipments (*percent*)	***	***	***

Note 1.--Data for Brake Parts are for fiscal year September through August. Iroquois' data for non-OEM rotors include ***.

Note 2.--Does not include inventory data for *** or for ***.

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

[34] ***. Response by Iroquois to the producers' questionaire.

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Aggregate data on employment are presented in table III-8.

Table III-8
Non-OEM brake drums and rotors: Average number of production and related workers producing products, hours worked, wages paid to such employees, and hourly wages, productivity, and unit labor costs, 1993-95

Item	1993	1994	1995
Non-OEM brake drums:			
PRWs (*number*)	164	174	209
Hours worked (*1,000 hours*)	363	449	483
Wages paid (*$1,000*)	5,227	6,450	7,151
Hourly wages	$14.40	$14.37	$14.81
Productivity (*units per hour*)	5.5	5.9	5.9
Unit labor costs (*dollars per unit*)	$2.60	$2.45	$2.49
Non-OEM brake rotors:			
PRWs (*number*)	***	***	***
Hours worked (*1,000 hours*)	***	***	***
Wages paid (*$1,000*)	***	***	***
Hourly wages	$***	$***	$***
Productivity (*units per hour*)	***	***	***
Unit labor costs (*dollars per unit*)	$***	$***	$***
Total:			
PRWs (*number*)	***	***	***
Hours worked (*1,000 hours*)	***	***	***
Wages paid (*$1,000*)	***	***	***
Hourly wages	$***	$***	$***
Productivity (*units per hour*)	***	***	***
Unit labor costs (*dollars per unit*)	$***	$***	$***

Note 1.--Data for Brake Parts are for fiscal year September through August. Iroquois' data for non-OEM rotors include ***.

Note 2.--Does not include employment data for *** or for ***.

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

***. As shown, the trends for non-OEM brake drums were consistently favorable. Employment data and productivity for non-OEM brake drums rose, while unit labor costs declined during the period reviewed. In contrast, while some employment indicators did increase (albeit irregularly) for non-OEM brake rotors, hourly wages and productivity were down in 1995 and unit labor costs increased slightly. Data for the operations of individual responding firms in 1995 are shown below:

Firm	Non-OEM brake drums-- Productivity (*units/hour*)	Unit labor costs (*per unit*)	Non-OEM brake rotors-- Productivity (*units/hour*)	Unit labor costs (*per unit*)
Brake Parts..	***	$***	***	$***
Kinetic.....	***	***	***	***
ITT.....	***	***	***	***
Iroquois.....	***	***	***	***
Wagner.....	***	***	***	***
Average....	5.9	2.49	***	***

PART IV: U.S. IMPORTS, APPARENT CONSUMPTION, AND MARKET SHARES

U.S. IMPORTERS AND MEASUREMENT OF IMPORTS

Non-OEM brake drums and rotors are imported by a large number of firms that act as importer/brokers, distributors, or serve both functions. With several exceptions (notably, for ***)[1] firms imported both subject brake drums and subject brake rotors during the period reviewed or since January 1, 1993. The importing firms are usually, but not always, independently owned (table IV-1).

Table IV-1
Non-OEM brake drums and rotors: U.S. importers, foreign manufacturers, and U.S. imports from China, in 1995

* * * * * * *

Commission staff sent importers' questionnaires both to those firms named in the petition and to importers listed in information provided by the U.S. Customs Service which imported more than $150,000 annually during 1993-95. A total of 44 importers' questionnaires were sent to importers of product from China. Of the firms receiving questionnaires, 26 returned completed responses and three indicated that they had not, in fact, imported the subject products. The remaining firms either could not be located or did not respond.

The subject products (non-OEM brake drums and non-OEM brake rotors) are imported into the United States under an HTS classification that also includes OEM brake drums and rotors, product not of gray cast iron (namely, aluminum), and product which does not meet the specified size parameters (or that used for larger-sized vehicles). Further, this classification includes unfinished and semifinished product that is shipped into the United States for final processing. Commission questionnaires solicited data on all imports from China and from Canada entered under the "basket" HTS classification.[2] As described below, the quantities and values of imports presented in this report are a combination of data reported in response to Commission questionnaires and estimates made using official Commerce statistics.[3]

The following describes the sources of data presented for imports from China, Canada, and all other countries:

---

[1] These firms imported only non-OEM brake rotors.

[2] Additional questionnaires were sent to firms importing from Canada. An attempt was made to gather separate data for Canada in part because of the relatively large amount of its imports (32.7 million units in 1995 or 61.9 percent of the quantity of the total "basket" of imports based on official Commerce statistics). Also, there was a sharp increase in product imported from Canada under the "basket" HTS classification; the quantity of such imports rose from 18.9 million units in 1993 to 32.7 million units in 1995, or by 73 percent. No attempt was made in this preliminary investigation to directly gather data for imports from other sources (i.e., through questionnaires).

[3] Responding importers reported imports of 6.0 million units from China in 1995, or about 82 percent of the 7.3 million units reported in offical Commerce statistics. Similarly, responding importers reported imports in 1993 and 1994 that accounted for 86 percent of the totals reported in official Commerce statistics for both years. (Staff notes, however, that there may be some double-counting by importers and, thus, overstatement of questionnaire coverage.)

China.--First, data reported in response to Commission questionnaires on the quantity and value of imports of non-OEM brake drums and non-OEM brake rotors from China were compiled. No imports of OEM product or of "other" imports (i.e., product of aluminum or for heavy trucks) were reported. Next, the quantity and value of the respective shares of non-OEM brake drums and non-OEM brake rotors were calculated separately for quantity and for value and for each year and applied to official Commerce statistics for Chinese imports to derive estimated data.

Canada.--Both official Commerce statistics and information provided by the U.S. Customs Service appear to be overstated for imports from Canada of finished product by ***, an aftermarket supplier whose data accounted for *** of the quantity of imports from Canada. When the incorrect data are subtracted from information provided by the U.S. Customs Service for ***, data for Canadian imports of non-OEM brake drums and rotors received in response to Commission questionnaires appear to be relatively complete. Questionnaire data on non-OEM imports from Canada are, therefore, used in this report.

However, questionnaire data received on imports of OEM product from Canada were incomplete. To derive OEM data, staff reviewed information provided by the U.S. Customs Service listing the names of consignees and the amount imported by each consignee. Product imported by an OEM was considered to be OEM product. The drum-rotor ratio found among U.S. OEM manufacturers and reported OEM imports from Canada (or 37 percent drums and 63 percent rotors) was used to further adjust the Canadian OEM data to calculate data on OEM rotors and drums.

All other sources.--Staff used the same method described above for Canadian imports to adjust imports for all other countries, except that it assumed that the drum-rotor ratio for aftermarket imports would most resemble the average of (1) that found for imports from China (6.5 percent drums and 93.5 percent rotors) and (2) the 20-80 U.S. drum-rotor ratio in the aftermarket. (Product not imported by an OEM was considered to be non-OEM product.)

The data reported for imports from China in this staff report are believed by staff to be fairly accurate. Because of the degree of estimation, the data for imports from other countries may be somewhat less so.

U.S. IMPORTS

Imports from China

The quantity of imports of non-OEM brake drums from China more than tripled from 138,000 units in 1993 to 432,000 units in 1995 (table IV-2). A similar rate of increase was seen for non-OEM brake rotors imported from China. In 1993, 2.1 million units were imported, while 6.9 million non-OEM brake rotors entered the United States from China in 1995. The rise in imports can be attributed, at least in part, to an increase in the number of models available through Chinese importers. Petitioners testified at the Commission's conference that out of perhaps a total of 750 rotor models, Chinese importers now provide over 150 models to the United States. Only about 50

Table IV-2
Non-OEM brake drums and rotors: U.S. imports, by sources, 1993-95

Item	1993	1994	1995
	Quantity (1,000 units)		
Non-OEM brake drums imported from--			
China	138	383	432
Canada	***	***	***
Other sources	***	***	***
Total	2,618	2,858	2,823
Non-OEM brake rotors imported from--			
China	2,125	4,656	6,882
Canada	***	***	***
Other sources	***	***	***
Total	19,985	22,468	22,305
	Value ($1,000)		
Non-OEM brake drums imported from--			
China	1,508	3,882	4,581
Canada	***	***	***
Other sources	***	***	***
Total	20,852	24,775	28,553
Non-OEM brake rotors imported from--			
China	13,728	30,174	46,888
Canada	***	***	***
Other sources	***	***	***
Total	164,130	188,778	213,813
	Unit value (dollars per unit)		
Non-OEM brake drums imported from--			
China	$10.93	$10.14	$10.60
Canada	***	***	***
Other sources	***	***	***
Average	$7.96	$8.67	$10.11
Non-OEM brake rotors imported from--			
China	$6.46	$6.48	$6.81
Canada	***	***	***
Other sources	***	***	***
Average	$8.21	$8.40	$9.59

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, from official statistics of the U.S. Department of Commerce, and from information provided by the U.S. Customs Service.

models were imported in 1993.[4] This point is supported by several of the importers that returned questionnaires to the Commission. Specifically, *** attributed the rise in the quantity of its total imports to the number of new part numbers carried (300 in 1995 compared to 100 in 1993). *** likewise reported adding new part numbers.[5] Other cited reasons for an increase in imports by specific importing firms included: increase in market share (***), "new applications" (***), "demand" by ***,[6] and "new marketing program" (***).

However, not all importers reported increased U.S. imports; a number experienced sales declines. Invariably, a sharp decline in selling prices was the factor cited for the fall-off in imports. Specifically, ***, ***, ***, ***, and *** named reduced prices. (More generally, *** cited "competition.") *** wrote in its response to the importers' questionnaire that the sales outlook was "good" in 1993; however, the markets "changed" in late 1994 and into 1995, with much lower pricing.

Imports From Other Sources

As a group, imports from other countries are significant. In 1995, *** percent of all imports of non-OEM brake drums were from Canada, and *** percent entered from all other countries (excluding China) combined (table IV-2). Similarly, in 1995, *** percent of all non-OEM brake rotors were imported from Canada, and *** percent from other sources.[7]

Staff notes, however, that some care should be used when examining these data. Table IV-3 presents official Commerce statistics for all brakes and rotors entering the United States.[8] The volume (and unit values) of product entering from Canada is particularly suspect and is believed to either include nonsubject product, possibly castings, or unfinished brake drums and rotors. Also, as shown in table IV-3, imports from Canada rose sharply in 1994.[9] Likewise, some of the unit values shown in table IV-3 (particularly for Canada and Japan) are somewhat suspect. However, the estimation methods and adjustments used to develop the data in table IV-2 are believed to have corrected, at least in part, for any distortions found in the "basket" statistics (i.e., those shown in table IV-3). Value data and unit value data from nonsubject sources other than Canada are less reliable than quantity data.

---

[4] Transcript, p. 26.

[5] In its response to the Commission's importers' questionnaire, *** noted that "The aftermarket consists of 1,100 part numbers/applications. Chinese product only covers 175 part numbers, that is about 16% of the aftermarket." ... "In 1993 about 60 part numbers were available."

Also, *** reports that its business carried about 30 to 40 part numbers in 1993 and now handles about 200 models. *** is a large importer whose imports *** in 1995. The firm did not receive the Commission's questionnaire because of a recent change in its business address, but later contacted Commission staff by telephone. Staff conversation with ***, Apr. 3, 1996.

[6] *** is, as shown in table IV-1, one of the larger importers. All product imported by *** is sold to ***.

[7] Data for imports from nonsubject sources other than Canada may be overstated due to the estimation method used.

[8] As noted earlier, the "basket" includes OEM product as well as other nonsubject drums and rotors. It is these data that staff used as the base to obtain the estimated data presented in table IV-2.

[9] No precise information concerning imports from Canada exist on the record. However, there appear to be extensive cross-border shipments of U.S.-manufactured and Canadian-manufactured product, often between related firms.

Table IV-3
All brake drums and rotors: U.S. imports recorded under HTS subheading 8708.39.50.10 for selected sources, 1993-95

Item	1993	1994	1995
	Quantity (*1,000 units*)		
Brazil	2,535	2,370	2,294
Canada[1]	18,862	35,032	32,725
China	2,263	5,039	7,314
Germany[2]	757	703	685
Italy[3]	1,653	2,162	2,567
Japan[4]	8,726	6,856	3,643
Mexico[5]	1,107	722	1,586
Taiwan	893	793	894
All other	1,021	1,450	1,144
Total	37,817	55,127	52,852
	Unit value		
Brazil	$11.29	$11.05	$10.05
Canada	6.66	4.39	5.30
China	6.73	6.76	7.04
Germany	24.56	25.47	25.43
Italy	11.98	11.08	11.63
Japan	5.00	6.04	10.84
Mexico	16.34	17.35	11.47
Taiwan	9.41	9.64	8.60
All other	(6)	(6)	(6)
Average	7.78	6.13	7.14

[1] Imports from Canada include rotors and drums for *** which are believed to be OEM certified.
[2] Imports from Germany include rotors and drums for *** which may be OEM certified.
[3] Imports from Italy include rotors and drums for *** which may be OEM certified.
[4] Imports from Japan include rotors and drums for *** which may be OEM certified.
[5] Imports from Mexico include rotors and drums for *** which are believed to be OEM certified. Non-OEM brake drums and rotors also enter from Mexico.
[6] Cannot be calculated from above data.

Source: Official statistics of the U.S. Department of Commerce.

Respondents describe the market for non-OEM brake drums and rotors as global in scope, with imports from numerous sources.[10] They cite product imported from Argentina, Brazil, Canada, and Mexico, in particular, as being available at "competitive prices." The quantity of imports from

[10] Respondents note that there has been a rise in the number of imported automobiles which, according to a study by Frost & Sullivan, results in a growth rate in the import automobile aftermarket that is twice that of the aftermarket as a whole. Respondent's postconference brief, pp. 37-39 and exhibit 2.

nonsubject sources (not including Canada) trended downward since 1993 for both non-OEM brake drums and for non-OEM brake rotors (table IV-2). Separate unadjusted data for each major supplier for the entire HTS subheading are contained in table IV-3. As shown, imports from Argentina were comparatively small and are not presented separately; total imports from Brazil declined from 1993 to 1995; and imports from Mexico rose about 43 percent to 1.6 million units in 1995, or about 3 percent of total imports.

APPARENT U.S. CONSUMPTION

Data delineating the size of the U.S. markets for non-OEM brake drums and non-OEM brake rotors are presented in tables IV-4 and IV-5.

As shown, consumption rose for both products during the period reviewed, or since January 1, 1993. The overall increase in demand for the aftermarket products is attributable to several factors. For one, rotors have declined in size in order to reduce vehicular weight. As a consequence, some rotors that once could have been repaired by turning (or re-machining) must now be replaced. Also, according to the Automotive Parts & Accessories Association:

> Contributing to the increase in sales of brake parts are the greater number of front wheel drive vehicles on the road. With these vehicles, the major portion of the braking pressure is put on the rotors, discs, and friction material contributing to greater wear. Additional contributing factors include increased use of semi-metallic pads which put more wear on rotors and higher demand for light trucks and sport utility vehicles which also increase wear on braking parts because of their greater vehicular weight.[11]

In addition, there has been an increase in the average age of U.S. automobiles.

U.S. MARKET SHARES

As shown in tables IV-4 and IV-5, the share of the quantity of U.S. consumption held by U.S. producers increased steadily from 1993 to 1995 for both non-OEM brake drums and rotors. The rise in market share shown for non-OEM brake drums was 6.6 percentage points; in contrast, the increase shown for non-OEM brake rotors was minimal (less than ***). Imports from other sources, especially Canada, hold a significant share of both U.S. markets. As for import data and apparent consumption, any interpretation of the changes in market share for producers' U.S. shipments for both subject products should be made with some care due to the substantial degree of estimation used to calculate data for nonsubject imports.[12]

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[11] Cited from information provided by the Automotive Parts & Accessories Assoc. to Commission staff on Mar. 26, 1996.

[12] The trends in producers' market shares (based on quantity) for both calculations result, in a mathematical sense, from changes in imports from other countries, including imports from Canada. In their postconference brief, petitioner estimated the quantity of Canadian imports into the U.S. aftermarket to be somewhat different than that estimated in this staff report. (Petitioner based its estimate of Canadian aftermarket imports on background industry knowledge.) It calculated that the market shares (based on quantity) of non-OEM brake drums held by U.S producers declined from *** percent in 1993 to *** percent in 1994 and *** percent in 1995. Similarly, petitioner estimated that the U.S. producers' market shares, by quantity, of subject rotors declined from *** percent in 1993 to *** percent in 1994 and *** percent in 1995. Petitioner's postconference brief, exhibit 4 and staff conversation with Kenneth Button, Apr. 8, 1996.

Table IV-4
Non-OEM brake drums: Apparent U.S. consumption and market shares, 1993-95

Item	1993	1994	1995
	Quantity (1,000 units)		
Apparent consumption	4,411	5,022	5,343
	Value ($1,000)		
Apparent consumption	54,055	64,278	72,919
	Share of the quantity of U.S. consumption (percent)		
Producers' U.S. shipments	40.6	43.1	47.2
U.S. imports from--			
China	3.1	7.6	8.1
Canada	***	***	***
Other sources	***	***	***
Total	59.4	56.9	52.8
Apparent consumption	100.0	100.0	100.0
	Share of the value of U.S. consumption (percent)		
Producers' U.S. shipments	61.4	61.5	60.8
U.S. imports from--			
China	2.8	6.0	6.3
Canada	***	***	***
Other sources	***	***	***
Total	38.6	38.5	39.2
Apparent consumption	100.0	100.0	100.0

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, from official statistics of the U.S. Department of Commerce, and from information provided by the U.S. Customs Service.

Table IV-5
Non-OEM brake rotors: Apparent U.S. consumption and market shares, 1993-95

* * * * * * *

The tabulation below presents data for only U.S. and Chinese shipments of the subject products, and is based on responses to the Commission's questionnaires.

Item	1993	1994	1995
	----------*1,000 units*--------		
Non-OEM brake drums:			
U.S. producers' shipments	1,793	2,164	2,520
Imports from China	138	383	432
Total	1,931	2,547	2,952
Non-OEM brake rotors:			
U.S. producers' shipments	***	***	***
Imports from China	2,125	4,656	6,882
Total	***	***	***
Total:			
U.S. producers' shipments	***	***	***
Imports from China	2,263	5,039	7,314
Total	***	***	***
	----------*(percent)*----------		
Non-OEM brake drums:			
U.S. producers' shipments	92.8	85.0	85.4
Imports from China	7.1	15.0	14.6
Total	100.0	100.0	100.0
Non-OEM brake rotors:			
U.S. producers' shipments	***	***	***
Imports from China	***	***	***
Total	100.0	100.0	100.0
Total:			
U.S. producers' shipments	***	***	***
Imports from China	***	***	***
Total	100.0	100.0	100.0

As discussed in Part III of this report, U.S. manufacturers of non-OEM brake drums and rotors are, themselves, importers (or purchasers) of the product. The following tabulation is drawn from table III-3; it shows that a portion of the increase in imports from China is due to increased acquisitions by U.S. producers during the period reviewed, primarily by *** of non-OEM brake rotors (in *1,000 units*):

* * * * * * *

Most of the imports of subject brake drums in 1993 were apparently imported by ***. Acquisition of subject brake rotors by U.S. producers accounted for *** percent of total imports from China in 1993, *** percent in 1994, and *** percent in 1995.[13]

[13] Staff notes these shares include imports by ***. That firm is a division of ***, whose participation as a manufacturer of non-OEM product is ***.

PART V: PRICING AND RELATED DATA

PRICES

Five U.S. producers (the 4 petitioners plus ITT) provided price information in response to the Commission's questionnaire. All five firms produce exclusively for the aftermarket.[1] Import information is based on the responses of 20 importers that provided price data in response to the Commission's questionnaire.

Factors Affecting Prices

More material is required to cast heavy drums and rotors; accordingly the heavier models are priced higher than lighter ones. The amount of machining required also affects prices, but to a lesser degree. Models that are "all cast" are more expensive that those made from "composite" materials. Models in high demand are often priced less because large-volume production runs are less expensive since there is less down time to reset machinery. Finish and quality could affect prices, but *** stated that these factors are roughly equal among all market participants.[2]

The median transport cost for the reporting importers of the Chinese products was 8 percent of total delivered costs, with a range between 2 and 89 percent. The median transport costs for the reporting U.S. producers was 4 percent of total delivered costs. Tariffs levied on HTS subheading 8708.39.50 amount to 2.9 percent ad valorem.

All importers and all but one U.S. producer reported that the subject products are individually boxed, placed on pallets, and shipped by truck within the United States. The subject imports are shipped from China in ocean containers that contain approximately 20 pallets each. One importer stated that generally the original boxes are used in transshipment to its purchasers. In contrast, another importer responded that a high percentage of the Chinese boxes deteriorate and have to be replaced at an additional charge of $1.00 to $1.50 per box.

Price Competition

In response to the Commission's questions concerning how prices are set, 3 out of the 5 U.S. producers[3] and 11 out of 20 importers of the Chinese products reported using price lists. Firms that did not use price lists established price on a transaction-by-transaction basis. Of the firms selling from price lists, all U.S. producers and all but two importers of the Chinese products reported offering discounts. The discounts were based on quantity or value of sales, number of different models purchased, or type of customer, with large programmed distribution groups receiving preferential treatment. Reported discounts ranged from 2 to 45 percent.

The range of responses to the Commission's question regarding spot sales versus contract sales varied from one U.S. producer's 100 percent spot sales to another's 100 percent contract sales. Other U.S. producers had both spot and contract sales. For U.S. producers that sold on a contract basis, contract length varied from 2 to 10 years. Ten importers reported that all of their sales

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[1] The only other known U.S. non-OEM producer, Excel, responded to the questionnaire but did not provide price data. OEM producers did not provide price data.

[2] ***'s producer questionnaire response.

[3] ***.

occurred in the spot market, while 6 reported that their sales were based on contracts that lasted from 3 months to 1 year. Contracts for both the U.S. producers and importers of the Chinese products tended to fix price and leave quantity variable.

In response to the Commission's question about offering drums and rotors in combination, or other products in combination with either drums or rotors, 3 out of the 5 U.S. producers stated that they sell drums, rotors, and other brake items as part of a complete package, but one of these remarked that it did not offer additional discounts for purchasing other products. Six out of 12 importers reported offering other products together with drums and rotors.

In response to the Commission's questions regarding terms of sale, 3 U.S. producers reported paying freight costs and another reported selling f.o.b. its plant. Similarly, 10 importers of the Chinese products reported selling on a delivered basis, while one reported that the purchaser paid delivery expenses. Payment terms varied for both U.S. producers and importers of the Chinese products, with 2/10 net 30 days being the most prevalent.

For U.S. producers, delivery times ranged from 3 days to 5 weeks with a median of 9 days. For importers of the Chinese products, delivery times were comparable with those of the U.S. producers if selling from inventory, or 2 to 3 months if ordering from China. Most U.S. producers and importers of the Chinese products reported selling to the entire U.S. market, although several smaller firms sold only in regional markets.

Price Trends and Comparisons

In the questionnaire, prices and quantities of quarterly sales were requested from January 1993 through December 1995 for shipments of the following brake drum and rotor models:

Brake drum models:	AIMCO part number 8839
	AIMCO part number 8939
Rotor models:	AIMCO part number 5558
	AIMCO part number 5552

Three U.S. producers (***) and 16 U.S. importers (***) provided usable price data on brake drums. Price data collected on the two brake drum models accounted for 11.7 percent of sales of the subject brake drums for the U.S. producers and 16.5 percent of sales of the subject brake drums for the importers of the Chinese product. Drum part 8839 was the top-selling drum model for both the U.S. producers and the importers. Drum part 8939 was the third largest seller for the U.S. producers and the fifth largest seller for the importers.

Four U.S. producers (***) and 20 U.S. importers (***) provided usable price data on brake rotors. Price data collected on the two rotor models accounted for 6.2 percent of sales of the subject rotors for the U.S. producers and 13.8 percent of sales of the subject rotors for the importers of the Chinese product. For the U.S. producers of rotors, rotor model 5552 was the second largest seller and model 5558 was the third largest. Among the importers of rotors, part 5558 was the largest seller, and part 5552 was the third largest seller.

*** provided separate prices for co-manufacturing and for its sales to *** without separately assigning quantities to those prices; therefore, its price information was not used in computing the weighted-average prices. For rotor 5558, ***' co-manufacturing price was *** percent of its $***

price to ***. For rotor 5552, ***'s co-manufacturing price was *** percent of its $*** price to ***.

Trends in brake drum prices are shown in tables V-1 and V-2 and in figure V-1. For drum part 8839, U.S. producers' prices reached a high of $18.47 in the third quarter of 1994 and dropped to slightly less than $15 for calendar year 1995. Prices of drum part 8839 imported from China were lower in 1994 than in 1993, but increased somewhat in late 1994. For drum part 8939, U.S. producer prices fell from over $*** per drum in the first 3 quarters of 1993 to $19.82 in the first quarter of 1994 and have since increased somewhat. Importers' prices have fallen steadily over the period from $17.85 per drum in the beginning of 1993 to $13.31 at the end of 1995.

Table V-1
Drum part No. 8839: Weighted-average net U.S. f.o.b. selling prices reported by U.S. producers and by importers, and margins of underselling, by quarters, Jan. 1993 - Dec. 1995

* * * * * * *

Table V-2
Drum part No. 8939: Weighted-average net U.S. f.o.b. selling prices reported by U.S. producers and by importers, and margins of underselling, by quarters, Jan. 1993 - Dec. 1995

* * * * * * *

Figure V-1
Weighted-average net U.S. f.o.b. selling prices in U.S. dollars of non-OEM brake drums produced in the United States and imported from China, by part numbers and by quarters, Jan. 1993 - Dec. 1995

* * * * * * *

Trends in rotor prices are shown in tables V-3 and V-4 and in figure V-2. U.S. producer prices for rotor 5558 have remained steady in the $10.40 range throughout the period, while importers' prices declined from $7.34 per rotor to $5.77 per rotor in 1993, increased to $6.11 per rotor in July-September 1994, and then decreased irregularly to $5.73 per rotor in the last quarter of 1995. Similarly for rotor part 5552, U.S. producer prices have remained steady while prices of importers from China have decreased.

Table V-3
Rotor part No. 5558: Weighted-average net U.S. f.o.b. selling prices reported by U.S. producers and by importers, and margins of underselling, by quarters, Jan. 1993 - Dec. 1995

* * * * * * *

Table V-4
Rotor part No. 5552: Weighted-average net U.S. f.o.b. selling prices reported by U.S. producers and by importers, and margins of underselling, by quarters, Jan. 1993 - Dec. 1995

* * * * * * *

Figure V-2
Weighted-average net U.S. f.o.b. selling prices in U.S. dollars of non-OEM rotors produced in the United States and imported from China, by part numbers and by quarters, Jan. 1993 - Dec. 1995

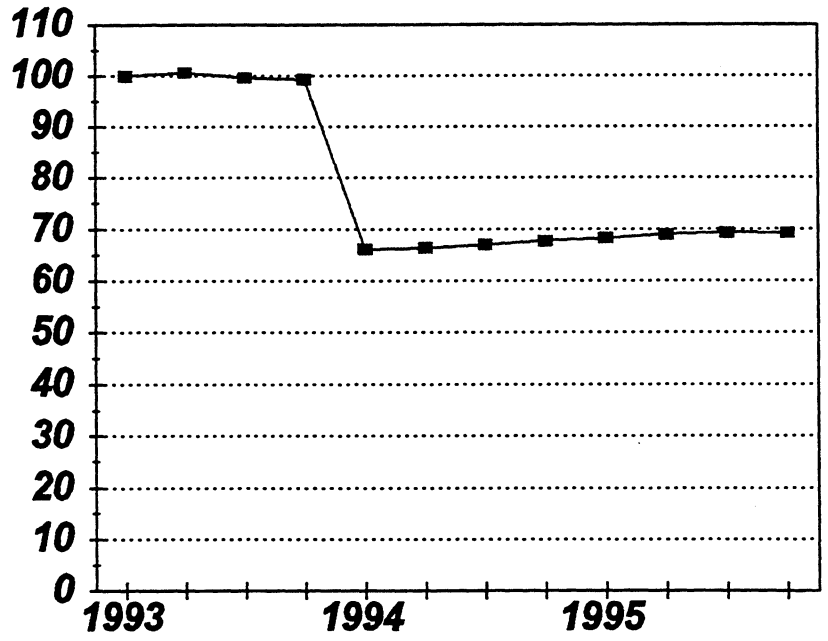
* * * * * * *

U.S. producers and importers sold both drum and rotor models in each period that price data were collected. In each quarter for all models for which price data were collected, the importers of the Chinese products undersold the American producers. For brake drums, the average underselling margins were $5.27 (31 percent) and $8.12 (32 percent) respectively for drum parts 8839 and 8939. For rotors, the average underselling margins were $4.32 (42 percent) and $4.49 (39 percent) respectively for rotor parts 5558 and 5552.

EXCHANGE RATES

Effective January 1, 1994, the Chinese Government unified the official and the swap-market exchange rates at swap-market levels. This resulted in an official nominal devaluation of the Chinese yuan relative to the U.S. dollar by approximately 35 percent. Otherwise, the nominal U.S. dollar - Chinese yuan exchange rate was stable during the previous three years. The lack of producer price indexes for China precludes the calculation of a real exchange rate.

Figure V-3
Exchange rates: indexes (Jan.-Mar.1993=100) of the nominal U.S. dollar price of the Chinese yuan, by quarters, Jan. 1993 to Dec. 1995



Source: IMF, *International Financial Statistics*, Mar. 1996.

LOST SALES AND REVENUES RELATED TO LTFV IMPORTS

The Commission received *** lost sales allegations from the petitioners. Lost sales allegations total over $***. The staff was able to contact four of the purchasers cited.

In the postconference brief, *** due to competition from Chinese imports. ***. Staff contacted ***. ***. He said that they carry a brand-name line *** and an economy line *** and that both lines were selling but that the economy line was doing particularly well.

***. Staff contacted ***, who said that ***. He further said that *** has only about 130 part numbers, and those needing other part numbers still have to purchase from ***. He said that many people are buying from the other line, which is cheaper and just as good.

*** alleged that it lost revenues on sales of the subject rotors to *** due to competition from Chinese imports. *** stated that it reduced prices by *** percent on *** to avoid erosion of sales. ***. He reported that ***.

*** also alleged that it had lost sales to *** due to competition from Chinese imports. *** reported that ***. ***. ***.

*** alleged that it lost a sale in *** to *** due to competition from Chinese imports. *** that showed the Chinese price for *** as $*** and ***'s price as $***. *** but found the current price for the Chinese import in his information system and stated that it was $***. He stated that ***. He said that ***.

PART VI: FINANCIAL CONDITION OF THE U.S. INDUSTRY

BACKGROUND

Six U.S. producers reported profit-and-loss data on their operations producing non-OEM and OEM brake drums and non-OEM brake rotors as follows:

	Non-OEM brake drums	Non-OEM brake rotors	OEM brake drums
Brake Parts	yes	yes	no
Iroquois	no	yes	no
ITT Automotive	yes	yes	no
Kinetic	no	yes	no
Simpson Industries	no	no	yes
Wagner	yes	yes	no

No U.S. producer reported data on OEM brake rotors. Brake Parts' fiscal year ends August 31, and the fiscal year end for the five other companies is December 31.

There were *** intercompany transfers and exports of non-OEM brake drums and non-OEM brake rotors in every period. On a quantity basis, transfers accounted for about *** of non-OEM brake drum sales and *** percent of non-OEM brake rotor sales each year, while exports accounted for *** percent of non-OEM brake drum sales and *** percent of non-OEM brake rotor sales. ***.

OPERATIONS ON NON-OEM BRAKE DRUMS

Profit-and-loss data on the producers' sales of non-OEM brake drums are shown in table VI-1. Trends were up every year--net sales quantities increased about 20 percent each year, net sales value increased 17 percent each year, and gross and operating profits were up by similar amounts. While unit sales values steadily decreased, so did unit operating costs (costs of goods sold and SG&A expenses). As a result, the 1995 unit operating income was only marginally less than the 1993 figure.

Table VI-1
Income-and-loss experience of U.S. producers on their operations producing non-OEM brake drums, fiscal years 1993-95

* * * * * * *

Selected financial data are shown for the three producers in table VI-2. ***.[1] ***.

[1] ***.

Table VI-2
Selected income-and-loss experience of U.S. producers on their operations producing non-OEM brake drums, by firms, fiscal years 1993-95

* * * * * * *

The variance analysis showing the effects of prices and volume on the producers' net sales of non-OEM brake drums is shown in table VI-3. The analysis shows that changes in profitability between and among periods were generally due to changes in volume as opposed to changing prices or costs. For instance, *** of the *** increase in operating income from 1994 to 1995 was attributable to changes in sales volume; the remaining *** increase was attributable to the combination of decreased prices and costs.

Table VI-3
Variance analysis of the results of U.S. producers on their operations producing non-OEM brake drums, fiscal years 1993-95

* * * * * * *

OPERATIONS ON NON-OEM BRAKE ROTORS

Profit-and-loss data on the producers' sales of non-OEM brake rotors are shown in table VI-4. Results were mixed when comparing 1994 to 1993--net sales quantities and value increased while all levels of profitability (whether on an absolute or margin basis) decreased. In 1995, moderate increases in net sales and decreased SG&A expenses resulted in improved operating income. From 1993 to 1995 the unit operating income decreased by over one-third *** because of marginal decreases in unit sales value *** and marginal increases in unit operating costs ***.

Selected financial data for the six producers are shown in table VI-5. Brake Parts, the *** quantities. ***[2] ***.

The variance analysis showing the effects of prices and volume on the producers' net sales of non-OEM brake rotors is shown in table VI-6. Unlike brake drums, the analysis shows that changes in profitability between and among periods were principally due to changes in prices and costs as opposed to changes in volume. For instance, *** of the *** increase in operating profits from 1994 to 1995 was attributable to changes in prices and costs.

Table VI-4
Income-and-loss experience of U.S. producers on their operations producing non-OEM brake rotors, fiscal years 1993-95

* * * * * * *

[2] As discussed in footnote 1 on page VI-1, ITT Automotive ***.

Table VI-5
Selected income-and-loss experience of U.S. producers on their operations producing non-OEM brake rotors, by firms, fiscal years 1993-95

* * * * * * *

Table VI-6
Variance analysis of the results of U.S. producers on their operations producing non-OEM brake rotors, fiscal years 1993-95

* * * * * * *

OPERATIONS ON OEM BRAKE DRUMS

Profit-and-loss data on *** are shown in table VI-7. ***.

Table VI-7
Income-and-loss experience of Simpson Industries on its operations producing OEM brake drums, fiscal years 1993-95

* * * * * * *

The variance analysis showing the effects of prices and volume on Simpson's net sales of OEM brake drums is shown in table VI-8. ***.

Table VI-8
Variance analysis of the results of Simpson Industries' operations producing OEM brake drums, fiscal years 1993-95

* * * * * * *

INVESTMENT IN PRODUCTIVE FACILITIES

The producers did not report usable data on their investment in property, plant, and equipment.

CAPITAL EXPENDITURES

Data on the producers' capital expenditures are shown in table VI-9. ***.

Table VI-9
Capital expenditures by U.S. producers of OEM brake drums and non-OEM brake drums and brake rotors, fiscal years 1993-95

* * * * * * *

RESEARCH AND DEVELOPMENT EXPENDITURES

Data on the producers' research and development expenditures are shown in table VI-10. ***.

Table VI-10
Research and development expenditures by U.S. producers of OEM brake drums and non-OEM brake drums and brake rotors, fiscal years 1993-95

* * * * * * *

CAPITAL AND INVESTMENT

The producers' comments regarding any actual or potential negative effects of imports of the subject brake drums and rotors from China on their firms' growth, investment, ability to raise capital, and/or development and production efforts (including efforts to develop a derivative or more advanced version of the product) are shown in appendix D.

PART VII: THREAT CONSIDERATIONS

INFORMATION PRESENTED IN THIS SECTION

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V of this report, and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and on any dumping in third-country markets follows. There is no indication that non-OEM brake drums or rotors from China have been the subject of any other import relief investigations, including antidumping findings or antidumping remedies, in the United States or in any other countries.

THE INDUSTRY IN CHINA

Production for the automotive aftermarket is currently one of China's fastest growing industries and continued expansion of the automotive aftermarket is expected in the next decade.[1] Staff solicited information concerning the Chinese non-OEM brake drum and rotor industry from the U.S. Embassy in China. Also, respondents' counsel forwarded copies of a "foreign producers' questionnaire" to China through several U.S. importing firms.[2] Minimal response was received. As shown in table IV-1, many U.S. importers purchase through intermediaries and are not aware of the identity of the manufacturing firms in China. Also, no foreign manufacturers of the subject products in China are represented by counsel in these investigations.

In response to the Commission's request, the U.S. Embassy submitted questions to the China Chamber of Commerce for Automobiles and the China Chamber of Commerce for Machinery and Electrical Products Import and Export. It also contacted the Department of Treaty and Law at China's Ministry of Foreign Trade and Economic Cooperation. These organizations, however, did not submit any information to the Embassy.

There are believed to be a number of firms in China that have the potential of manufacturing non-OEM brake drums and rotors. In their petition, petitioners named about 50 possible sources. The following manufacturers are known to have exported subject products to the United States since 1993:

* * * * * * *

Petitioner contends that capacity to produce non-OEM brake drums and rotors is expanding in China, and cites, in part, information obtained through Huajia International Co.[3] Respondents, in

---

[1] "China - Automotive Aftermarket ISA9505," *Market Research Reports*, International Trade Administration, Commerce.

[2] Only *** was able to provide data concerning Chinese production of the brake rotors that it imports. That producer's exports to the United States in 1995 (*** units) only comprised about *** percent of total 1995 rotor imports from China and its data are not presented in complete form in this staff report. ***.

[3] Huajia International Co. information, submitted as exhibit L to the petition. The document indicated that production of Chinese rotors "started" four or five years ago and that there are four main centers of rotor production in China, namely in Shenyang, Shaaxi, Sichuan, and Shandong.

turn, state that domestic demand in China will grow as its automobile industry grows, resulting in the diversion of China's capacity to produce to its domestic market.[4]

U.S. IMPORTERS' INVENTORIES

U.S. importers' end-of-period inventories are presented in table VII-1.

Table VII-1
Non-OEM brake drums and rotors: U.S. importers' end-of-period inventories of Chinese product, 1993-95

Item	1993	1994	1995
Non-OEM brake drums:			
EOP inventories (*1,000 units*)	74	188	139
Ratio to imports (*percent*)	62.2	56.9	39.6
Ratio to U.S shipments of imports (*percent*)	132.1	86.1	37.8
Non-OEM brake rotors:			
EOP inventories (*1,000 units*)	651	1,053	938
Ratio to imports (*percent*)	35.6	26.2	16.6
Ratio to U.S shipments of imports (*percent*)	40.5	29.9	16.8

Note.--The ratios of EOP inventories to imports and to U.S. shipments of imports are calculated as total reported inventories to total reported imports and U.S. shipment of imports, regardless of whether or not the individual reporting firms maintained inventories.

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

[4] Respondents' postconference brief, pp. 45-46.

APPENDIX A

SUMMARY DATA

Table A-1
Non-OEM brake drums: Summary data concerning the U.S. market, 1993-95

* * * * * * *

Table A-2
Non-OEM brake rotors: Summary data concerning the U.S. market, 1993-95

* * * * * * *

Table A-3
Non-OEM brake drums and rotors: Summary data concerning the U.S. market, 1993-95

* * * * * * *

Table A-4
Non-OEM brake drums and rotors: Summary data presenting U.S. market penetration of non-OEM brake drums and rotors separately, 1993-95

* * * * * * *

Table A-5
Non-OEM and OEM brake drums: Summary data concerning the U.S. market, 1993-95

* * * * * * *

Table A-6
Non-OEM and OEM brake rotors: Summary data concerning the U.S. market, 1993-95

* * * * * * *

Table A-7
Non-OEM and OEM brake drums and rotors: Summary data concerning the U.S. market, 1993-95

* * * * * * *

APPENDIX B

FEDERAL REGISTER NOTICES

INTERNATIONAL TRADE COMMISSION

[Investigation No. 731–TA–744 (Preliminary)]

Certain Brake Drums and Rotors From China

AGENCY: International Trade Commission.

ACTION: Institution and scheduling of preliminary antidumping investigation.

SUMMARY: The Commission hereby gives notice of the institution of preliminary antidumping Investigation No. 731–TA–744 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) (the Act) to determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from the People's Republic of China (China) of certain brake drums and rotors,[1] provided for in subheading 8708.39.50 of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value. Unless the Department of Commerce extends the time for initiation pursuant to section 732(c)(1)(B) of the Act (19 U.S.C. 1673a(c)(1)(B)), the Commission must complete preliminary antidumping investigations in 45 days, or in this case by April 22, 1996. The Commission's views are due at the Department of Commerce within five business days thereafter, or by April 29, 1996.

For further information concerning the conduct of this investigation and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and B (19 CFR part 207).

EFFECTIVE DATE: March 7, 1996.

FOR FURTHER INFORMATION CONTACT: Debra Baker (202–205–3180), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 2 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its internet server (http://www.usitc.gov or ftp://ftp.usitc.gov).

SUPPLEMENTARY INFORMATION:

Background.—This investigation is being instituted in response to a petition filed on March 7, 1996, by the Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers, whose members consist of Brake Parts, Inc., McHenry, IL; Kinetic Parts Manufacturing, Inc., Harbor City, CA; Iroquois Tool Systems, Inc., North East, PA; and Wagner Brake Corporation, St. Louis, MO.

Participation in the investigation and public service list.—Persons (other than petitioners) wishing to participate in the investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the Commission's rules, not later than seven days after publication of this notice in the Federal Register. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in this preliminary investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made not later than seven days after the publication of this notice in the Federal Register. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Conference.—The Commission's Director of Operations has scheduled a conference in connection with this investigation for 9:30 a.m. on March 28, 1996, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Debra Baker (202–205–3180) not later than March 25, 1996, to arrange for their appearance. Parties in support of the imposition of antidumping duties in the investigation 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. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

Written submissions.—As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before April 2, 1996, a written brief containing information and arguments pertinent to the subject matter of the investigation. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules.

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

Issued: March 12, 1996.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 96–6272 Filed 3–14–96; 8:45 am]

BILLING CODE 7020–02–P

[1] The products subject to investigation consist of brake drums and rotors (discs) made of grey cast iron, whether finished, unfinished, or semi-finished, ranging in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms) which do NOT contain an original equipment manufacturer (OEM) (e.g., General Motors, Ford, Chrysler, Honda, and Toyota) logo or part number.

[A-570-845, A-570-846]

Initiation of Antidumping Duty Investigations: Certain Brake Drums and Certain Brake Rotors From the People's Republic of China

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

EFFECTIVE DATE: April 3, 1996.

FOR FURTHER INFORMATION CONTACT: Katherine Johnson at (202) 482-4929 or James Terpstra at (202) 482-3965, Office of Antidumping Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, DC 20230.

Initiation of Investigations

The Applicable Statute

Unless otherwise indicated, all citations to the statute are references to the provisions effective January 1, 1995, the effective date of the amendments made to the Tariff Act of 1930 ("the Act") by the Uruguay Round Agreements Act ("URAA").

The Petition

On March 7, 1996, the Department of Commerce ("the Department") received a petition filed in proper form by The Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers ("petitioner"), whose members consist of Brake Parts, Inc., Iroquois Tool Systems, Inc., and Wagner Brake Corporation, a Division of Wagner Electric Corp. (domestic producers of both brake drums and rotors) and Kinetic Parts Manufacturing, Inc. (domestic producer of brake rotors).

In accordance with section 732(b) of the Act, the petitioner alleges that imports of both brake drums and brake rotors from the People's Republic of China (PRC) are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act, and that such imports are materially injuring, or threatening material injury to, respective U.S. industries.

The petitioner is a coalition, the majority of whose members are producers of both domestic like products as defined in the petition. Therefore, it has standing to file the petition because it is an interested party, as defined under section 771(9)(E) of the Act, with respect to both products.

Determination of Industry Support for the Petition

Section 732(c)(4)(A) of the Act requires the Department to determine, prior to the initiation of an investigation, that a minimum percentage of the domestic industry supports an antidumping petition. A petition meets these minimum requirements if the domestic producers or workers who support the petition account for (1) at least 25 percent of the total production of the domestic like product; and (2) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition.

A review of the production data provided in the petition and other information readily available to the Department indicates that the petitioner accounts for more than 50 percent of the total production of each of the domestic like products. The Department received no expressions of opposition to the petition from any domestic producer or workers. Accordingly, the Department determines that the petition is supported by the respective domestic industries.

Scope of the Investigations

The products covered by these two investigations are 1) certain brake drums and 2) certain brake rotors.

Brake Drums

Brake drums are made of gray cast iron, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The size parameters (weight and dimension) of the brake drums limit their use to the following types of motor vehicles: automobiles, all-terrain vehicles, vans and recreational vehicles under "one ton and a half," and light trucks designated as "one ton and a half."

Finished brake drums are those that are ready for sale and installation without any further operations. Semi-finished drums are those on which the surface is not entirely smooth, and has undergone some drilling. Unfinished drums are those which have undergone some grinding or turning.

These brake drums are for motor vehicles, and do not contain in the casting a logo of an original equipment manufacturer (OEM) which produces vehicles sold in the United States (*e.g.*, General Motors, Ford, Chrysler, Honda, Toyota, Volvo). Brake drums covered in this investigation are not certified by OEM producers of vehicles sold in the

United States. The scope also includes composite brake drums that are made of gray cast iron, which contain a steel plate, but otherwise meet the above criteria.

Brake drums are classifiable under subheading 8708.39.5010 of the Harmonized Tariff Schedule of the United States (HTSUS). Although the HTSUS subheading is provided for convenience and Customs purposes, our written description of the scope of this investigation is dispositive.

Brake Rotors

Brake rotors are made of gray cast iron, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The size parameters (weight and dimension) of the brake rotors limit their use to the following types of motor vehicles: automobiles, all-terrain vehicles, vans and recreational vehicles under "one ton and a half," and light trucks designated as "one ton and a half."

Finished brake rotors are those that are ready for sale and installation without any further operations. Semi-finished rotors are those on which the surface is not entirely smooth, and has undergone some drilling. Unfinished rotors are those which have undergone some grinding or turning.

These brake rotors are for motor vehicles, and do not contain in the casting a logo of an original equipment manufacturer (OEM) which produces vehicles sold in the United States (*e.g.*, General Motors, Ford, Chrysler, Honda, Toyota, Volvo). Brake rotors covered in this investigation are not certified by OEM producers of vehicles sold in the United States. The scope also includes composite brake rotors that are made of gray cast iron, which contain a steel plate, but otherwise meet the above criteria.

Brake rotors are classifiable under subheading 8708.39.5010 of the Harmonized Tariff Schedule of the United States (HTSUS). Although the HTSUS subheading is provided for convenience and Customs purposes, our written description of the scope of this investigation is dispositive.

Export Price and Normal Value

The following are descriptions of the allegations of sales at less than fair value upon which our decisions to initiate are based. Petitioners have provided separate margin calculations for brake drums and brake rotors. Should the need arise to use any of this information in our preliminary or final determinations, we will re-examine the information and may revise the margin calculations, if appropriate.

Export Price

The petitioner based export price on prices charged by U.S. distributors of Chinese brake drums and brake rotors, and deducted from these prices a distributor mark-up. In addition, the petitioner deducted an amount for freight, insurance and duties based on the percentage difference between the c.i.f. price and the Customs value price of PRC imports of like products during the POI.

Normal Value

The petitioner asserts that the PRC is a nonmarket economy country (NME) within the meaning of section 771(18) of the Act. Thus, pursuant to section 773(c) of the Act and in accordance with the Department's usual practice with respect to NMEs, the normal value of the products should be based on the producer's factors of production, valued in a surrogate market economy country. In previous investigations, the Department has determined that the PRC is an NME, and the presumption of NME status continues for the initiation of these investigations. *See, e.g., Final Determination of Sales at Less Than Fair Value: Pure Magnesium and Alloy Magnesium from the People's Republic of China*, 60 FR 16437 (March 30, 1995).

It is our practice in NME cases to calculate normal value based on the factors of production of those factories that produced subject merchandise sold to the United States during the period of investigation.

In the course of these investigations, all parties will have the opportunity to provide relevant information related to the NME status of the PRC and the assignment of separate rates to individual exporters. *See, e.g., Final Determination of Sales at Less Than Fair Value: Silicon Carbide from the PRC*, 59 FR 22585 (May 2, 1994).

The petitioner based the factors of production (*i.e.*, raw materials, labor, and energy) for brake drums and brake rotors on its own experience, claiming that its production process is similar to that of the Chinese producers. These factors were valued by the petitioner, where possible, using publicly available published Indian data. India is an acceptable surrogate country because its level of economic development is comparable to that of the PRC and it is a producer of both brake drums and brake rotors.

Where Indian data were unavailable, the petitioner valued the factor of production on the basis of its own costs. Except as noted below for the ferromanganese input, we disregarded factor values where the inputs were based on prices in the United States because the petitioner (1) failed to follow the Department's established hierarchy regarding selection of surrogate countries for the PRC with respect to factor valuation by failing to examine possible values in other appropriate surrogate countries, and (2) provided no basis for determining that United States values are representative of the appropriate surrogate country values. *See Initiation of Antidumping Duty Investigations: Furfuryl Alcohol from the People's Republic of China, the Republic of South Africa, and Thailand*, 59 FR 32953, 32954, June 27, 1994.

Because of the similarity in production processes, the petitioner valued factory overhead, selling general, and administrative expenses and profit using data from a State Department cable contained in the public record of the *Final Results of the Antidumping Administrative Review: Certain Iron Construction Castings from the People's Republic of China*, 57 FR 10644 (March 27, 1992.)

To value the ferromanganese input, the petitioner used its own costs. Although the petitioner was able to identify an Indian value for this input material, it rejected this value claiming that it was not representative of the true price of ferromanganese. The petitioner claimed that the use of its own cost of ferromanganese was not only conservative, but comparable to world prices for this commodity product.

We excluded from our petition analysis the margin calculation of a particular model for which the petitioner was unable to provide a surrogate value for purchased castings.

Based on comparisons of export price to the factors of production, the calculated dumping margins, as revised by the Department, ranged from 46.76 percent to 105.56 percent for brake drums and from 52.08 percent to 62.55 percent for brake rotors.

Fair Value Comparisons

Based on the data provided by the petitioner, there is reason to believe that imports of brake drums and brake rotors from the PRC are being, or are likely to be, sold at less than fair value.

Initiation of Investigations

We have examined the petition on brake drums and brake rotors and have found that it meets the requirements of section 732 of the Act, including the requirements concerning allegations of the material injury or threat of material injury to the domestic producers of domestic like products by reason of the

complained-of imports, allegedly sold at less than fair value. Therefore, we are initiating antidumping duty investigations to determine whether imports of brake drums and brake rotors from the PRC are being, or are likely to be, sold in the United States at less than fair value. Unless the investigations are extended, we will make our preliminary determinations by August 14, 1996.

Distribution of Copies of the Petition

In accordance with section 732(b)(3)(A) of the Act, a copy of the public version of the petition has been provided to the representatives of the government of the PRC.

International Trade Commission (ITC) Notification

We have notified the ITC of our initiations, as required by section 732(d) of the Act.

Preliminary Determinations by the ITC

The ITC will determine by April 22, 1996, whether there is a reasonable indication that imports of brake drums and brake rotors from the PRC are causing material injury, or threatening to cause material injury, to a U.S. industry. A negative ITC determination in either of the investigations will result in that investigation being terminated; otherwise, the investigations will proceed according to statutory and regulatory time limits.

Dated: March 27, 1996.

Susan G. Esserman,

Assistant Secretary for Import Administration.

[FR Doc. 96-8022 Filed 4-2-96; 8:45 am]

BILLING CODE 3510-DS-P

APPENDIX C

LIST OF WITNESSES APPEARING AT THE COMMISSION'S CONFERENCE

Investigation No. 731-TA-744 (Preliminary)

CERTAIN BRAKE DRUMS AND ROTORS FROM THE PEOPLE'S REPUBLIC OF CHINA

Those listed below appeared at the United States International Trade Commission's conference held in connection with the subject investigation on March 28, 1996, in ALJ Hearing Room A, at the USITC Building, 500 E Street, SW, Washington, DC.

In support of the imposition of antidumping duties

Porter, Wright, Morris & Arthur--Counsel
Washington, DC
on behalf of--

The Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers

Honorable Phil English, U.S. House of Representatives
Member, House Ways and Means Committee
Barry Breslow, Senior Vice President, Kinetic Parts Manufacturing, Inc.
Neil Gladner, Vice President, The Brake Shop, Inc.
Pete Painter, Director of Marketing, Wagner Brake Corp.
John Orlando, Plant Manager, Wagner Brake Corp.
Joseph LaVarra, Vice President of Manufacturing, Brake Parts, Inc.

Ken Button, Ph.D., Economic Consulting Services

Leslie Alan Glick, Esq.--OF COUNSEL

Excel Industries, Inc.

Peter Arenson, Vice President, Excel Industries, Inc.

In opposition to the imposition of antidumping duties

Ober, Kaler, Grimes & Shriver
Washington, DC
on behalf of--

Eastern Auto Brakes, Co.
MMB International
California Drum and Rotor
MM Rotor, Inc.
CAPCO International
Imported Automotive Parts

In opposition to the imposition of antidumping duties--Continued

Don Cash, President, California Drum & Rotor
Manuel Cevallos, President, MMB International, Inc.
Merv York, Chairman, California Drum & Rotor
Larry Greene, Jerome-Lawrence & Associates
Bai Li, MM Rotor, Inc.

William E. Perry, Esq.--OF COUNSEL

APPENDIX D

COMMENTS RECEIVED FROM U.S. PRODUCERS ON THE IMPACT OF IMPORTS OF NON-OEM BRAKE DRUMS AND ROTORS FROM CHINA ON THEIR GROWTH, INVESTMENT, ABILITY TO RAISE CAPITAL, AND DEVELOPMENT AND PRODUCTION EFFORTS

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of non-OEM brake drums and rotors from China on their growth, investment, ability to raise capital, or existing development and production efforts, including efforts to develop a derivative or more advanced verson of the product. ***. The responses of the five other producers were as follows:

1. Since January 1, 1993, has your firm experienced any actual negative effects on its growth, investment, ability to raise capital, or existing development and production efforts, including efforts to develop a derivative or more advanced version of the product, as a result of imports of non-OEM brake drums and rotors from China?

Brake Parts:-- "***."

Excel:-- "***."

Iroquois:-- "***."

Kinetic:-- "***."

Wagner:-- "***."

2. Does your firm anticipate any negative impact of imports of non-OEM brake drums and rotors from China?

Brake Parts:-- "***."

Excel:-- "***."

Iroquois:-- "***."

Kinetic:-- "***."

Wagner:-- "***."