

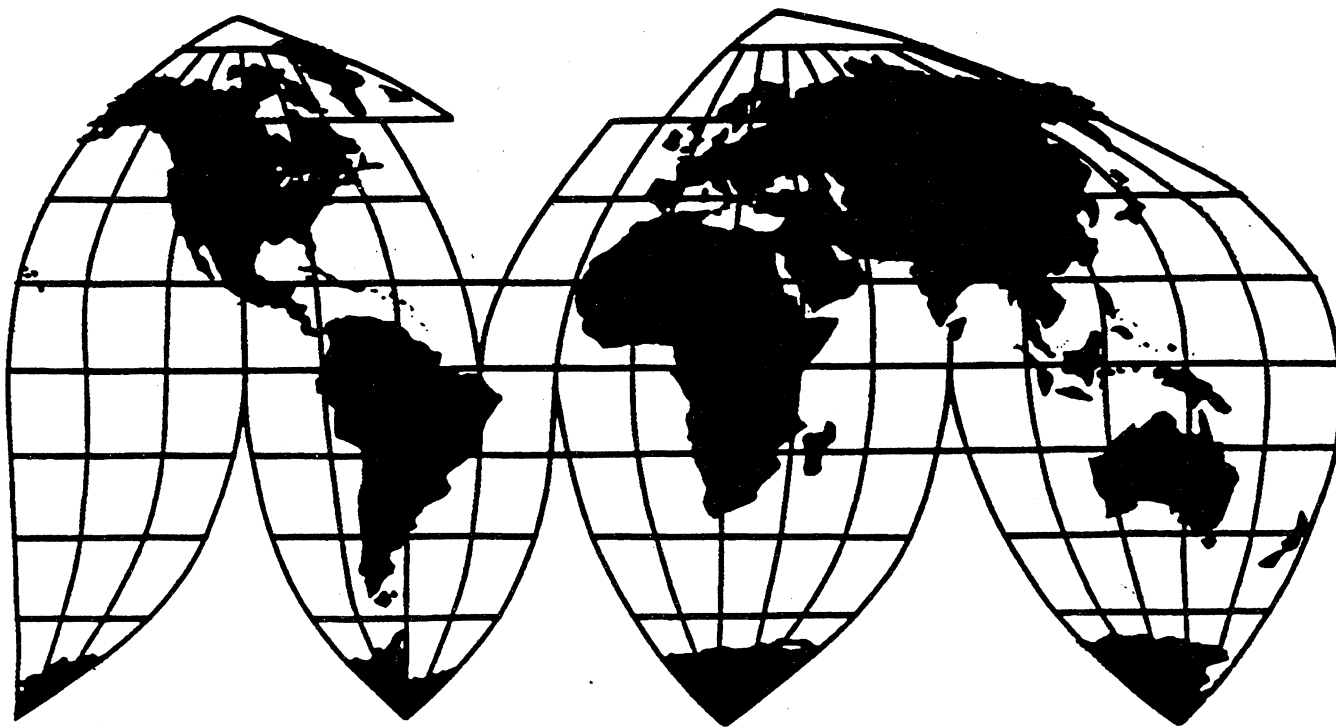
Certain Brake Drums and Rotors From China

Investigation No. 731-TA-744 (Final)

Publication 3035

April 1997

U.S. International Trade Commission



Washington, DC 20436

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Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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

GLOSSARY OF ABBREVIATIONS
(In order of appearance)

<u>Name/agency/phrase</u>	<u>Abbreviation</u>
Brake Parts, Inc.	Brake Parts
Kinetic Parts Manufacturing, Inc.	Kinetic
Iroquois Tool Systems, Inc.	Iroquois
Wagner Brake Corp.	Wagner
Less-than-fair-value	LTFV
Original equipment manufacturer	OEM
U.S. Department of Commerce	Commerce
U.S. International Trade Commission	Commission
<i>Federal Register</i>	FR
Harmonized Tariff Schedule of the United States	HTS
Hearing transcript	Hearing TR
Conference transcript	Conference TR
Original equipment	OE
Original equipment service	OES
Programmed distribution groups	PDGs
ITT Automotive, Inc.,	ITT Automotive
Overseas Auto Parts, Inc.	Overseas
SBC Limited/Autospecialty	Autospecialty
Cost, insurance, and freight	c.i.f.
Free on board	f.o.b.

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-744 (Final)

CERTAIN BRAKE DRUMS AND ROTORS FROM CHINA

DETERMINATIONS

On the basis of the record¹ developed in the subject investigation, the United States International Trade Commission determines, pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act), that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded by reason of imports from China of certain brake drums that have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV). The Commission also determines,² pursuant to section 735(b) of the Act (19 U.S.C. § 1673d(b)), that an industry in the United States is materially injured by reason of imports from China of certain brake rotors that have been found by the Department of Commerce to be sold in the United States at LTFV. The Commission, with respect to imports of certain brake rotors and pursuant to section 735(b)(4)(A) of the Act (19 U.S.C. § 1673d(b)(4)(A)), makes a negative determination regarding critical circumstances. Both certain brake drums and rotors are provided for in subheading 8708.39.50 of the Harmonized Tariff Schedule of the United States.³

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 Commissioner Carol T. Crawford dissenting.

³ For purposes of this investigation, the subject brake drums are defined by Commerce as being 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. Semifinished 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.”

The subject brake rotors are defined by Commerce as being 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.’

(continued...)

BACKGROUND

The Commission instituted this investigation effective March 7, 1996, following receipt of a petition filed with the Commission and the Department of Commerce by counsel for the Coalition for the Preservation of American Brake Drum & Rotor Aftermarket Manufacturers.⁴ The final phase of the investigation was scheduled by the Commission following notification of a preliminary determination by the Department of Commerce that imports of certain brake drums and rotors from China were being sold at LTFV within the meaning of section 733(b) of the Act (19 U.S.C. § 1673b(b)). Notice of the scheduling of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of November 6, 1996 (61 FR 57449). The hearing was held in Washington, DC, on February 28, 1997, and all persons who requested the opportunity were permitted to appear in person or by counsel.

³ (...continued)

Finished brake rotors are those that are ready for sale and installation without any further operations. Semifinished 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."

⁴ 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.

VIEWS OF THE COMMISSION

Based on the record in this investigation, we determine that an industry in the United States is materially injured by reason of imports of certain brake rotors from China that have been found by the Department of Commerce ("Commerce") to be sold in the United States at less than fair value ("LTFV").¹ We make a negative critical circumstances determination with respect to subject rotor imports from China. We further determine that an industry in the United States is not materially injured or threatened with material injury by reason of imports of certain brake drums from China that have been found by Commerce to be sold in the United States at LTFV.²

I. DOMESTIC LIKE PRODUCT AND INDUSTRY

A. In General

To determine whether 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."³ 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."⁴ 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."⁵

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.⁶ No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.⁷ The Commission looks for clear dividing lines among possible like products, and disregards minor variations.⁸ Although the Commission

¹ Commissioner Crawford determines that an industry in the United States is neither materially injured nor threatened with material injury by reason of imports of certain brake rotors from China that have been found by Commerce to be sold in the United States at LTFV. *See* Dissenting Views of Commissioner Crawford. She joins sections I, II, V, and VI of these Views.

² Whether the establishment of this industry in the United States is materially retarded is not an issue in this investigation.

³ 19 U.S.C. § 1677(4)(A).

⁴ *Id.*

⁵ 19 U.S.C. § 1677(10).

⁶ *See, e.g., Nippon Steel Corp. v. United States*, Slip Op. 95-57 at 11 (Ct. Int'l Trade Apr. 3, 1995). 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 n.4, 18; *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int'l Trade 1996).

⁷ *See, e.g., S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).*

⁸ *Torrington Co. v. United States*, 747 F. Supp. 744, 748-49 (Ct. Int'l Trade 1990), *aff'd*, 938 F.2d 1278 (Fed. Cir. 1991).

must accept the determination of Commerce as to the scope of the imported merchandise sold at LTFV, the Commission determines what domestic product is like the imported articles Commerce has identified.⁹

Commerce has defined two classes or kinds of imported articles subject to investigation.¹⁰ The first 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 original equipment manufacturer (OEM) which produces vehicles sold in the United States. These brake rotors are not certified by such OEM producers.¹¹ This opinion will refer to brake rotors meeting the specifications of the scope definition as to weight, dimension, and lack of OEM certification as “aftermarket rotors.”

The second 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 OEM which produces vehicles sold in the United States. These brake drums are not certified by such OEM producers.¹² This opinion will refer to brake drums meeting the specifications of the scope definition as to weight, dimension, and lack of OEM certification as “aftermarket drums.”

B. Domestic Like Product Issues

Two principal domestic like product issues exist in this investigation phase: (1) whether brake rotors and drums 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: aftermarket rotors and aftermarket drums.

1. Rotors and Drums as Distinct Domestic Like Products

In the preliminary determination, the Commission found that brake rotors and brake drums should be treated as distinct domestic like products because rotors and drums do not operate in the same manner, are physically different, are not interchangeable, and are perceived differently by producers.¹³ The record in this phase of the investigation concerning the distinctions between rotors and drums is the same as that in the preliminary phase, and no party disputes that brake rotors and brake drums should be treated as distinct domestic like products.¹⁴ Accordingly, we find that brake rotors and brake drums are separate domestic like products.

⁹ Hosiden Corp. v. Advanced Display Manufacturers, 85 F.3d 1561, 1567-68 (Fed. Cir. 1996) (Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); Torrington, 747 F. Supp. at 748-752 (affirming Commission determination of six like products in investigations where Commerce found five classes or kinds).

¹⁰ See 19 U.S.C. § 1677(25).

¹¹ 62 Fed. Reg. 9160, 9161 (Feb. 28, 1997). 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.*

¹² 62 Fed. Reg. at 9160-61. 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.*

¹³ Certain Brake Drums and Rotors from China, Inv. No. 731-TA-744 (Preliminary), USITC Pub. 2957 at 5 (April 1996) (“Preliminary Determination”).

¹⁴ See Confidential Report (CR) at I-5-6, Public Report (PR) at I-4-6.

2. Whether OEM Rotors and OEM Drums Should Be Included within the Respective Domestic Like Products

The parties have treated rotors and drums collectively in their arguments concerning whether the domestic like products should include OEM products. In other words, the parties argue that the same factors that either distinguish or fail to distinguish OEM rotors from aftermarket rotors also distinguish or fail to distinguish OEM drums from aftermarket drums. Hence, in the discussion below we, like the parties, will generally discuss rotors and drums collectively.

a. Physical Characteristics and End Uses

There are some differences in physical characteristics between an OEM brake rotor or drum and its aftermarket counterpart. These stem mainly from the fact that OEM products are required to satisfy certification standards, such as the QS-9000 standards, while aftermarket products are not.¹⁵ Consequently, balance and brake surface run-out tolerances, finishes, metallurgical composition, and structural and design specifications are typically different for OEM rotors and drums, on the one hand, and aftermarket rotors and drums, on the other.¹⁶ Nevertheless, an aftermarket rotor or drum and its OEM counterpart have the same end use. A brake rotor or drum, whether OEM or aftermarket, is a component of a motor vehicle's braking mechanism. Aftermarket manufacturers are required to maintain a required level of fit, finish, and function so that the aftermarket rotor or drum can in fact function as a replacement for a vehicle's original equipment.¹⁷

b. Interchangeability

An aftermarket rotor or drum cannot be substituted for its OEM counterpart for installation in original equipment. OEMs require that their suppliers meet specific certification and testing requirements which aftermarket drums or rotors do not satisfy.¹⁸ The available information in the record indicates that an overwhelming majority of OEM brake rotors and drums are used for installation on original equipment.¹⁹ Additionally, an aftermarket drum or rotor cannot be substituted for OEM equipment for replacement work done under warranty.²⁰

Theoretically, either an OEM drum or rotor or an aftermarket drum or rotor could be used for replacement work not done under warranty. The record indicates, however, that use of OEM products for nonwarranty work is very infrequent.²¹ Only one firm that responded to the Commission's purchaser

¹⁵ See CR at I-6, PR at I-6.

¹⁶ CR at I-6, PR at I-5-6.

¹⁷ See CR at I-7, PR at I-6; Tr. at 67 (LaVarra) ("It's got to basically stop the car."). Petitioner's witness acknowledged that the physical distinctions between an OEM or aftermarket rotor or drum would not be discernible to the typical end user. Tr. at 78 (LaVarra).

¹⁸ Tr. at 27-28 (LaVarra), 30-33 (Ihm).

¹⁹ See, e.g., *** Questionnaire Responses.

²⁰ Tr. at 95 (Ihm, Breslow).

²¹ Respondent California Drum and Rotor provided no probative evidence or testimony to support its argument that OEM and aftermarket rotors and drums are in fact substitute products in the nonwarranty replacement market. California Drum and Rotor relied principally on newspaper articles it submitted during the preliminary phase of the investigation describing consumer advertising campaigns run by OEMs to support its argument. We observed in the preliminary determination, however, that these materials were of limited probative value because they did not speak

(continued...)

questionnaire reported installing OEM brake rotors and drums in vehicles not under warranty, and that firm said that installation of OEM equipment accounted for only a “very small percent[age]” of its nonwarranty service.²² Additionally, a majority of purchasers indicated in their questionnaire responses that no other products could be substituted for aftermarket brake rotors and drums in their end uses.²³ An official of an auto parts distributor testified at the hearing that the auto parts stores to which he sells have no interest in obtaining OEM rotors and drums.²⁴

c. Channels of Distribution

Distinct channels of distribution exist for OEM brake rotors and drums, on the one hand, and aftermarket brake rotors and drums, on the other. OEM brake rotors and drums installed on original equipment are sold to “Tier One” automotive suppliers for the production of brake assemblies or directly to the major motor vehicle manufacturers. OEM brake rotors and drums that are to be installed as replacement parts – such as for work done under warranty – are sold primarily through licensed parts distributors and automotive dealerships.²⁵

Aftermarket brake rotor and drum manufacturers, by contrast, generally sell their products to warehouse distributors, which sell in turn to jobbers. The jobbers wholesale the brake rotors and drums to service stations and retail brake outlets.²⁶

Respondents acknowledge that these distinct channels of distribution exist in form, but contend that in practice there is significant overlap in the distribution of OEM and aftermarket rotors and drums. Respondents’ assertions, however, are not corroborated by the record. First, as previously stated, the predominant proportion of OEM brake rotors and drums is used for installation in original equipment, and there is *no* overlap in distribution for such items. Second, the distributors that handle OEM brake drums or rotors are generally distinct from the distributors that handle aftermarket drums or rotors.²⁷ Third, the available data indicate that the use of OEM products for nonwarranty work at service stations and retail brake outlets is rare.²⁸

²¹ (...continued)

to the precise like product distinctions at issue in this investigation and in many instances did not specifically pertain to brake drums or rotors. See Preliminary Determination at 6 n.30. California Drum and Rotor has provided no evidence that would indicate that actual competition exists between OEM and aftermarket rotors or drums for nonwarranty work.

²² CR at I-12 & n.56, PR at I-10.

²³ CR at I-12 n.57, PR at I-10.

²⁴ Tr. at 56-57 (Lee).

²⁵ CR at I-11-12, PR at I-8-10.

²⁶ CR at I-10-11, PR at I-8-9.

²⁷ CR at I-12 n.53, PR at I-9. Distributors who handle aftermarket brake rotors and drums testified at the hearing that their businesses do not carry OEM products. Tr. at 51 (Byrne), 56 (Lee). In certain circumstances, rotors or drums that do not satisfy OEM specifications may be distributed in the “OEM” channel of distribution through motor vehicle manufacturers or dealers. Questionnaire responses indicate, however, that only a negligible proportion of production of aftermarket rotors or drums is distributed in this manner. CR at I-9, PR at I-7-8; see also CR at I-10 n.46, I-12 n.54, PR at I-8, I-9.

²⁸ CR at I-12 & n.56, PR at I-10. Moreover, the retail outlet must purchase the OEM rotor or drum from a licensed part distributor or dealer to perform such work. No purchasers reported inventorying both OEM and aftermarket rotors and drums. CR at I-12, PR at I-9-10.

d. Production Processes, Facilities, and Employees

The basic production steps for both OEM and aftermarket rotors and drums involve casting and machining. OEM brake rotors and drums require additional procedures that aftermarket rotors and drums do not, such as turning, painting, and inspection of major characteristics.²⁹

The overwhelming proportion of OEM rotors and drums, on the one hand, and aftermarket rotors and drums, on the other, are produced at separate facilities using distinct types of production equipment. Production of aftermarket brake rotors or drums is typically undertaken in stand-alone “cells” that produce a finished part ready for shipment.³⁰ OEM rotors and drums are not produced in any facility devoted principally to the production of aftermarket rotors and drums.³¹

By contrast, OEM brake rotors and drums are typically produced in assembly line operations. Because OEM brake rotors and drums are produced to stricter specifications than aftermarket products, OEM production facilities contain specialized equipment that would not be found in aftermarket production facilities.³² Although some manufacturers of OEM brake rotors and drums report production of aftermarket rotors and drums at their facilities, this production typically consists of product which was originally intended for the OEM market but failed to meet OEM specifications, and appears to constitute a very small proportion of total production at the OEM manufacturers’ facilities.³³

e. Customer and Producer Perceptions

The record indicates that both OEM and aftermarket producers perceive OEM brake rotors and drums to be distinct from their aftermarket counterparts. Witnesses for the petitioning firms testified that they believe that OEM rotors and drums, on the one hand, and aftermarket rotors and drums, on the other, are distinct products serving separate markets.³⁴ Similarly, a representative of a producer of OEM brake rotors and drums testified that his firm did not attempt to compete with aftermarket products and saw the OEM market and the aftermarket as distinct.³⁵ Marketing literature that brake rotor and drum manufacturers prepare in the ordinary course of business also references distinctions between OEM and aftermarket products.³⁶

²⁹ CR at I-14-15, PR at I-11-12.

³⁰ A single cell will typically produce 17 to 20 pieces per hour, and a typical production run would encompass between 200 to 10,000 pieces. Machinery within a particular cell will be changed over as many as 20 times a year to produce different models; changeover time is three to five hours. Tr. at 27 (LaVarra).

³¹ See Table III-2, CR at III-5, PR at III-4.

³² OEM production operations generally consist of seven to ten pieces of equipment, each dedicated to a specific phase of production. CR at I-15-16, PR at I-11-12. Output from an assembly line is typically 600 to 700 pieces per hour; it takes seven to 21 days to change production on a line from one model to another. Tr. at 27 (LaVarra).

³³ See Table III-2, CR at III-5, PR at III-4; Tr. at 94 (Ihm).

³⁴ Tr. at 24-25 (LaVarra), 191-92 (Breslow).

³⁵ Tr. at 34 (Ihm).

³⁶ Wagner product brochures; Petitioner’s Postconference Brief, ex. 5; Automotive Marketing at 3 (Mar. 1997) (AC Delco advertisement).

Customers also perceive distinctions between OEM and aftermarket rotors and drums.³⁷ A representative of a producer of OEM brake rotors and drums testified that OEMs are aware of the distinctions between OEM and aftermarket products.³⁸ This is corroborated by the existence of OEM certification programs. Representatives of distributors also testified that they perceived OEM and aftermarket brake rotors and drums as distinct products.³⁹

f. Price

The record does not contain “head-to-head” pricing comparisons of any particular OEM rotor or drum with its aftermarket counterpart.⁴⁰ Nevertheless, producers, importers, and purchasers consistently described OEM brake rotors or drums as more expensive than their aftermarket counterparts.⁴¹

g. Conclusion

In the preliminary determination, we determined not to define the domestic like products to encompass OEM brake rotors or drums. We stated that while an OEM brake rotor or drum and its aftermarket counterpart “are physically very similar . . . and perform the same function in the same manner in a particular motor vehicle,” there were still clear distinctions in channels of distribution, production processes and facilities, and producer and customer perceptions between the pertinent OEM and aftermarket products.

We believe that the more extensive record compiled in the final phase of this investigation supports the same conclusion. Although the physical distinctions between OEM drums or rotors and their aftermarket counterparts are minimal, and all brake drums or brake rotors are devoted to essentially the same end use, any overlap that exists between the OEM and aftermarket products at issue is quite small in other respects pertinent to domestic like product analysis. Aftermarket and OEM rotors and drums are not interchangeable for use on original equipment or for warranty work and appear to compete only minimally for use in nonwarranty work. Channels of distribution are overwhelmingly distinct.

³⁷ In evaluating customer perceptions in this investigation, we have relied primarily on the perceptions of those customers who purchase products from the manufacturers, rather than the perceptions of the ultimate end-users -- individual car owners. The Commission has in prior investigations taken into account consumer perceptions in its domestic like product analysis, when the product is one the consumer purchases directly “off the shelf” at the retail level. *See, e.g., Certain Pasta from Italy and Turkey*, Inv. Nos. 701-TA-365-366, 731-TA-734-735 (Final), USITC Pub. 2977 at 10-11 (July 1996); *Bicycles from China*, Inv. No. 731-TA-731 (Final), USITC Pub. 2968 at 6 (July 1996); *Fresh Cut Roses from Colombia and Ecuador*, Inv. Nos. 731-TA-684-685 (Final), USITC Pub. 2862 at I-7 (March 1995). Car owners, however, generally do not purchase brake drums or rotors “off the shelf.” Instead, they typically purchase the *service* of having a replacement drum or rotor installed. *See* Conference Tr. at 62-63 (Breslow). For this reason, the producers of aftermarket rotors and drums target their marketing campaigns at the installer and not at the car owner. CR at I-10, PR at I-8. In such circumstances, we believe that perceptions of car owners are of less probative value than are the perceptions of producers and their customers, the distributors or OEMs, in ascertaining distinctions between the types of brake rotors and drums at issue. Moreover, to the extent that such perceptions are relevant, the record contains no probative information concerning whether or why car owners prefer to use OEM or non-OEM drums and rotors.

³⁸ Tr. at 60 (Ihm).

³⁹ Tr. at 51 (Bryne), 57 (Lee) (aftermarket and OEM brake rotor “substantially different”).

⁴⁰ Commission staff requested producers and purchasers to provide retail price differences between comparable OEM and aftermarket rotors and drums. None of the six responding producers or 23 responding importers provided the requested information. CR at II-5 n.19, PR at II-3.

⁴¹ CR at I-17, PR at I-12-13; Tr. at 56 (Lee).

Production processes and facilities are, except in isolated exceptions, different. The evidence indicates that producers and their immediate customers perceive distinctions between OEM and aftermarket products.⁴²

In conclusion, we believe the record indicates that OEM rotors or drums, on the one hand, and aftermarket rotors or drums, on the other, are different products made by different manufacturers serving different markets, notwithstanding their physical similarities. We accordingly find that there are two domestic like products for purposes of our final determination. The first domestic like product consists of aftermarket brake rotors and the second like product consists of aftermarket brake drums.⁴³

C. Industry and Related Parties

In considering the effect of the subject imports on a domestic industry, the Commission's general practice has been to include all domestic production, whether toll-produced, captively consumed, or sold in the merchant market.⁴⁴ Based on our definitions of the domestic like products, there are two domestic industries in this investigation. The first consists of domestic producers of aftermarket brake rotors. The second consists of domestic producers of aftermarket brake drums.

We must further determine whether certain producers of the domestic like products should be excluded from the respective domestic industries as related parties. The related parties provision allows for the exclusion of certain domestic producers from the domestic industry for the purposes of an injury determination. The Commission must first determine whether a domestic producer meets the definition of a related party.⁴⁵ If it does, then the Commission may exclude that producer from the domestic industry

⁴² The magnitude in distinctions in customer bases, channels of distribution, production processes, and perceptions between the pertinent aftermarket and OEM products differentiate this investigation from the one on which respondents principally rely, Bicycles from China, Inv. No. 731-TA-731 (Final), USITC Pub. 2968 (July 1996). There the Commission found "similar production processes, [a] significant overlap of customers across channels of distribution, and in third channels of distribution reflecting sales to independent sporting goods stores and discount warehouses, and in the overlapping prices of the two bicycles." *Id.* at 6. All these factors are absent here. Moreover, domestic like product determinations are *sui generis* and depend on the unique facts of each case. Nippon Steel Corp., Slip Op. 95-57 at 11.

⁴³ The imported articles subject to investigation include "unfinished" and "semifinished" rotors and drums. 62 Fed. Reg. at 9160-61. We include the unfinished and semifinished rotors and drums in the same domestic like products as the finished products for the reasons stated in the preliminary determination. Preliminary Determination at 9 n.48.

⁴⁴ 19 U.S.C. § 1677(4)(A); *see, e.g., United States Steel Group v. United States*, 873 F. Supp. 673, 682-83 (Ct. Int'l Trade 1994), *aff'd*, 96 F.2d 1352 (Fed. Cir. 1996).

⁴⁵ The term "related parties" is defined at 19 U.S.C. § 1677(4)(B) in terms of direct or indirect control or importation of the subject merchandise.

if “appropriate circumstances” exist.⁴⁶ Exclusion of a related party is within the Commission's discretion based upon the facts presented in each case.⁴⁷

Aftermarket Rotor Industry. Two domestic producers of aftermarket brake rotors, AlliedSignal and Kinetic Parts Manufacturing, Inc. (“Kinetic”), imported subject rotors from China during the period of investigation.⁴⁸ Consequently, AlliedSignal and Kinetic are related parties with respect to the aftermarket rotor industry.⁴⁹ We determine that a third producer of aftermarket rotors, ITT Automotive (“ITT”), is also a related party because it ***.⁵⁰

We determine that appropriate circumstances do not exist to exclude ITT or Kinetic from the aftermarket rotor industry. Although the imports or purchases from China of each of these firms *** relative to domestic production, importation is a common practice in the domestic aftermarket rotor industry, and each firm also maintains a significant domestic production presence.⁵¹ Moreover, ITT and Kinetic's importation activities did not cause their financial performance on their domestic production to benefit *vis a vis* the domestic aftermarket rotor producers that did not import subject rotors from China.⁵² AlliedSignal, by contrast, is predominantly a producer of OEM brake rotors. Its production of

⁴⁶ 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 (Ct. Int'l Trade 1992), *aff'd without opinion*, 991 F.2d 809 (Fed. Cir. 1993). The Commission has also considered the ratio of import shipments to U.S. production for related producers and whether the primary interest of the related producer lies in domestic production or importation. *See, e.g., Sebacic Acid from the People's Republic of China*, Inv. No. 731-TA-653 (Final), USITC Pub. 2793 at I-7-8 (July 1994).

⁴⁷ *See Torrington Co. v. United States*, 790 F. Supp. at 1168.

⁴⁸ Table III-3, CR at III-8-9, PR at III-6.

⁴⁹ Additionally, Kinetic and Autospecialty, an importer of Chinese rotors, are currently under the common ownership of Lucas Varity, a British company. Tr. at 40 (Breslow); CR at III-2, PR at III-1. The common control of Kinetic and Autospecialty by Lucas Varity also serves to make Kinetic a related party. *See* 19 U.S.C. § 1677(4)(B)(ii)(III).

⁵⁰ ***. CR at III-10 n.19, IV-2 n.3, PR at III-6, IV-1. In previous investigations -- including the preliminary determination in this investigation -- 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* Preliminary Determination at 11 n.55; 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).

⁵¹ Tables III-2, III-3, CR at III-5, III-8-9, PR at III-4, III-6.

⁵² *See* Table VI-4, CR at VI-6, PR at VI-5.

aftermarket brake rotors is insubstantial and is overwhelmed by its importation of such articles from China.⁵³ We have accordingly excluded AlliedSignal from the domestic aftermarket rotor industry on the grounds that its primary interest lies in importation.

Aftermarket Drum Industry. One domestic producer of aftermarket brake drums, AlliedSignal, imported subject brake drums during the period of investigation.⁵⁴ Hence AlliedSignal is a related party with respect to the aftermarket drum industry.

AlliedSignal's domestic production of aftermarket brake drums is insubstantial and is far smaller than the quantity of subject brake drums it imports from China.⁵⁵ Accordingly, we determine that appropriate circumstances exist to exclude AlliedSignal from the domestic aftermarket drum industry.

II. CONDITION OF THE DOMESTIC INDUSTRIES

In assessing whether a domestic industry is materially injured or threatened with material injury by reason of LTFV imports, we consider all relevant economic factors that bear on the state of the industry in the United States.⁵⁶ These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, 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."⁵⁷

Certain conditions of competition are pertinent to our analysis of the domestic aftermarket rotor and aftermarket drum industries. Except as noted, these conditions are applicable to each industry.

All parties agree that demand in the United States for both aftermarket drums and aftermarket rotors has increased in recent years and will continue to increase in the future. The reasons for this increased demand include increased number of vehicles on the road, and decreased life spans for both drums and rotors, which are now made of lighter materials and must be replaced rather than refinished.⁵⁸ The parties also agree that demand for aftermarket brake rotors has increased because a greater proportion of new cars now feature disc brakes on all four wheels.⁵⁹

A. The Aftermarket Rotor Industry

Apparent U.S. consumption of aftermarket rotors increased throughout the period of investigation, which encompasses the period January 1993 through September 1996. Measured by quantity, apparent U.S. consumption of aftermarket rotors rose from 19.9 million units in 1993 to 28.0 million units in 1995, a 40.6 percent increase. Apparent consumption measured by quantity during the first three quarters of 1996 ("interim 1996") was 22.8 million units, 10.9 percent higher than the apparent consumption of 20.6 million units during the first three quarters of 1995 ("interim 1995"). Measured by

⁵³ Tables III-2, III-3, CR at III-5, III-8-9, PR at III-4, III-6.

⁵⁴ Table III-3, CR at III-8-9, PR at III-6.

⁵⁵ Tables III-2, III-3, CR at III-5, III-8-9, PR at III-4, III-6.

⁵⁶ 19 U.S.C. § 1677(7)(C)(iii).

⁵⁷ *Id.*

⁵⁸ See Tr. at 37 (Breslow), 68 (Painter), 123 (York), 131 (Ende), 193-94 (Breslow).

⁵⁹ See Tr. at 87-88 (Painter), 131 (Ende).

value, apparent consumption rose from \$268.3 million in 1993 to \$336.2 million in 1995, an increase of 25.3 percent. Interim 1996 apparent consumption of \$292.9 million was 15.5 percent higher than interim 1995 apparent consumption of \$253.5 million.⁶⁰

The domestic industry's U.S. shipments also increased throughout the period of investigation. Measured by quantity, U.S. shipments rose from 8.1 million units in 1993 to 9.8 million units in 1995, an increase of 21.5 percent. The 8.3 million units of U.S. shipments during interim 1996 was 10.4 percent higher than the 7.6 million units shipped during interim 1995. Measured by value, U.S. shipments increased from \$128.9 million in 1993 to \$154.0 million in 1995, a rise of 19.5 percent. The value of U.S. shipments during interim 1996, \$135.9 million, was 14.2 percent greater than the value during interim 1995, \$119.0 million.⁶¹

Because shipments did not increase as rapidly as consumption, the domestic aftermarket rotor industry's market share declined throughout the period of investigation. Measured by quantity, the industry's market share declined from 40.5 percent in 1993 to 35.0 percent in 1995. Interim 1996 market share of 36.6 percent was lower than interim 1995 market share of 36.7 percent.⁶²

Production increased from 9.2 million units in 1993 to 10.9 million units in 1994, and then declined to 10.7 million units in 1995; the increase from 1993 to 1995 was 17.1 percent. Interim 1996 production was 7.9 million units, which was 0.8 percent lower than the 8.0 million units produced in interim 1995. Capacity increased throughout the period of investigation, rising from 9.5 million units in 1993 to 12.4 million units in 1994 and 13.0 million units in 1995, an increase of 36.7 percent from 1993 to 1995. Interim 1996 capacity of 10.4 million units was 6.5 percent greater than interim 1995 capacity of 9.8 million units. Capacity utilization fell from 96.3 percent in 1993 to 87.8 percent in 1994 and to 82.5 percent in 1995. Interim 1996 capacity utilization of 75.8 percent was lower than interim 1995 capacity utilization of 81.4 percent.⁶³

Inventories increased from 1.3 million units in 1993 to 2.2 million units in 1995, an increase of 68.8 percent. Inventories were 13.8 percent lower in interim 1996, at 1.9 million units, than in interim 1995, at 2.2 million units. The ratio of inventories to U.S. shipments rose from 16.4 percent in 1993 to 22.7 percent in 1995, but was lower in interim 1996, at 16.9 percent, than in interim 1995, at 21.7 percent.⁶⁴

The number of production and related workers increased from 814 in 1993 to 934 in 1994, and then declined slightly to 931 in 1995, an overall increase of 14.4 percent from 1993 to 1995. The number of production and related workers in interim 1996, 884, was 4.5 percent lower than the 926 workers in interim 1995. Hours worked increased from 1.7 million in 1993 to 2.0 million in 1994, and then fell to 1.9 million in 1995, an overall increase of 12.2 percent from 1993 to 1995. The 1.38 million hours worked in interim 1996 were 5.0 percent fewer than the 1.45 million hours worked in interim 1996.

⁶⁰ Table IV-4, CR at IV-12, PR at IV-9.

⁶¹ Table III-6, CR at III-17, PR at III-9.

⁶² Table IV-1, CR at IV-4, PR at IV-3.

⁶³ Table III-4, CR at III-13, PR at III-8.

⁶⁴ Table III-7, CR at III-18, PR at III-10.

Hourly wages declined from \$13.94 in 1993 to \$13.57 in 1994, and then rose to \$13.82 in 1995. Hourly wages were \$13.69 in interim 1996, ten cents lower than in interim 1995.⁶⁵

Reflecting increases in shipments, the aftermarket rotor industry's sales revenues rose during each year of the period of investigation. Sales revenues increased from \$152.5 million in 1993 to \$182.1 million in 1995, an increase of 19.4 percent; interim 1996 revenues of \$147.2 million were 14.4 percent higher than interim 1995 revenues of \$128.7 million. Average unit sales values were lower in either 1994 or 1995 than in 1993, and were higher in interim 1996 than in interim 1995. Costs of goods sold (COGS) increased by 26.2 percent, from \$110.6 million to \$139.6 million, from 1993 to 1995, and were 10.8 percent higher in interim 1996, at \$109.1 million, than in interim 1995, at \$98.5 million. Average unit COGS values increased throughout the period of investigation.⁶⁶

Operating income declined from \$13.3 million in 1993 to \$8.5 million in 1994, and then increased to \$9.8 million in 1995. Interim 1996 operating income of \$10.4 million was higher than interim 1995 operating income of \$6.3 million. Operating income as a percentage of sales declined from 8.7 percent in 1993 to 5.0 percent in 1994, and then rose to 5.4 percent in 1995. The operating income margin was higher in interim 1996 (7.1 percent) than in interim 1995 (4.9 percent).⁶⁷

Capital expenditures showed very large annual fluctuations during the period of investigation.⁶⁸ Those producers that reported research and development expenditures showed increases during the period of investigation.^{69 70}

B. The Aftermarket Drum Industry

Apparent U.S. consumption of aftermarket brake drums increased throughout the period of investigation. Measured by quantity, apparent U.S. consumption rose from 3.5 million drums in 1993 to 5.4 million drums in 1995, an increase of 55.0 percent; apparent U.S. consumption of 4.5 million drums in interim 1996 was 7.9 percent higher than apparent consumption of 4.2 million drums in interim 1995. Measured by value, apparent U.S. consumption increased by 43.4 percent, from \$52.9 million to \$75.9 million, from 1993 to 1995; the value of apparent consumption during interim 1996, \$62.9 million, was 7.5 percent higher than the interim 1995 value of \$58.5 million.⁷¹

The domestic industry's U.S. shipments also increased from 1993 to 1995, but were lower in interim 1996 than in interim 1995. U.S. shipments rose from 1.8 million drums in 1993 to 2.7 million drums in 1995, an increase of 47.1 percent; interim 1996 U.S. shipments of 2.0 million drums were 4.4

⁶⁵ Table III-8, CR at III-19, PR at III-11.

⁶⁶ Table VI-3, CR at VI-5, PR at VI-4.

⁶⁷ Table VI-3, CR at VI-5, PR at VI-4.

⁶⁸ Capital expenditures rose from *** to ***, an increase of *** percent, from 1993 to 1994, and then fell to *** in 1995, a decline of *** percent from the 1994 level. Capital expenditures of *** in interim 1996 were *** percent lower than expenditures of *** in interim 1995. Table VI-7, PR at VI-10, CR at VI-6. The *** increase during 1994 was attributable ***. CR at VI-9, PR at VI-6.

⁶⁹ Research and development expenditures rose from *** in 1993 to *** in 1994, an increase of *** percent. Interim 1996 research and development expenditures of *** were *** percent higher than interim 1995 expenses of ***. Table VI-7, PR at VI-10, CR at VI-6.

⁷⁰ Based on the foregoing, Commissioner Newquist determines that the domestic aftermarket rotor industry is experiencing material injury.

⁷¹ Table IV-3, CR at IV-11, PR at IV-8.

percent below interim 1995 U.S. shipments of 2.1 million drums. Measured by value, U.S. shipments rose from \$35.1 million in 1993 to \$47.4 million in 1995, an increase of 35.2 percent; interim 1996 U.S. shipment value of \$35.7 million was 1.8 percent less than interim 1995 U.S. shipment value of \$36.3 million.⁷²

Because the increase in shipments was nearly as great as the increase in domestic consumption, U.S. producers' market share varied little throughout most of the period of investigation. Measured by quantity, U.S. producers' share ranged from 53.1 percent in 1993 to 50.3 percent in 1995; interim 1996 market share of 43.7 percent was lower than interim 1995 market share of 49.4 percent, however.⁷³

The domestic industry's production rose from 2.0 million units in 1993 to 2.9 million units in 1995, a 44.1 percent increase; interim 1996 production of 2.0 million units was 5.1 percent lower than interim 1995 production of 2.1 million units. Capacity rose from 3.0 million units in 1993 to 3.4 million units in 1995, a 15.2 percent increase, and was 14.1 percent higher in interim 1996, at 2.9 million units, than in interim 1995, at 2.6 million units. Capacity utilization increased from 67.6 percent in 1993 to 84.6 percent in 1995, but interim 1996 capacity utilization of 69.0 percent was lower than interim 1995 capacity utilization of 82.6 percent.⁷⁴

Inventory levels declined from 467,000 units in 1993 to 465,000 units in 1994, and then increased to 603,000 units in 1995; the increase from 1993 to 1995 was 29.1 percent. Interim 1996 inventories of 563,000 units were 6.2 percent lower than interim 1995 inventories of 600,000 units. The ratio of inventories to U.S. shipments declined from 25.4 percent in 1993 to 20.6 percent in 1994, and then rose to 22.3 percent in 1995; this ratio was 21.5 percent in interim 1996, as compared to 21.9 percent in interim 1995.⁷⁵

Employment-related indicators all increased from 1993 to 1995, but were lower in interim 1996 than in interim 1995. The number of production and related workers rose from 164 to 209, an increase of 27.4 percent, from 1993 to 1995, and was 183 in interim 1996, which was 12.4 percent lower than the 209 workers in interim 1995. Hours worked rose from 363,000 in 1993 to 483,000 in 1995, an increase of 33.1 percent; the 315,000 hours worked during interim 1996 were 13.0 percent less than the 362,000 hours worked during interim 1995. Hourly wages increased from \$14.40 in 1993 to \$14.81 in 1995, and interim 1996 hourly wages of \$14.20 were lower than the interim 1995 wages of \$14.83.⁷⁶

The aftermarket drum industry showed strong financial performance throughout the period of investigation. Reflecting increased shipments, sales revenues rose from \$43.7 million in 1993 to \$49.5 million in 1994 and \$52.1 million in 1995, an increase of 19.2 percent from 1993 to 1995. Interim 1996 sales revenue of \$38.3 million was 0.3 percent lower than interim 1995 sales revenue of \$38.4 million. COGS increased by 22.5 percent, from \$28.7 million to \$35.2 million, from 1993 to 1995, and were 6.2 percent less in interim 1996, at \$24.9 million, than in interim 1995, at \$26.5 million.⁷⁷

⁷² Table III-6, CR at III-17, PR at III-9.

⁷³ Table IV-3, CR at IV-11, PR at IV-8.

⁷⁴ Table III-4, CR at III-13, PR at III-8.

⁷⁵ Table III-7, CR at III-18, PR at III-10.

⁷⁶ Table III-8, CR at III-19, PR at III-11.

⁷⁷ Table VI-1, CR at VI-2, PR at VI-2.

Profits were higher in the latter portions of the period of investigation than in the earlier portions. Operating income declined from \$7.2 million in 1993 to \$6.6 million in 1994, but rebounded to \$7.8 million in 1995. Notwithstanding lower sales revenues, operating income was higher in interim 1996, at \$7.2 million, than in interim 1995, at \$5.3 million. Operating margins remained relatively stable over the period of investigation, declining from 16.5 percent in 1993 to 13.4 percent in 1994, and rising to 14.9 percent in 1995; the interim 1996 operating margin of 18.7 percent was higher than the interim 1995 margin of 13.8 percent.⁷⁸

Capital expenditures of domestic aftermarket brake drum producers declined during the period of investigation.⁷⁹ The sole producer that reported research and development expenditures reported increases over the period of investigation.^{80 81}

III. MATERIAL INJURY BY REASON OF LTFV BRAKE ROTORS FROM CHINA⁸²

In the final phase of antidumping investigations, the Commission determines whether an industry in the United States is materially injured by reason of the LTFV imports under investigation.⁸³ 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.⁸⁴ Although the Commission may consider causes of injury to the industry other than the LTFV imports,⁸⁵ it is not to weigh causes.^{86 87}

⁷⁸ Table VI-1, CR at VI-2, PR at VI-2.

⁷⁹ Capital expenditures declined from *** in 1993 to *** in 1995, a fall of *** percent. Such expenditures were *** in interim 1996, which was *** percent less than the *** of capital expenditures incurred during interim 1995. Table VI-7, CR at VI-10, PR at VI-6.

⁸⁰ Table VI-7, CR at VI-10, PR at VI-6.

⁸¹ Based on the foregoing, Commissioner Newquist determines that the domestic aftermarket drum industry is not experiencing material injury. Accordingly, he proceeds directly to the question of threat of material injury discussed in section VI.

⁸² Commissioner Crawford has determined that the domestic aftermarket rotor industry is not materially injured or threatened with material injury by reason of LTFV imports from China, and does not join this section or section IV of these Views. See Dissenting Views of Commissioner Crawford.

⁸³ 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).

⁸⁴ 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).

⁸⁵ 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).

⁸⁶ See, e.g., Gerald Metals, Inc. v. United States, 937 F. Supp. 930, 936 (Ct. Int'l Trade 1996); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1101 (Ct. Int'l Trade 1988).

⁸⁷ Commissioner Newquist further notes 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
(continued...)

For the reasons below, we determine that the domestic aftermarket rotor industry is materially injured by reason of LTFV imports from China.

A. Volume of Subject Imports

The volume and market penetration of subject rotor imports increased throughout the period of investigation. The quantity of subject rotors increased by 221.5 percent overall, from 1.6 million units in 1993 to 4.0 million units in 1994 and to 5.1 million units in 1995. Subject imports of 3.9 million units in interim 1996 were 16.9 percent higher than in interim 1995. Measured by value, subject rotor imports increased by 237.5 percent overall, from \$11.2 million in 1993 to \$29.2 million in 1994 and to \$38.1 million in 1995. Subject rotor import value of \$29.1 million in interim 1996 was 10.5 percent higher than in interim 1995.⁸⁸

Subject import market penetration, measured by quantity, increased from 8.0 percent in 1993 to 16.0 percent in 1994 and to 18.3 percent in 1995. This market penetration was 17.3 percent in interim 1996, as compared with 16.4 percent in interim 1995.⁸⁹ The increase in subject import market penetration is particularly significant in light of the moderate and declining market share for the domestic like product. Domestic producers' market share, measured by quantity, declined from 40.5 percent in 1993 to 37.1 percent in 1994 and to 35.0 percent in 1995, and was 36.6 percent in interim 1996, as compared to 36.7 percent in interim 1995.⁹⁰

Because of the increases in import quantities and market penetration, we find that the volume of subject rotor imports and the increase in that volume are significant.

B. Price Effects of Subject Imports

The Commission collected pricing data on two aftermarket rotor products. Prices reported by importers for both subject Chinese products fluctuated irregularly during the period of investigation, with prices for each product slightly higher at the end of the period of the investigation. U.S. producers' prices for the comparable domestic products declined over the period of investigation.⁹¹

The subject imports undersold the domestic products in every quarterly pricing comparison over the period of investigation. The underselling margins were substantial, exceeding 20 percent in nearly every instance.⁹²

In light of information in the record indicating that the subject rotor imports and domestically-produced rotors compete on the basis of price, we find that this underselling is significant. Purchasers

⁸⁷ (...continued)
cause of material injury is sufficient. *See, e.g., Metallwerken Nederland B.V. v. United States*, 728 F. Supp. 730, 741 (Ct. Int'l Trade 1989); *Citrosuco Paulista*, 704 F. Supp. at 1101.

⁸⁸ Table IV-4, CR at IV-12, PR at IV-9.

⁸⁹ Table IV-4, CR at IV-12, PR at IV-9. Measured by value, subject import market penetration increased from 4.2 percent in 1993 to 9.2 percent in 1994 and to 11.3 percent in 1995. Interim 1996 market share measured by value was 9.9 percent, as compared with 10.4 percent in interim 1995. *Id.*

⁹⁰ Table IV-4, CR at IV-12, PR at IV-9.

⁹¹ Tables V-3, V-4, CR at V-10-11, PR at V-8-9.

⁹² Tables V-3, V-4, CR at V-10-11. PR at V-8-9.

responding to the Commission's questionnaires described price as among the two most important factors affecting purchasing decisions.⁹³ That price is critical in many purchasing decisions was corroborated both by testimony of distributors at the Commission hearing,⁹⁴ and by comments of several individual purchasers contacted in connection with lost sales and revenue allegations.⁹⁵ Additionally, the record indicates that all reporting U.S. manufacturers and importers perceived that the subject imports and the domestic like product are interchangeable,⁹⁶ and a substantial proportion of market participants perceived the subject imports to be comparable in non-price factors. Eleven of 17 importers reported no non-price differences between subject rotor imports and the domestic like product, while 10 of 15 responding purchasers deemed the U.S.-produced and Chinese products comparable in terms of availability and six of 15 believed the two countries' products were comparable in terms of quality.⁹⁷

The significant and increasing volume of LTFV rotor imports that competed for sales with the domestic like product entered the market at much lower prices and had significant price-depressing and price-suppressing effects.⁹⁸ Notwithstanding increasing demand in the market, average unit sales values did not increase commensurately with COGS throughout the bulk of the period of investigation. From 1993 to 1995 average unit sales values fell by 0.4 percent from \$16.08 to \$16.01, while COGS on a per unit basis increased by 5.3 percent from \$11.66 to \$12.28.⁹⁹ Consequently, the ratio of COGS to sales revenues increased from 72.5 percent in 1993 to 76.7 percent in 1995.¹⁰⁰ We conclude that the domestic aftermarket rotor industry's inability to increase prices to meet increases in costs was a function of the significant volumes of LTFV imports in the U.S. market.

⁹³ Table II-1, CR at II-8, PR at II-5.

⁹⁴ Tr. at 48-49 (Lee), 51-52 (Byrne).

⁹⁵ See CR at V-22-30, PR at V-19-23.

⁹⁶ CR at II-9-10, PR at II-6-7.

⁹⁷ CR at II-9-10, PR at II-6-7.

⁹⁸ Respondents argue that prices of LTFV imports from China are comparable to those from other countries and have not placed any pressure on domestic prices. Purchasers' questionnaire responses, however, indicate that Chinese prices were deemed lower than third-country prices in 10 of 12 comparisons. CR at V-7, PR at V-5. Moreover, throughout the period of investigation, the average unit values of LTFV imports from China were significantly below those of rotors from non-Chinese sources. See Table IV-1, CR at IV-4, PR at IV-3. In any event, as stated above, we are not permitted to weigh adverse effects of LTFV imports from China against adverse effects that may be attributable to fairly-traded imports.

⁹⁹ Table VI-3, CR at VI-5, PR at VI-4. Both average unit COGS and average unit sales values were higher in interim 1996 than in interim 1995. *Id.*

¹⁰⁰ Table VI-3, CR at VI-5, PR at VI-4. While the ratio of COGS to net sales was lower in interim 1996 than in interim 1995, the interim 1996 ratio remained above that of 1993. *Id.*

C. Impact of Subject Imports^{101 102 103}

The large volume of low-priced LTFV rotor imports from China had several adverse effects on the domestic aftermarket rotor industry over the period of investigation. First, although the domestic industry's production and shipments did increase, these increases were not commensurate with the growth in the market. Because of the LTFV imports, the domestic industry lost market share and was not fully able to benefit from capacity it added in the expectation of market growth, as capacity utilization declined over the period of investigation.¹⁰⁴

Second, because of the price-depressing and -suppressing effects of the subject rotor imports, the domestic industry's increased sales revenues did not lead to improved financial performance. To the contrary, both profit margins and the dollar amount of operating income fell sharply coincident with the import surge from 1993 to 1994. Operating income increased, and profit margins improved somewhat, during the latter portions of the period of investigation, but still remained below 1993 levels. Moreover, by 1995 a majority of industry participants incurred operating losses.¹⁰⁵ Several domestic producers either sold or severely reduced the scope of their aftermarket rotor operations because of import competition.¹⁰⁶

In conclusion, the record indicates that, by reason of the LTFV rotor imports from China, the domestic aftermarket rotor industry was not able to benefit financially from the increasing domestic demand for its product. Accordingly, we have determined that this industry is materially injured by reason of LTFV rotor imports from China.

IV. NO CRITICAL CIRCUMSTANCES WITH RESPECT TO LTFV ROTORS FROM CHINA

Because Commerce made an affirmative critical circumstances determination on brake rotors, and we have found that the domestic aftermarket brake rotor industry is materially injured by reason of

¹⁰¹ As part of our consideration of the impact of imports, the statute specifies that the Commission is to consider in an antidumping proceeding, "the magnitude of the dumping margin." 19 U.S.C. § 1677(7)(C)(iii)(V). The Uruguay Round Agreements Act (URAA) Statement of Administrative Action (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 of the Commission's material injury analysis." SAA, H.R. Rep. 316, 103d Cong., 2d Sess., vol. 1 at 850. The statute defines the "magnitude of the margin of dumping" to be used by the Commission in a final determination as "the dumping margin or margins most recently published by [Commerce] prior to the closing of the Commission's administrative record." 19 U.S.C. § 1677(35)(C). The non-*de minimis* dumping margins pertaining to subject rotors identified in Commerce's final determinations prior to the closing of our administrative record in this investigation range from 3.56 percent to 43.32 percent. 62 Fed. Reg. at 9174.

¹⁰² Vice Chairman Bragg notes that she does not ordinarily consider the margin of dumping to be of particular significance in evaluating the effects of subject imports on domestic producers. See Separate and Dissenting Views of Commissioner Lynn M. Bragg in Bicycles from China, Inv. No. 731-TA-731 (Final), USITC Pub. 2968 (June 1996).

¹⁰³ Commissioner Newquist notes that, in his analytical framework, "evaluation of the magnitude of the margin of dumping" is not generally helpful in answering the questions posed by the statute: whether the domestic industry is materially injured, and, if so, whether such material injury is by reason of the dumped subject imports.

¹⁰⁴ Tables III-4, IV-4, CR at III-13, IV-12, PR at III-8, IV-9.

¹⁰⁵ Table VI-3, CR at VI-5, PR at VI-4.

¹⁰⁶ Tr. at 35-36 (Lechner), 39-40 (Breslow), 53-54 (Demrovsky).

subject imports, we must further determine “whether the imports subject to the affirmative [Commerce critical circumstances] determination . . . are likely to undermine seriously the remedial effect of the antidumping order to be issued.”¹⁰⁷ This is one of our first opportunities to consider the amendments the Uruguay Round Agreements Act (URAA) made to the Act’s provisions on critical circumstances. The URAA Statement of Administrative Action (SAA) indicates that the Commission is to determine “whether, by massively increasing imports prior to the effective date of relief, the importers have seriously undermined the remedial effect of the order.”¹⁰⁸

In finding “massive imports” in connection with its affirmative critical circumstances determination, Commerce compared import quantities for the seven months including and following the filing of the petition (March-September 1996) to import quantities for the seven months preceding filing of the petition (August 1995-September 1996). The record indicates that the quantity of those imports subject to the Commerce affirmative critical circumstances determination (i.e. rotors subject to the China-wide rate) for the seven post-petition months exceeded the quantity of such imports for the seven pre-petition months by 28.1 percent.¹⁰⁹ The largest monthly quantities occurred during July, August, and September 1996 -- between the time the Commission issued its preliminary determination in this investigation and the time Commerce issued its preliminary determination.¹¹⁰

The information available in the record concerning inventory levels pertains to all LTFV rotor imports, not merely those subject to the affirmative Commerce critical circumstances determination. Although the Commission did not collect data limited to the seven-month post-petition period Commerce examined in its critical circumstances determination, it did collect data for January-September 1996, a nearly coterminous period. These data indicate that the ratios of inventories to either subject rotor imports or U.S. shipments of such imports during interim 1996 were only slightly higher than those during interim 1995.¹¹¹ Thus, the record does not support the conclusion that the “massive imports” were stockpiled. Additionally, the available pricing data indicate that prices reported by importers of LTFV

¹⁰⁷ 19 U.S.C. § 1673d(b)(4)(A)(I). The statute further provides that in making this determination: the Commission shall consider, among other factors it considers relevant--

(I) the timing and the volume of the imports,

(II) a rapid increase in inventories of the imports, and

(III) any other circumstances indicating that the remedial effect of the antidumping order will be seriously undermined.

19 U.S.C. § 1673d(b)(4)(A)(ii).

¹⁰⁸ SAA at 877.

¹⁰⁹ CR at IV-8, PR at IV-6. This differs slightly from the figure calculated by Commerce because it includes only those rotor imports for which Commerce made an affirmative critical circumstances determination. Because there is nothing in the record indicating that the aftermarket rotor industry is seasonal, *compare Steel Concrete Reinforcing Bars from Turkey*, Inv. No. 731-TA-745 (Final), USITC Pub. 3034 (Apr, 1997), we have used the pre-petition and post-petition periods Commerce examined in its determination for analysis of the volume of imports subject to the Commerce affirmative critical circumstances determination.

¹¹⁰ Table IV-2, CR at IV-8, PR at IV-6.

¹¹¹ Table VII-3, CR at VII-4, PR at VII-3.

rotors from China fluctuated irregularly during the period examined by Commerce in making its critical circumstances determination and that underselling margins also fluctuated.¹¹²

Thus, notwithstanding its timing, we cannot find that the “massive imports” giving rise to Commerce’s affirmative critical circumstances determination caused any anomalous impact or dislocations on the U.S. aftermarket rotor industry which would serve to undermine the remedial effect of any antidumping order. We accordingly make a negative critical circumstances determination.

V. NO MATERIAL INJURY BY REASON OF LTFV DRUMS FROM CHINA¹¹³

The legal standards we apply to determine whether the domestic aftermarket drum industry is materially injured by reason of subject drum imports are the same as the ones described in the first paragraph of section III.¹¹⁴ As explained below, we have determined that the domestic aftermarket drum industry is not materially injured by reason of LTFV imports from China.

Volume of Subject Imports. The quantity of subject drum imports increased from zero in 1993 to 333,000 units in 1994 and then to 494,000 units in 1995. Subject import quantity of 339,000 units in interim 1996 was less than the 456,000 units in interim 1995. Measured by value, subject imports increased from zero in 1993 to \$3.4 million in 1993 and then to \$4.8 million in 1994. Subject import value was \$2.9 million in interim 1996, as compared to \$4.4 million in interim 1995.¹¹⁵

¹¹² Tables V-3-4, CR at V-10-11, PR at V-8-9.

¹¹³ Having found that the domestic aftermarket drum industry is not experiencing material injury, Commissioner Newquist proceeds directly to the question of threat in section VI and does not join this section of the opinion.

¹¹⁴ For a detailed description of Commissioner Crawford’s analytical framework, see Polyvinyl Alcohol from China, Japan, and Taiwan, Inv. Nos. 731-TA-726, 727, and 729 (Final), USITC Pub. 2960 at 25-26 (May 1996). Both the Court of International Trade and the United States Court of Appeals for the Federal Circuit have held that the “statutory language fits very well” with Commissioner Crawford’s mode of analysis, expressly holding that her mode of analysis comports with the statutory requirements for reaching a determination of material injury by reason of the subject imports. United States Steel Group v. United States, 96 F.3d 1352, 1361 (Fed. Cir. 1996), *aff’d* 873 F. Supp. 673, 694-95 (Ct. Int’l Trade 1994). Commissioner Crawford notes that the statute requires that the Commission determine whether a domestic industry is “materially injured by reason of” the 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 LTFV imports, not by reason of the 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 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 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).

¹¹⁵ Table IV-3, CR at IV-11, PR at IV-8. Although a very small amount of subject drum imports may in fact have entered the United States in 1993, *cf.* Table V-1, CR at V-8, PR at V-6, this quantity was too insignificant to be measurable in the Commission’s database.

Subject drum market penetration, measured by quantity, increased from zero in 1993 to 7.6 percent in 1994 and then to 9.2 percent in 1995. Market penetration of 7.5 percent in interim 1996 was lower than market penetration of 10.9 percent in interim 1995.^{116 117}

During the period from 1993 to 1995 when LTFV imports from China were introduced into the U.S. market, U.S. producers maintained their predominant market presence. U.S. producers' market shares declined modestly from 53.1 percent in 1993 to 50.3 percent in 1995.¹¹⁸ Nevertheless, the increasing volume of subject imports did not preclude the domestic aftermarket drum industry from substantially increasing both its capacity and capacity utilization from 1993 to 1995. The domestic industry's increases in output during this period reflected increases in overall demand. Indeed, during this period the domestic industry increased its production by 44.1 percent and its U.S. shipments by 47.1 percent.¹¹⁹

In interim 1996 production, shipments, and capacity utilization were lower than they were in interim 1995, and the domestic industry's market share was 5.7 percentage points lower. These reductions, however, cannot be attributed to subject drum imports, which were lower in both volume and market share in interim 1996 than they were in interim 1995.¹²⁰ In light of the factors discussed above, we cannot conclude that the subject drum import volume is significant, notwithstanding the increases in volume and market penetration from 1993 to 1995.

Price Effects of the Subject Imports. Pricing data were collected for two aftermarket drum products. Producers' prices for domestically-produced aftermarket drums generally declined during the period of investigation. Importers' prices generally rose for one of the products surveyed, and generally declined for the other. The subject imports undersold the domestic like product in every producer price comparison.^{121 122} The ratio of COGS to net sales rose slightly from 1993 to 1995 (but was lower in interim 1996 than in interim 1995), and average unit sales values declined over the period of investigation.^{123 124} Nevertheless, in light of the competitive conditions and the favorable operating

¹¹⁶ Table IV-3, CR at IV-11, PR at IV-8. Measured by value, subject drum import market penetration increased from zero in 1993 to 5.3 percent in 1994 and then to 6.3 percent in 1995. Market penetration measured by value was 4.6 percent in interim 1995 as compared to 7.6 in interim 1996. *Id.*

¹¹⁷ Commissioner Crawford joins only in the factual discussion of the volume of imports. She does not rely on any analysis of trends in the market share of subject imports and other factors in her determination of material injury by reason of dumped imports. She makes her finding of the significance of volume in the context of the price effects and impact of these imports, given the conditions of competition. She notes that the condition of competition in the aftermarket brake drums market are very similar to those in the aftermarket brake rotors market, as described in Dissenting Views of Commissioner Carol T. Crawford. For the reasons discussed below, she finds that the volume of subject imports is not significant in this investigation.

¹¹⁸ Table IV-3, CR at IV-11, PR at IV-8.

¹¹⁹ Tables III-4, III-6, CR at III-13, III-17, PR at III-8, III-9.

¹²⁰ Tables III-4, III-6, IV-3, CR at III-13, III-17, IV-11, PR at III-8, III-9, IV-8.

¹²¹ Tables V-1-2, CR at V-8-9, PR at V-6-7.

¹²² Commissioner Crawford rarely gives much weight to evidence of underselling since 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.

¹²³ Table VI-1, CR at VI-2, PR at VI-2.

¹²⁴ Commissioner Crawford concurs in her colleagues' conclusion that subject imports are not having significant effects on domestic prices for aftermarket brake drums. However, she does not join in the remainder of this discussion of price effects. To evaluate the effects of the dumping on domestic prices, Commissioner Crawford

(continued...)

performance of the domestic industry considered below in the discussion of the impact of the subject imports, we must conclude that whatever price-suppressing or price-depressing effects may be attributable to the subject imports are not significant.

*Impact of the Subject Imports.*¹²⁵ In light of increasing demand for drums and the domestic industry's predominant position in the market, any price pressure that the subject imports may have placed on the domestic aftermarket drum industry was insufficient to seriously erode the domestic

¹²⁴ (...continued)

compares domestic prices that existed when the LTFV imports were dumped with what domestic prices would have been if the LTFV 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 specific dumping margin for six companies is 17.20 percent. 62 Fed. Reg. at 9174. These six companies accounted for 43.9 and 81.4 percent of subject imports in 1995 and interim 1996, respectively. CR at IV-5; PR at IV-4. "All other" subject imports received a dumping margin of 86.02 percent. 62 Fed. Reg. at 9174. Thus, prices for the subject imports likely would have risen by varying amounts had they been priced fairly, and they would have become more expensive relative to the domestic product and other alternative sources for the product (e.g., nonsubject imports). In such a case, if the products are substitutable, demand would have shifted away from subject imports and towards the relatively less-expensive products. In this investigation, nonsubject imports are a major presence in the domestic market. In 1995, nonsubject imports dominated subject imports by a four-to-one ratio, by value. Nonsubject imports from China alone nearly equaled the subject import market share in 1995. As noted above, Commissioner Crawford finds that the conditions of competition in the domestic aftermarket brake drums market are similar to those in the aftermarket brake rotors market. As in the case of rotors, she finds that subject imports of brake drums, the domestic like product, and nonsubject imports of aftermarket brake drums are good substitutes for each other. Thus the domestic industry would have captured only part of any shift in demand away from subject imports, had they been priced fairly. Moreover, there is ample competition in the domestic aftermarket brake drums market. The domestic industry had sufficient capacity available to satisfy the demand supplied by subject imports and domestic producers compete with each other and nonsubject imports for sales of the domestic product. Based on the available capacity and competition among domestic producers and nonsubject imports, Commissioner Crawford finds that domestic prices would not have increased had the subject imports been priced fairly. Therefore, Commissioner Crawford finds that subject imports are not having significant effects on domestic prices for aftermarket brake drums.

¹²⁵ Commissioner Crawford does not make her determination based on industry and import trends. However, she concurs that subject imports are not 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 LTFV imports were dumped with what the state of the industry would have been had the LTFV 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) is derived from this impact. As she noted earlier, Commissioner Crawford finds that the domestic industry would not have been able to increase its prices had subject imports been priced fairly. She finds that at least some subject imports would have continued to be sold in the domestic market, had they been fairly traded. Moreover, nonsubject imports play a major role in this market and would have competed for any shift in demand away from higher priced fairly traded subject imports. Thus the domestic industry would have captured only part of any shift in demand away from subject imports, had subject imports been priced fairly. Therefore, any increase in the domestic industry's output and sales would not have been material, and thus the domestic industry would not have been materially better off if the subject imports had been priced fairly. Consequently, Commissioner Crawford determines that the domestic industry is not materially injured by reason of LTFV imports of brake drums from China.

industry's operating margins or to preclude it from earning larger profits during the latter portions of the period of investigation than at its inception. Operating income did decline on both an aggregate and a per unit basis from 1993 to 1994, the year that the LTFV drum imports were introduced in the U.S. market. However, when subject import volumes continued to increase from 1994 to 1995, and subject import market penetration reached its peak during the period of investigation, aggregate industry operating income increased to a level above that in 1993, and per unit operating income also increased. Operating income was also higher on both an aggregate and per unit basis in interim 1996 than in interim 1995, notwithstanding that production and shipments were lower in interim 1996 than in interim 1995.¹²⁶ Consequently, any negative effects on the domestic aftermarket drum industry from the initial increase in subject imports were not evident by the conclusion of the period of investigation.¹²⁷

The lack of any adverse impact on the domestic industry underscores the lack of significant import volume or price effects.¹²⁸ The industry's capacity, production, and shipments all kept pace with market demand and increased over the period of investigation notwithstanding increases in import volume. Although the industry's profitability declined somewhat with the initial import surge in 1994, its financial results have subsequently improved and the industry showed consistent profitability in all periods examined. In light of these factors, we have determined that the domestic aftermarket brake drum industry is not materially injured by reason of LTFV imports from China.

VI. NO THREAT OF MATERIAL INJURY BY REASON OF LTFV DRUMS FROM CHINA

Section 771(7)(F) of the Act directs the Commission to determine whether the U.S. industry is threatened with material injury by reason of the subject imports by analyzing whether "further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted."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 making its determination whether further dumped or subsidized imports are imminent and

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

¹²⁷ Material petitioner submitted in an effort to show that subject drum imports had an adverse competitive impact on some petitioning firms' drum operations instead tends to corroborate our contrary conclusion. The probative value of this material is limited because petitioner has not provided information from all domestic drum producers, and provides only interim 1996 data for one producer. Nevertheless, petitioner's material indicates that operating results were positive for the 33 drum models petitioner contends face the most intense competition from subject imports, and that these 33 models contributed substantially to the producers' overall operating income. Moreover, for the one firm for which data were presented over the entire period of investigation ***. Petitioner's Posthearing Brief, exs. 9, 10.

¹²⁸ As part of our consideration of the impact of imports, we have considered "the magnitude of the dumping margin," pursuant to 19 U.S.C. § 1677(7)(C)(iii)(V). The *non-de minimis* dumping margins pertaining to subject drums identified in Commerce's final determinations prior to the closing of our administrative record in this investigation range from 17.20 percent to 86.02 percent. 62 Fed. Reg. at 9174.

For Vice Chairman Bragg's views on the significance of the magnitude of the dumping margin, see section III above.

¹²⁹ 19 U.S.C. § 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." *Metallwerken Nederland B.V. v. United States*, 744 F. Supp. 281, 287 (Ct. Int'l Trade 1990), citing *American Spring Wire Corp. v. United States*, 590 F. Supp. 1273, 1280 (Ct. Int'l Trade 1984). See also *Calabrian Corp. v. United States*, 794 F. Supp. 377, 387 & 388 (Ct. Int'l Trade 1992), citing H.R. Rep. No. 1156, 98th Cong., 2d Sess. 174 (1984).

whether material injury by reason of imports would occur unless an order is issued.¹³¹ In making our determination, we have considered all statutory factors¹³² that are relevant to this investigation.¹³³ As explained below, we have determined that the domestic aftermarket drum industry is not threatened with material injury by reason of LTFV imports from China.

The record in this investigation does not indicate the likelihood of substantially increased exports of subject drums to the United States. The principal increase in subject drum volume and market penetration occurred from 1993 to 1994, when the subject drums first entered the United States market. Although subject import quantity and market penetration continued to increase from 1994 to 1995, these increases were much smaller, in absolute as well as relative terms, than those of the preceding year.¹³⁴

The record indicates that subject drum volume and market penetration were lower in interim 1996 than in interim 1995.¹³⁵ Although the statute now directs us to consider whether any changes in subject import volume since the filing of the petition are related to the pendency of the investigation,¹³⁶ the record indicates that the reduced level of subject drum imports in interim 1996 is not related to the filing of the petition in this investigation in March 1996. The petition encompassed all brake drum imports from China, and through the time covered by our interim 1996 data, no Chinese drum producer would have had reason to know that its exports might not be subject to antidumping duties.¹³⁷ Yet, drum imports covered by the petition -- as opposed to the more limited imports covered by Commerce's final findings of sales at LTFV -- were larger in interim 1996 than in interim 1995.¹³⁸

Consequently, we believe that the interim 1996 data concerning subject import volume are not skewed by the filing of the petition and are probative of the likelihood of substantially increased exports of subject merchandise to the United States. These data, combined with the full year 1995 data, lead us to conclude that substantially increased imports of subject merchandise are not likely.

The available data indicate that there were significant increases in capacity of the drum industry in China during the period of investigation, and that the overwhelming proportion of brake drums produced by manufacturers subject to Commerce's affirmative LTFV determination are exported to the

¹³¹ 19 U.S.C. § 1677(7)(F)(ii). 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 854.

¹³² The statutory factors have been amended to track more closely the language concerning threat of material injury determinations in the Antidumping and Subsidies Agreements, although "[n]o substantive change in Commission threat analysis is required." SAA at 855.

¹³³ 19 U.S.C. § 1677(7)(F)(I). Factor I regarding consideration of the nature of the subsidies is inapplicable because there have not been any subsidies alleged. Factor VII regarding raw and processed agriculture products is also inapplicable to the products at issue. Additionally, there is no evidence of dumping findings or antidumping remedies in other World Trade Organization member markets against brake drums from China. See 19 U.S.C. § 1677(7)(F)(iii)(I).

¹³⁴ Table IV-3, CR at IV-11, PR at IV-8.

¹³⁵ Table IV-3, CR at IV-11, PR at IV-8.

¹³⁶ 19 U.S.C. § 1677(7)(I).

¹³⁷ Commerce's preliminary determination, in which *de minimis* margins were found for some producers, was issued on October 10, 1996. Interim 1996 concluded on September 30, 1996.

¹³⁸ Table IV-3, CR at IV-11, PR at IV-8.

United States.¹³⁹ Nevertheless, there is also an increasing emphasis among Chinese producers to increase production for home market consumption and exports to third-country markets.¹⁴⁰ Based on this evidence, and the fact capacity increases have not resulted in a rapid increase of subject drum imports over the latter portion of the period of investigation, we cannot conclude the existence of additional or unused productive capacity in China alone indicates a likelihood of substantially increased imports of subject merchandise into the United States.

As stated in section V above, subject drum imports at current volumes do not have any significant adverse effects on prices for the domestic like product in the United States.¹⁴¹ We find no record basis for concluding that such price effects are likely to occur in the imminent future. Accordingly, we do not find that subject drum imports are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices or are likely to increase demand for further subject imports.

Although inventories of subject drum imports in the United States increased over the period of investigation, the ratios of subject import inventories to subject imports and to U.S. shipments of subject imports were lower in the latter portions of the period of investigation.¹⁴² Subject drum inventories maintained in China are minimal.¹⁴³

There is no information in the record indicating that there is any potential for product-shifting. Nor does petitioner contend that the domestic aftermarket drum industry is engaged in any efforts to develop a derivative or more advanced version of the domestic like product. Finally, there is no indication of any other demonstrable adverse trends, or convincing evidence of any recent or imminent changes in subject import levels or domestic market structure, that indicate the probability the domestic industry is likely to be materially injured by reason of subject imports.

Evaluating all the statutory threat factors, we find that the record indicates neither that substantially increased volumes of LTFV brake drum imports from China are imminent nor that material injury by reason of LTFV imports would occur absent issuance of an antidumping order. Accordingly, we determine that the domestic aftermarket drum industry is not threatened with material injury by reason of LTFV imports from China.

¹³⁹ Table VII-1, CR at VII-2, PR at VII-2.

¹⁴⁰ See Table VII-1, CR at VII-2, PR at VII-2; Tr. at 137 (Sim); Petitioner's Prehearing Brief, ex. 9, 1st page (article indicating that China's automotive industry has not been able to keep pace with home market demand), 2d page (reprint of China "Auto Industry Industrial Policy," indicating first policy priority is to expand Chinese auto industry to satisfy domestic demand).

¹⁴¹ Although Commissioner Newquist did not join section V of this opinion, he agrees that the subject drum imports are not likely to have significant depressing or suppressing effects on domestic prices.

For Commissioner Newquist's views on the significance of the magnitude of the margin of dumping, see section III above.

¹⁴² Table VII-3, CR at VII-4, PR at VII-3.

¹⁴³ Table VII-1, CR at VII-2, PR at VII-2.

CONCLUSION

For the foregoing reasons, we determine that the domestic aftermarket rotor industry is materially injured by reason of LTFV imports from China,¹⁴⁴ and that the domestic aftermarket drum industry is not materially injured or threatened with material injury by reason of LTFV imports from China.

¹⁴⁴ Commissioner Crawford determines that the domestic aftermarket rotor industry is not materially injured or threatened with material injury by reason of LTFV imports from China. *See her Dissenting Views.*

DISSENTING VIEWS OF COMMISSIONER CAROL T. CRAWFORD

On the basis of information obtained in this final investigation, I determine that an industry in the United States is not materially injured or threatened with material injury by reason of imports of aftermarket brake rotors from China found by the Department of Commerce to be sold at less-than-fair-value ("LTFV"). I concur in the conclusions of my colleagues in the finding of the like product, domestic industry, related parties, and in the discussion of the condition of the domestic industry. These dissenting views provide an explanation of my determination of no material injury or threat of material injury to an industry in the United States by reason of LTFV imports of brake rotors from China.

I. ANALYTICAL FRAMEWORK

In determining whether a domestic industry is materially injured by reason of the 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 "material injury by reason of the dumped imports." Thus we are called upon to evaluate the effect of dumped imports on the domestic industry and determine if 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 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 any injury "by reason of" the dumped imports is material. That is, the Commission must determine if 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 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 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. Both the Court of International Trade and the United States Court of Appeals for the Federal Circuit have held that the "statutory language fits very well" with my mode of

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).

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

analysis, expressly holding that my mode of analysis comport with the statutory requirements for reaching a determination of material injury by reason of the subject imports.⁵

In my analysis of material injury, I evaluate the effects of the dumping⁶ on domestic prices, domestic sales, and domestic revenues. To evaluate the effects of the dumping on domestic prices, I compare domestic prices that existed when the imports were 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 LTFV imports were dumped with what domestic sales would have been if the LTFV 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 dumping, either separately or together, demonstrate that the domestic industry would have been materially better off if the imports had been priced fairly. If so, the domestic industry is materially injured by reason of the dumped imports.

For the reasons discussed below, I determine that the domestic industry producing aftermarket brake rotors is not materially injured or threatened with material injury by reason of LTFV imports of brake rotors 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 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, to what extent purchasers will reduce the

⁵ U.S. Steel Group v. United States, 96 F.3d 1352, at 1361 (Fed. Cir. 1996), *aff'g* 873 F.Supp. 673, 694-695 (Ct. Int'l Trade 1994).

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.

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 aftermarket brake rotors in the domestic market is low.

Importance of the Product. The first factor that measures the willingness of purchasers to pay higher prices is the importance of the product to purchasers. In the case of an intermediate product (“input”), the importance will depend on the significance of the input’s cost relative to the total cost of the downstream product or service in which it is used and whether the input is critical to production of the downstream product or service. In the case of an end-use product, demand is determined by the importance of the product to the end-user.

Brake rotors are purchased from manufacturers and importers by wholesale distributors, large independent retailers, and program distribution groups (“PDGs”), which in turn sell to installers. Installers sell brake service to automobile owners (“end-users”), including both the brake part and their installation. Therefore, the end-user is rarely involved in the purchase of the brake part. In fact, the end-user is rarely aware of the origin of the part.⁸ Nonetheless, demand for aftermarket brake rotors is ultimately determined by the end-user’s willingness to pay higher prices, as measured by the importance of the product to the end-user. This importance will depend on whether the product is considered a non-discretionary (necessity) purchase or a discretionary (luxury) purchase by the end-user. When the end use product is a necessity, changes in the price of the product are less likely to alter demand by the consumer. When the end use product is considered a luxury, changes in the price of the product are more likely to alter demand by the end-user. In the case of brake rotors, for those owning automobiles, brakes are a necessity.⁹ This suggests a low elasticity of demand for aftermarket brake rotors.

Alternative Products. A second 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.

In this investigation, the record indicates that the only viable substitute for aftermarket brake rotors is original equipment manufacturer (“OEM”) replacement brake rotors. However, the evidence in the record indicates that aftermarket brake consumers rarely switch to or from aftermarket brakes, if at all.¹⁰ Nor is there probative evidence that consumers consider OEM rotors as viable substitutes. However, the availability of OEM products provides an upward limit to any large price increases for aftermarket brake rotors.¹¹ The lack of viable alternative brake rotor products would tend to decrease the elasticity of demand.

⁸ CR at I-13; PR at I-10

⁹ For those considering the purchase of an automobile, the cost of servicing the car will likely factor into the purchase decision.

¹⁰ Only one of 10 responding purchasers reported installing OEM parts in vehicles no longer under warranty. CR at I-12; PR at I-9-10.

¹¹ Although the evidence on the record indicates little or no competition among OEM and aftermarket products, such competition could occur were the price differential sufficiently attractive, since OEM products are reportedly interchangeable for aftermarket products. CR at I-7-8; PR at I-6-7. However, there is no evidence that, had subject imports been fairly traded, that aftermarket rotor prices would have risen to the point where OEM products would have become attractively priced relative to the aftermarket products such that demand would have shifted to the OEM products.

Buying Power. A third important factor in determining whether purchasers would be willing to pay higher prices is the existence of any bargaining power among purchasers that would allow them to negotiate better prices. There is evidence that warehouse distributors, “jobbers”, and independent retail outlets have banded together into buying groups to gain better pricing from suppliers, than what could be obtained by acting alone.¹² This tends to increase the price sensitivity of demand.

Overall, I find that the elasticity of demand for aftermarket brake rotors in the domestic market is low. That is, the consumption of aftermarket brake rotors will not fall by very much in response to a general increase in the price of aftermarket brake rotors.

B. Substitutability

Simply put, substitutability measures the similarity or dissimilarity of 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, purity, rate of defects, convenience or difficulty of usage in production process, 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 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. Thus, while overall demand for a product will only change moderately in response to the overall price change, the demand for products from different sources (e.g., subject imports) will decrease or increase depending on their relative prices and the substitutability of the products from different sources. In other words, purchasers can avoid price increases from one source by shifting their purchases to alternative sources. The magnitude of this shift in demand is determined by the degree of substitutability among the sources.

Purchasers have three potential sources of aftermarket brake rotors: domestic producers, 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 made the following determinations regarding substitutability. I find that subject imports of brake rotors from China are good substitutes for domestic aftermarket brake rotors. I further find that nonsubject imports of aftermarket brake rotors are good substitutes for both subject imports and the domestic like product. Thus, any shift in demand away from subject imports, had they been fairly priced, would have increased demand for domestic and nonsubject aftermarket brake rotors. I have evaluated the substitutability among aftermarket brake rotors from the different sources as follows.

Subject imports and the domestic like product are generally interchangeable in cases where the same brake models are available from both sources. The record indicates that the domestic like product consists of up to 1,100 brake rotor model numbers. Of these, up to 700 brake rotor models are also

¹² CR at I-11; PR at I-8-9.

available from subject import sources.¹³ Despite the more limited range of subject imports, those subject imports that do enter the U.S. market appear to be for the most part in the largest selling rotor model types.¹⁴ All responding U.S. manufacturers and importers stated that U.S.-produced brake drums and rotors and imports from China were interchangeable.¹⁵ Subject Chinese imports of rotors are perceived by some importers to be of lower quality, or to have other non-price differences, relative to the domestic like product.¹⁶ Purchasers generally observed that domestic drum and rotor products were superior to the Chinese products in terms of product quality, consistency, and range; technical support/service; packaging; and tolerance variance.¹⁷ Despite these differences, 15 of 17 responding purchasers indicated that the Chinese product can be used in current applications.¹⁸ Purchaser questionnaire responses indicate that the majority of their customers do not specifically order aftermarket brake drums or rotors from one particular country over other sources.¹⁹ During the POI, six purchasers added Chinese producers to their list of suppliers.²⁰

Subject rotor imports, domestic aftermarket brake rotors, and nonsubject aftermarket brake rotors are sold through similar channels of distribution. Both domestic and imported products compete for sales to buying groups and PDGs.²¹ There is no dispute that the domestic like product and the subject imports from all countries compete in the same geographical markets nationwide. On balance, I find that subject imports and the domestic like product are good substitutes.

Nonsubject imports from Canada, China and other countries appear to be good substitutes for both subject imports and the domestic like product, although there is limited information on the record with respect to the substitutability of nonsubject imports. I note that 8 of 11 responding purchasers buy aftermarket rotors from all three potential sources of aftermarket brake rotors: U.S. producers, subject imports, and nonsubject imports.²² Overall, I find that nonsubject imports of brake rotors are good substitutes for subject imports and the domestic like product.

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

¹³ CR at IV-5; PR at IV-4.

¹⁴ CR at IV-5; PR at IV-4.

¹⁵ CR at II-9; PR at II-6.

¹⁶ 6 of 17 importers reported non-price differences including limited product range, perceived lower quality and service, and longer lead times. CR at II-9; PR at II-6.

¹⁷ CR at I-14; PR at I-11.

¹⁸ CR at II-9; PR at II-6.

¹⁹ CR at II-8; PR at II-6. However, a majority of purchasers indicated that they and their customers are either always or usually aware of the product's originating country. CR at I-13-14; PR at 10-11.

²⁰ CR at II-8; PR at II-6.

²¹ CR at I-12; PR at I-9.

²² See INV-U-027. Purchasers have also switched between suppliers in different nonsubject countries. See CR at II-8; PR at II-6.

market. For the reasons discussed below, I find that the elasticity of supply for the domestic industry producing aftermarket brake rotors is somewhat high.

Capacity Utilization and Inventories. 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.

The total domestic industry capacity for aftermarket brake rotors increased by 36.7 percent from 1993 to 1995. In 1995, 17.5 percent of the domestic industry's capacity to produce aftermarket brake rotors, representing 2,279,000 units, was not used and therefore was available to increase production.²³

The domestic industry had 2,227,000 units of aftermarket brake rotors in inventories available at the end of 1995, representing 21.1 percent of total shipments in 1995, which it could have shipped to the U.S. market. The domestic industry exported 734,000 units of aftermarket brake rotors during the period of investigation which it could have diverted to the U.S. market. Thus the domestic industry had available capacity, inventories, and exports such that it would have been able to fill all or nearly all of the demand supplied by subject imports of brake rotors.²⁴

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.

The domestic aftermarket brake rotor industry has been only somewhat concentrated. Six large domestic producers accounted for all reported production in 1995.²⁵ These producers appear to sell similar products and compete with one another. Moreover, there is additional competitive pressure from nonsubject import suppliers. The record thus indicates that there is available domestic capacity and sufficient competition in the domestic market.

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

III. NO MATERIAL INJURY BY REASON OF LTFV IMPORTS OF AFTERMARKET BRAKE ROTORS 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.

²³ Table C-2, CR at C-8; PR at C-8.

²⁴ Table C-2, CR at C-8; PR at C-8.

²⁵ CR at III-1; PR at III-1.

A. Volume of Subject Imports²⁶

Subject imports of brake rotors increased from 1,594,000 units in 1993 to 5,125,000 units in 1995. Subject imports increased by only 570,000 units from interim 1995 to interim 1996. The value of subject imports increased from \$11,277m in 1993 to \$38,057m in 1995. Subject imports increased by \$2,764m from interim 1995 to interim 1996. By quantity, subject imports held a market share of 8.0 percent in 1993 and 18.3 percent in 1995. Subject import market share by quantity only rose from 16.4 percent in interim 1995 to 17.3 percent in interim 1996. Their market share by value was 4.2 percent in 1993 and 11.3 percent in 1995. Market share by value of subject imports actually fell from 10.4 percent in interim 1995 to 9.9 in interim 1996. 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 their price effects and impact. Based on the market share of subject imports, the conditions of competition in the domestic market for aftermarket brake rotors, and the lack of significant price effects or impact on the domestic industry as discussed below, I find that the volume of subject imports of brake rotors is not significant.

B. Price Effects

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 aftermarket brake rotor 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 different quantities 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.

In this investigation, the dumping margins for subject brake rotor imports from China range from 3.56 to 16.35 for 12 specific producer/exporters and 43.32 percent for "all others". Thus, if subject imports had been fairly priced, some of their prices in the U.S. market would have increased only somewhat while prices of other subject imports would have increased substantially. Those with higher margins would have become significantly more expensive relative to domestic and nonsubject aftermarket brake rotors while those with lower margins would have increased only somewhat relative to the domestic like product and nonsubject imports. In such a case, not all purchases of subject imports would have shifted towards the relatively less expensive products. In other words, even if they had been fairly priced, significant amounts of subject imports from China would continue to have been sold.²⁷

On the supply side, competitive market conditions, excess capacity, inventories, and the ability to divert U.S. exports to the domestic market would have limited attempts by the domestic industry to increase prices. The six domestic producers compete among themselves as well as with nonsubject imports from Canada, China, and elsewhere. In fact, nonsubject import market share is nearly four times

²⁶ The data in the following section are from Table C-2; CR at C-7-8; PR at C-7-8.

²⁷ In 1995, Chinese producers that received specific dumping margins accounted for 29.4 percent of subject imports. CR at IV-5; PR at IV-4.

the market share of subject imports by value and is about the same as the domestic industry's market share.²⁸

On the demand side, the low overall elasticity of demand indicates that any price increases by domestic suppliers in response to this shift in demand would have been met with at most a modest reduction in overall demand. In these circumstances, domestic producers could have raised their prices only somewhat, and not by significant amounts, had subject imports been fairly priced. Any effort by a domestic producer to raise prices significantly would have been resisted sufficiently by competitors and to some extent by large buying groups with buying power. Overall, any shift in demand from subject imports to domestic brake rotors would have been minimal, since domestic producers would have captured only a fraction of the market share of subject imports from China.

In general, while there may be some effects on domestic prices that can be attributed to the unfair pricing of subject imports, I do not find that subject imports are having significant effects on prices for domestic aftermarket brake rotors. Therefore, significant effects on domestic prices cannot be attributed to the unfair pricing of subject imports. Consequently, I find that subject imports of brake rotors are not having significant effects on prices for domestic aftermarket brake rotors.

C. Impact

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.²⁹ 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.

As discussed above, the domestic industry producing aftermarket brake rotors would not have been able to increase its prices significantly if subject imports of brake rotors from China had been sold at fairly traded prices. Therefore, any impact of dumped imports on the domestic industry would have been on the domestic industry's output and sales. Had subject imports not been dumped, the demand for subject imports would have declined, but demand for the domestic product would have increased only minimally due to competition from non-LTFV imports from China, nonsubject imports from other countries, and low-margin Chinese subject imports that would have continued to enter the U.S. market, had they not been dumped. In other words, had subject imports not been dumped, the domestic industry would not have been able to increase its output and sales, and therefore its revenues, significantly. Consequently the domestic industry would not have been materially better off if the subject imports had been fairly traded. Therefore, I find that the domestic industry producing aftermarket brake rotors is not materially injured by reason of LTFV imports of brake rotors from China.

IV. **NO THREAT OF MATERIAL INJURY BY REASON OF LTFV IMPORTS OF BRAKE ROTORS FROM CHINA**

On the basis of information obtained in this investigation, I determine that an industry in the United States is not threatened with material injury by reason of LTFV imports of subject imports of

²⁸ Table C-2 at C-7-8; PR at C-7-8.

²⁹ 19 U.S.C. § 1677(7)(C)(iii).

brake rotors from China. Section 771(7)(F) of the Act directs the Commission to determine whether a U.S. industry is threatened with material injury by reason of the subject merchandise by analyzing whether “further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted”.³⁰ The Commission considers the threat factors “as a whole”³¹ and may not make such a determination “on the basis of mere conjecture or supposition”.³² In making my determination, I have considered all of the statutory factors³³ that are relevant to this investigation³⁴ and have determined that the domestic industry producing aftermarket brake rotors is not threatened with material injury by reason of the LTFV imports from China.

I do not find that there is any increase in production capacity or unused capacity in the exporting country likely to result in a substantial increase in imports of subject brake rotors into the United States. Even though production capacity has increased and some capacity is available in the exporting country, there is no indication that subject imports will increase significantly in the immediate future. Production capacity in China increased from 1,334,000 units in 1993 to 2,833,000 units in 1995, and increased from 2,374,000 in interim 1995 to 2,748,000 in interim 1996. Production increased from 1,241,000 units in 1993 to 2,419,000 units in 1995, and increased by 91,000 units between interim 1995 and interim 1996.³⁵ Capacity utilization remained at a high level, ranging from a utilization rate of 93.0 percent in 1993 to a rate of 85.4 percent in 1995.³⁶ At these levels of capacity utilization, subject Chinese exporters would have difficulty increasing exports to the U.S. market. As a share of total shipments, subject Chinese brake rotor exports to the U.S. rose from 52.7 percent in 1993 to 63.3 percent in 1995, but fell by 2.1 percentage points from interim 1995 to interim 1996. Home market shipments and exports to all other countries increased during this period and are projected to increase in importance relative to exports to the U.S. In fact, the record indicates that shipments by subject Chinese producers to their home market and exports to third countries are projected to overtake their exports to the U.S.³⁷ Given the high capacity utilization rates, the significance of shipments to non-U.S. markets, and the conditions of competition discussed above, I do not find any existing unused capacity or imminent, substantial increase in

³⁰ 19 U.S.C. §1673d(b) and 1677(7)(F)(ii).

³¹ 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.

³² 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.” Metallwerken Nederland B.V. v. U.S., 744 F.Supp. 281, 287 (CIT 1990). See also Calabrian Corp. v. United States, 794 F.Supp. 377,387 and 388 (Ct. Int’l Trade 1992), citing H.R. Rep. No. 1156, 98th Cong., 2d Sess. 174 (1984).

³³ The statutory factors have been amended to track more closely the language concerning threat of material determinations in the Antidumping and Subsidies Agreements, although “[n]o substantive change in Commission threat analysis is required.” SAA at 185.

³⁴ 19 U.S.C. Sec.1677(7)(F)(I). Factor I regarding consideration of the nature of the subsidies alleged is inapplicable because there have not been subsidies alleged. Factor VII regarding raw and processed agricultural products is also inapplicable to the products at issue. Additionally, there is no evidence of dumping findings or antidumping remedies in other World Trade Organization member markets against brake rotors from China. See 19 U.S.C. Sec. 1677(7)(F)(iii)(I).

³⁵ Table VII-2, CR at VII-2, PR at VII-2.

³⁶ Table VII-2, CR at VII-2, PR at VII-2.

³⁷ Table VII-2, CR at VII-2, PR at VII-2. See also Tr. at 137 (Sim), Petitioner’s Prehearing Brief, Exhibit 9, 1st and 2nd pages, and Respondents Postconference brief pp 45-46.

production capacity in China indicating the likelihood of substantially increased imports of the subject merchandise into the United States.

The record in this investigation does not show a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports of subject rotors into the U.S. As noted above, the volume of subject brake rotor exports to the U.S. market increased by 221.5 percent from 1993 to 1995. The increase from 1994 to 1995 was 27.3 percent and the increase from interim 1995 to interim 1996 was 16.9 percent.³⁸ Subject imports are projected to fall in full-year 1997 relative to 1996.³⁹ The rate of increase of consumption in the domestic aftermarket brake rotor market slowed between 1994 and 1995, after rising by 26.6 percent from 1993 to 1994.⁴⁰ This slowdown affects demand from all sources, including imports. Nonsubject imports, which compete with subject imports, have also been increasing.⁴¹ Finally, as noted above, capacity utilization of subject producers in China remains high. Based on the slowed rate of increase in consumption, the significant presence of nonsubject imports, the high levels of capacity utilization among subject producers in China, and the conditions of competition in the domestic aftermarket brake rotor market, I do not find that the increase in volume and market penetration of imports of the subject merchandise indicates the likelihood of substantially increased imports of subject brake rotors from China into the U.S.

In my determination of no material injury by reason of LTFV imports of brake rotors from China, I demonstrated that subject imports have had no significant effect on domestic prices. In light of the competition among aftermarket brake rotor suppliers in the U.S. market and other conditions of competition, I find no evidence that this will change in the immediate future. Therefore, I conclude that subject imports will not enter the United States at prices that will have a depressing or suppressing effect on domestic prices or that are likely to increase demand for further imports.

At the end of 1995, U.S. inventories of subject Chinese brake rotors were at 1,366,000 units, representing 4.9 percent of overall U.S. consumption and 13.9 percent of U.S. shipments in 1995, by quantity.⁴² Although these inventories are not insignificant, they represent only a moderate increase over 1994.⁴³ Overall, I do not find that subject import inventories constitute a threat of material injury. Subject rotor inventories maintained in China are small.⁴⁴

There is no information in the record indicating that there is any potential for product-shifting. Nor does petitioner contend that the domestic aftermarket rotor industry is engaged in any efforts to

³⁸ The record indicates that the overall slowdown in subject rotor imports in interim 1996 is not related to the filing of the petition in this investigation in March 1996. The available data for monthly imports indicates that subject imports slowed only in the month immediately following the filing of the petition, and then continued to enter at higher levels. See CR at IV-8; PR at IV-6.

³⁹ Table VII-2, CR VII-2; PR at VII-2.

⁴⁰ Table C-2, CR at C-7-8; PR at C-7-8.

⁴¹ For example, non-subject imports of brake rotors from China increased by 97.1 percent from interim 1995 to interim 1996.

⁴² Table C-2, CR at C-7-8; PR at C-7-8.

⁴³ At the end of 1994, U.S. inventories of Chinese brake rotors were at 1,159,000 units and represented 4.6 percent of overall U.S. consumption and 12.4 percent of U.S. shipments, by quantity. Table C-2, CR at C-7-8; PR at C-7-8.

⁴⁴ Table VII-2, CR at VII-2; PR at VII-2.

develop a derivative or more advanced version of the domestic product. Finally, there is no indication of any other demonstrable adverse trends, or convincing evidence of any recent or imminent changes in subject import levels or domestic market structure, that indicate the probability that there is likely to be material injury by reason of imports of the subject merchandise.

For the reasons stated above, I find that the domestic industry producing aftermarket brake rotors is not threatened with material injury by reason of LTFV imports of brake rotors from China.

V. CONCLUSION

On the basis of the foregoing analysis, I determine that the domestic industry producing aftermarket brake rotors is not materially injured or threatened with material injury by reason of LTFV imports of brake rotors from China.

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 Manufacturers¹ on March 7, 1996, alleging that an industry in the United States is materially injured and threatened with material injury by reason of imports of LTFV imports of certain brake drums and rotors² from China. Information relating to the background of

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 For purposes of this investigation, the subject brake drums are defined by Commerce as being 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. Semifinished 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.”

The subject brake rotors are defined by Commerce as being 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. Semifinished 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.”

The subject brake drums and rotors are provided for in subheading 8708.39.50 of the HTS with a most-favored-nation tariff rate of 2.7 percent *ad valorem* in 1997, applicable to imports from China.

the investigation is provided below.³

<i>Date</i>	<i>Action</i>
March 7, 1996	Petition filed with Commerce and the Commission; institution of Commission investigation
April 3, 1996	Commerce's notice of initiation
April 22, 1996	Commission's preliminary determinations
October 10, 1996 . . .	Commerce's preliminary determinations (61 FR 53190); Commerce's amended preliminary determinations (61 FR 60683, Nov. 29, 1996); scheduling of Commission final investigation (61 FR 57449, Nov. 6, 1996)
February 27, 1997 ⁴ . .	Commerce's final determinations (62 FR 9160, Feb. 28, 1997)
February 28, 1997 . . .	Commission's hearing ⁵
April 1, 1997	Commission's vote
April 9, 1997	Commission determinations and views transmitted to Commerce

SUMMARY DATA

A summary of data collected on aftermarket brake drums and rotors in the investigation is presented in appendix C, tables C-1 and C-2 and figures C-1 through C-4. Except as noted, U.S. industry data are based on questionnaire responses of 6 firms that accounted for virtually all U.S. production of aftermarket brake drums and rotors during 1996. Figures on U.S. imports from China and Canada are based on questionnaire responses and imports from other sources are based on estimates derived from official Commerce statistics.

SALES AT LTFV

Commerce determined that the subject products from China are being sold in the United States at LTFV.⁶ Table I-1 provides the final weighted-average dumping margins (in percent *ad valorem*) determined by Commerce for each product and manufacturer/producer/exporter subject to the investigation.

³ *Federal Register* notices cited in the tabulation are presented in app. A.

⁴ Date Commission received notice from Commerce.

⁵ Witnesses appearing at the hearing are listed in app. B.

⁶ Commerce also made a determination that critical circumstances exist with respect to all companies subject to the China-wide rate for rotors; the notice is presented in app. A. Information relative to this issue is presented in Part IV of this report.

Table I-1
Brake drums and rotors: Commerce's final LTFV margins¹

Manufacturer/producer/exporter	Weighted-average margin (Percent ad valorem)
Brake drums: ²	
China National Machinery Import & Export Corp.	0.00 (excluded)
Beijing Xinchangyuan Automobile Fittings Corp., Ltd.	0.00 (excluded)
Qingdao Metals, Minerals & Machinery Import & Export Corp.	0.00 (excluded)
Yantai Import/Export Corp.	0.00 (excluded)
China National Automotive Industry Import & Export Corp., Shandong Laizhou CAPCO Industry, and CAPCO International USA ³	17.20
Hebei Metals and Machinery Import & Export Corp ³	17.20
Jiuyang Enterprise Corp ³	17.20
Longjing Walking Tractor Works Foreign Trade Import & Export Corp ³	17.20
Shanxi Machinery and Equipment Import & Export Corp ³	17.20
China-wide rate ⁴	86.02
Brake rotors: ²	
China National Automotive Industry Import & Export Corp., Shandong Laizhou CAPCO Industry, and CAPCO International USA	0.00 (excluded)
China National Machinery and Equipment Import & Export Corp. (Xinjiang) Co., Ltd.	0.00 (excluded)
Shenyang Honbase Machinery Corp., Ltd., and Laizhou Luyuan Automobile Fittings Corp., Ltd., MAT Automotive, Inc., and Midwest Air Technologies, Inc.	0.00 (excluded)
Yantai Import/Export Corp.	3.56
Qingdao Metals, Minerals & Machinery Import & Export Corp ⁵	8.63
Xianghe Zichen Casting Corp ⁵	8.63
Jiuyang Enterprise Corp ⁵	8.63
Hebei Metals and Machinery Import & Export Corp ⁵	8.63
Longjing Walking Tractor Works Foreign Trade Import & Export Corp ⁵	8.63
Yenhere Corp ⁵	8.63
Shanxi Machinery and Equipment Import & Export Corp ⁵	8.63
Jilin Provincial Machinery and Equipment Import & Export Corp ⁵ ..	8.63
Southwest Technical Import & Export Corp., Yangtze Machinery Corp., and MMB International, Inc	16.35
China-wide rate ⁴	43.32

¹ Commerce's period of investigation for both products comprised each exporter's two most recent fiscal quarters prior to the filing of the petition.

² Citing a lack of "administrative resources" to analyze the responses of all 18 responding exporters, Commerce limited its analysis to the sales of the 5 largest brake drum exporters and the 7 largest brake rotor exporters. As 2 of the companies exported both brake drums and brake rotors, this constituted a total of 10 companies.

³ Rate is based on the simple average of rates determined for the selected respondents.

⁴ China-wide rates were assigned to brake drum and rotor exporters based on the revised highest petition rates. In this regard, Commerce noted "In both cases, based on our comparison of the calculated margins for the other respondents in these proceedings to the estimated margins in the petitions, we have concluded that the petition is the most appropriate record information on which to form the basis for the China-wide rate in the brake drums and brake rotors investigations."

⁵ Rate is based on the weighted average of calculated rates that are not zero or based on facts available.

THE PRODUCT

Commerce's definition of the products subject to this investigation was presented on page I-1 of this report. Presented below is information on both imported and domestic aftermarket brake drums and rotors, as well as information related to the Commission's "domestic like product" determinations.⁷ In the preliminary phase of the investigation, the Commission determined that there are two domestic like products (non-OEM brake rotors and non-OEM brake drums), but indicated that it would revisit the question of whether to include OEM brake drums or rotors in the domestic like products in any final investigation.⁸ (Respondents had argued to include OEM brake drums and rotors with the non-OEM brake drums and rotors in the domestic like products.)

The term "aftermarket" in this report is used in place of the term "non-OEM" in the preliminary phase of the investigation, and refers to non-OEM parts used in the replacement, nonwarranty segment of the automotive parts market. Non-OEM brake drums and rotors are differentiated from those known as OE brake drums and rotors, which include brake drums and rotors produced and/or certified by OEMs⁹ as well as OES parts.¹⁰ Aftermarket manufacturers of brake drums and rotors indicated no production of OEM brake drums and rotors and negligible production of OES brake drums and rotors for older or discontinued motor vehicle models outsourced to aftermarket producers by the OEMs.¹¹ The term "replacement market" in this report describes the market for parts (in this case brake drums and rotors) that are purchased for installation on a vehicle after its initial sale to replace worn or defective components.

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 coefficient of friction, and vibration absorption.¹² This metal is also easily cast into rather complex shapes at a relatively low cost.¹³

⁷ 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.

⁸ *Certain Brake Drums and Rotors from China*, USITC Pub. 2957, Apr. 1996, p. 9.

⁹ OEMs are motor vehicle producers such as Ford, Chrysler, General Motors, Honda, and Toyota.

¹⁰ OE brake drums and rotors sold as replacements are designated OES parts, and are essentially the same as OEM-certified parts and are usually sold through approved motor vehicle dealers. Staff conversations with representatives of ***.

¹¹ According to questionnaire responses, *** and ***.

¹² 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 ***. Aluminum composite rotors are reportedly in development by several OEMs, but are expensive because of higher raw material costs and a greater degree of difficulty in machining. Questionnaire response of ***. As indicated in questionnaire responses, however, gray cast iron is the only metal used by all U.S. producers to manufacture the subject products.

¹³ 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.

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 parts¹⁴ 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.¹⁵

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. A 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.¹⁶

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. The increased number of front-wheel-drive motor vehicles on the roads in the United States has contributed to greater demand for rotors, as has a design shift within the last 10 years to a disc braking system using four, rather than two, rotors.¹⁷

Although OEM and aftermarket brake drums and rotors are used for the same applications in motor vehicles, their physical characteristics differ somewhat. Balance and brake surface run-out tolerances, rotor finishes, metallurgical composition, and structural and design specifications are typically different for OEM and aftermarket brake drums and rotors, for example.¹⁸ OEM parts are made to stricter tolerances¹⁹ and more rigid materials specifications²⁰ than aftermarket parts to meet the certification standards established by motor vehicle manufacturers. OEM parts often are identified by a logo of an OEM or a part number²¹ that is specific to OEM products and is not found on aftermarket parts. OEM suppliers are also subject to first-party audits (self-assessments) and/or inspections by OEM personnel or

¹⁴ Typical parts include brake shoes, shoe-retracting springs, hold-down spring assemblies, self-adjusting assembly, and parking brake parts.

¹⁵ 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, 642.

¹⁶ Ibid, pp. 638-639.

¹⁷ Hearing TR, p. 131.

¹⁸ Questionnaire responses of ***. One producer, ***, indicated that there were no significant differences between OEM and aftermarket brake drums and rotors.

¹⁹ 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 ***.

²⁰ The industries producing aftermarket brake drums and rotors target the SAE G-3000 grade metal specification for automotive gray iron castings, but variances run high. Conference TR, p. 20. Motor vehicle manufacturers generally stipulate their metallurgical requirements for specific applications, based on SAE and ASTM specifications, to the OEM parts supplier. Respondents' postconference brief, p. 17. Respondents indicated, however, that OE and aftermarket producers use the same casting (with a G-3000 grade material specification) in the manufacture of brake drums and rotors. Hearing TR, p. 144.

²¹ *** indicated in its questionnaire responses that an OEM part drawing has no specific requirement for part number identification or logo, but that shipping containers do list part numbers. 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.

independent auditors to verify compliance with OEM customer standards requirements (e.g., QS-9000 standards and statistical process control).²² In addition, OEM parts are offered with a warranty that covers a designated number of miles or months.²³ According to a representative from Kelsey-Hayes, an OEM supplier, these requirements make "it virtually impossible for a typical aftermarket supplier to enter the OE market. But at the same time, it is our adherence to these requirements that make it difficult for us as an OE manufacturer to compete in the cost-driven aftermarket."²⁴

Manufacturers of aftermarket brake drums and rotors indicate that they meet less exacting standards, offer no parts warranty, and are not subject to any formal certification procedures. All responding U.S. producers and 10 of 11 responding importers stated that certification is not required for aftermarket brake drums and rotors. Some purchasers test samples before buying large quantities and inspect incoming shipments, but these requirements vary by purchaser and are less stringent than OEM certification.²⁵ However, aftermarket manufacturers maintain "a required level of fit, function, and safety related issues."²⁶ The respondents argue that these products are essentially made to the same specifications and that the quality of the aftermarket brake drum and rotor may actually exceed that of the OEM product.²⁷ According to questionnaire responses, however, aftermarket producers reported no production of OE brake drums and rotors for use by motor vehicle manufacturers²⁸ and negligible production of OES nonwarranty replacement parts.

Interchangeability

Both aftermarket 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.²⁹ 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 aftermarket brake drums and brake rotors as interchangeable (i.e., they meet fit and function criteria) for use as parts in the U.S. replacement market.³⁰ There are no existing product standards or certification requirements to

²² *Quality System Requirements QS-9000* manual (February 1995) for Ford, Chrysler, and General Motors, as well as producer questionnaire responses. Also see conference TR, pp. 24, 64-65. Chrysler has established a deadline of July 31, 1997 for its Tier One suppliers to receive QS-9000 certification; General Motors' suppliers will have until Dec. 31, 1997. Ford has not set a deadline. Ralph Kisiel, "Sparks Fly Over QS-9000 Training Plan," *Automotive News*, Dec. 30, 1996, p. 17.

²³ Brake system warranty is the highest warranty concern for most motor vehicle manufacturers. Brake system noise, vibration, and harshness, which are affected by the precision with which brake drums and rotors are manufactured, represent major brake warranty concerns. Hearing TR, pp. 30-31.

²⁴ Hearing TR, p. 34.

²⁵ Eight of 18 responding purchasers require pre-qualification for new suppliers. Factors considered include reputation of supplier, product range, price, credit terms, availability, service, and quality. Qualification standards vary by firm as does time to qualify, ranging from 1 to 6 months.

²⁶ Conference TR, pp. 19, 34.

²⁷ Respondents' postconference brief, pp. 15-16.

²⁸ Questionnaire responses of aftermarket producers (***).

²⁹ Conference TR, p. 76.

³⁰ Conference TR, pp. 36, 108.

differentiate the subject aftermarket imported and domestic products, which are used for the same or similar motor vehicles.³¹

According to the petitioners, aftermarket brake drums and brake rotors are not considered interchangeable for OE parts in the OEM market because the aftermarket brake drum and rotor manufacturers are not certified as OEM parts suppliers.³² Respondents alleged that the aftermarket and OE market are not "hermetically 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.³³ The petitioner asserts that OE suppliers of brake drums and rotors have between 2 and 3 percent of their total production going into the replacement market. This includes "non-conforming OE product" (that which does not meet OE specifications or rejects) and a certain amount of overruns.³⁴ Aftermarket producers, however, manufacture a wide selection of aftermarket brake drum and rotor models to supply the large variety of older motor vehicles on the road,³⁵ but often in small quantities. With the minor exception of *** and possibly other OEM manufacturers,³⁶ there appears to be minimal overlap of aftermarket product and OEM product on the production lines.

Aftermarket brake drums and rotors usually appear as replacements within 2 years after the introduction of new motor vehicle platforms and the corresponding change in brake drum and rotor models. During that interval, aftermarket producers reverse-engineer the new brake drum and rotor models and complete the retooling necessary for production. As a result, availability of aftermarket products generally coincides with the initial demand for replacement parts for the originally-installed OEM brake drums and rotors.³⁷

At the same time, motor vehicle manufacturers supply warranty replacement parts for their respective platforms for a specified period of time,³⁸ even though production of a particular motor vehicle platform may have been discontinued. These parts are usually sourced from inventory or from secondary production lines if volumes warrant continued output.³⁹ Testimony was presented at the Commission's conference in the preliminary phase of the investigation that OEMs will outsource some replacement parts, especially for much older cars (beyond original warranty) for which continued production of OES parts is uneconomical, to firms like the petitioners.⁴⁰ In their questionnaire responses in the final investigation, ***.⁴¹ ***. ***. Less commonly, OES parts can be sourced from current output if the

³¹ Petition, p. 34.

³² Conference TR, p. 42.

³³ Respondents' postconference brief, pp. 3-5 and pp. 14-25.

³⁴ They conclude that "the OE product getting into the aftermarket channels is minimal in quantity and is primarily 'seconds'." Rebuttal exhibit 1, p. 5, to the petitioners' postconference brief. This figure does not include OES parts, which petitioners indicate count for an additional 2 to 3 percent. Staff conversation with ***.

³⁵ According to questionnaire responses, ***.

³⁶ See footnote 2 to table III-2 of this report.

³⁷ Conference TR, pp. 68-75.

³⁸ According to a representative of ***, the company is required to supply warranty replacement parts for 10 years. Petitioners estimated the supply requirement period at seven years. Conference TR, p. 71.

³⁹ Conference TR, pp. 71-72.

⁴⁰ Conference TR, pp. 72-73.

⁴¹ ***.

volume is large enough to warrant continued production or if a short production line has been established.⁴²

Aftermarket and OEM manufacturers may acquire through purchase a certain amount of OEM or aftermarket product, respectively. The primary source for the latter is through the direct importation or purchase of imported product. A much smaller portion of purchases comes from OEM producers⁴³ or other aftermarket producers. AlliedSignal, ***.

Channels of Distribution

The aftermarket for the subject brake drums and rotors is characterized by hundreds of model numbers, and several layers of distribution between the producer and the final consumer.⁴⁴ This system is dominated by two main distribution channels (traditional⁴⁵ and retail outlets) that provide a variety of automotive aftermarket products. A segment of the replacement market encompasses the primary distribution channels for OES brake drums and rotors, which are generally supplied through licensed parts distributors and approved motor vehicle dealers.

According to the petitioners, U.S. producers manufacturing aftermarket brake drums and rotors generally sell the subject products to retail brake service outlets, large automotive supply chains, and warehouse distributors that are traditional wholesalers of automotive parts and supplies, whereas OEM products are sold to vehicle manufacturers and their dealerships.⁴⁶ The respondents dispute this assertion and reported that OEM and aftermarket products compete in the replacement parts market.⁴⁷

Aftermarket parts sold through warehouse distributors are generally supplied to jobbers, who then wholesale these parts to service stations and garages that install the subject brake drums and rotors, and retail outlets, such as 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 on his or her car.⁴⁸ Inventories are held throughout the distribution chain, with frequent deliveries often required.

In some cases, warehouse distributors and jobbers have banded together under a common promotional banner. Called PDGs,⁴⁹ these associations provide common purchasing, marketing, or other services to gain better pricing from suppliers. Most warehouses/distributors belong to one of

⁴² Conference TR, pp. 68-75, 103.

⁴³ In their responses to Commission questionnaires, both *** and *** (aftermarket producers) listed *** as suppliers. AlliedSignal considers ***, Kelsey-Hayes ***, and the status of Dayton Parts is unclear.

⁴⁴ Conference TR, p. 77.

⁴⁵ The traditional segment of the market refers to the professional service outlets (i.e., warehouse distributors, jobbers, and service stations/independent garages). 1993 APAA *Aftermarket Guide*.

⁴⁶ Conference TR, p. 43. *** in a site visit reported that about *** percent of its sales are to programmed distribution groups or large retailers.

⁴⁷ Exhibit 1 of the respondents' postconference brief contained an article stating that OEM suppliers control 38 percent of the brake replacement market while U.S. producers control 43 percent and importers the remainder. They also cite a *Chicago Tribune* (July 17, 1994) article stating that the "Mr. Goodwrench" chain, which is a firm related to General Motors, uses OES parts and has the most retail outlets in the "quick lube" business.

⁴⁸ Conference TR, p. 85.

⁴⁹ NAPA and CARQUEST Auto Parts Stores are examples of programmed distribution groups.

approximately 20 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. PDGs certify 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 aftermarket brake drums and rotors include sales through their own distribution centers, sales to co-manufacturers,⁵⁰ and purchases by automotive dealers for installation in used motor vehicles for nonwarranty work.

Evolutionary changes in the market, however, have tended to diminish the distinctions between these two distribution channels. PDGs 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 replacement parts market.

In the OE market, OEM brake drums and OEM brake rotors are sold directly to Tier One⁵¹ automotive suppliers for the production of brake assemblies or to the major motor vehicle manufacturers.⁵² OES parts are sold primarily through licensed parts distributors and approved motor vehicle dealers as warranty replacement parts for OE installations.⁵³ 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.⁵⁴ In addition, OES brake drums and rotors can be sold through traditional replacement market 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.⁵⁵ Although 3 out of 10 purchasers responding to a question on the competitiveness of OEM and aftermarket brake drums and rotors for service not under warranty indicated that they were fully competitive (and several others indicated that they were competitive products), only one firm reported

⁵⁰ Co-manufacturers are generally U.S. producers that purchase aftermarket brake drums and rotors from other manufacturers to broaden their product offerings or to supply customer requests, for example.

⁵¹ Tier One automotive suppliers are those that provide major motor vehicle assemblies, such as braking systems and interior systems. Second-tier suppliers manufacture the principal parts and components for these assemblies, such as brake parts and seats.

⁵² The motor vehicle manufacturers own the tooling used by the OEM suppliers to manufacture brake drums and rotors and thus control the distribution of such output. Hearing TR, p. 193.

⁵³ Conference TR, p. 13. According to questionnaire responses, most purchasers indicated that distributors that handle OEM brake drums and rotors are generally distinct from those that handle aftermarket brake drums and rotors. ***, for example, stated that OEM products were generally sold through automotive dealerships.

⁵⁴ The products may differ in cases where OES parts are manufactured by aftermarket manufacturers to supply a small volume or out-of-stock part for an OEM. Such production is negligible. See discussion in the section of this report entitled "Interchangeability." In addition, a representative from ***.

⁵⁵ Respondents' postconference brief, p. 25.

installing OEM parts in vehicles no longer under warranty.⁵⁶ No purchasers reported inventorying OEM brake drums and rotors.⁵⁷

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 PDGs. 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 some U.S. aftermarket manufacturers for finishing and then marketed through the U.S. manufacturers' distribution chain.⁵⁸

Customer and Producer Perceptions

Customer and producer perceptions of aftermarket and OEM products differ. The petitioner perceives OEM and aftermarket brake drums and rotors as distinct products, with differences based on the higher quality, tighter specifications, and certification of OEM products.⁵⁹ While arguing that they should be included in the domestic like products, respondents note that customers' perceived difference in quality allows OEM producers to sell their products at higher prices than most aftermarket brake drums and rotors.⁶⁰ In addition, one importer cited the "consumer perception that aftermarket product is lower in quality than OEM product."⁶¹ As previously noted, several purchasers⁶² indicated that OEM brake drums and rotors were fully competitive with comparable aftermarket products for nonwarranty service or were competitive through non-dealership networks.⁶³ Other purchasers,⁶⁴ however, did not consider OEM brake drums and rotors to be competitive with aftermarket brake drums and rotors. In addition, *** stated that the "aftermarket product is considered a lower cost alternative."⁶⁵ *** also noted that "non-OEM counterparts generally are less expensive for repair facilities to buy."⁶⁶

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 owners) generally are not aware that the Chinese product is being installed or purchased by repair facilities.⁶⁷ 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.⁶⁸

⁵⁶ *** reported installing "a very small percent" of OEM parts in vehicles no longer under warranty.

⁵⁷ Most purchasers indicated in their questionnaire responses that there are no other products that could be substituted for aftermarket brake drums and rotors in their end uses. However, *** cited OES parts as substitute products available through automobile dealerships.

⁵⁸ Conference TR, p. 135.

⁵⁹ Conference TR, pp. 43-44.

⁶⁰ Respondents' postconference brief, p. 41.

⁶¹ Questionnaire response of ***.

⁶² Questionnaire responses of ***.

⁶³ Questionnaire response of ***.

⁶⁴ Questionnaire responses of ***.

⁶⁵ Questionnaire response of ***.

⁶⁶ Questionnaire response of ***.

⁶⁷ Conference TR, pp. 37, 45-46.

⁶⁸ Conference TR, p. 143.

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."⁶⁹ 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, difficult warranty recovery, longer lead and delivery times, and lack of brand recognition as other disadvantages of Chinese brake drums and rotors in the U.S. market.⁷⁰

In response to questions comparing U.S. and Chinese products in several competitive factors, purchasers generally cited U.S. aftermarket brake drums and rotors as superior to Chinese products in terms of product consistency, quality, and range; technical support/service; packaging; and tolerance variance. In most other non-price categories, U.S. and Chinese products were considered comparable.⁷¹

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. 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.⁷² 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 grinding and boring to be considered serviceable.⁷³ Finished brake drums and rotors are ready for installation and meet fit and function criteria.

The petitioner states that production of aftermarket brake drums and brake rotors is characterized by relatively short production runs and quick changeover times to be able to adjust quickly to customer demands. To reduce costs and speed changeovers in machining and finishing operations, production machinery is often ***.⁷⁴ Machining and finishing operations are accomplished with two or three pieces of equipment within each cell.⁷⁵ Such equipment is used by Wagner, a petitioner, to produce both aftermarket brake drums and aftermarket brake rotors in the same plant with the same employees.⁷⁶ Another petitioner, Brake Parts, indicated that different equipment was used to produce each of the

⁶⁹ Questionnaire response of ***.

⁷⁰ Questionnaire response of ***. Other importers responding to the questionnaire, such as ***, cited similar disadvantages for the Chinese product.

⁷¹ More detailed information comparing the domestically produced and Chinese subject brake drums and rotors is discussed in Part II of this report.

⁷² U.S. producers of aftermarket brake drums and rotors indicated in their questionnaire responses in the preliminary phase of the investigation that the casting represented *** percent of the total cost of a brake drum and *** percent of the total cost of a brake rotor.

⁷³ 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.

⁷⁴ According to questionnaire responses, all U.S. aftermarket producers *** use cell manufacturing to produce brake drums and rotors. ***.

⁷⁵ Conference TR, pp. 96-97, and field visit to ***.

⁷⁶ Conference TR, p. 77.

subject products at its facility.⁷⁷ None of the aftermarket producers manufacture any brake drums or rotors other than the subject products (with the exception of previously-noted negligible output of ***),⁷⁸ and all indicate that the equipment is unique to the production of brake drums and rotors.⁷⁹

Similar manufacturing steps are used to produce OEM product; however, OEM brake drums and rotors require several additional procedures such as turning,⁸⁰ painting, and inspection of major characteristics. In further contrast to aftermarket 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.⁸¹ 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 grinding⁸²) at tolerances and specifications required by OEMs. Because production of OEM brake parts is subject to greater oversight and stricter specifications than aftermarket products, other specialized equipment is required for OEM parts manufacturing,⁸³ such as certain types of grinders that produce nondirectional finishes on rotors to reduce noise levels and electronic monitoring equipment.⁸⁴ As 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.⁸⁵

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 an aftermarket manufacturer.

Price⁸⁶

U.S. producers of OEM and aftermarket brake drums and rotors appear to engage in somewhat discrete sales practices. The petitioner indicates that U.S. producers of aftermarket brake drums and rotors typically do not have sales contracts with their customers, operating primarily on an order-by-

⁷⁷ Ibid. *** also manufactures aftermarket brake drums on equipment that differs and is separate from machinery used to produce aftermarket brake rotors. Staff conversation with ***, Apr. 10, 1996.

⁷⁸ According to questionnaire responses, aftermarket producers are unaware of any such manufacturers that supply both the OEM market and aftermarket using the same products bearing different logos or parts numbers.

⁷⁹ Questionnaire responses from ***.

⁸⁰ 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.

⁸¹ Because of the emphasis on just-in-time delivery by the automotive industry, OEM suppliers are moving to shorter production runs to reduce inventory and be more responsive to their customers. Staff conversation with ***, Mar. 28, 1996.

⁸² Petitioners' postconference brief, p. 10.

⁸³ In its questionnaire response, *** indicated that OEM specifications, such as dimensional accuracy and consistency of metallurgy, are at tolerances beyond the capabilities of aftermarket manufacturers' production equipment.

⁸⁴ Electronic gauging is used to monitor process and document compliance of OEM manufacturers. In contrast, aftermarket producers use attribute (go/no go) gauging, which is less accurate than electronic gauging and does not meet statistical control requirements of OEMs and their suppliers. Questionnaire response of ***.

⁸⁵ Questionnaire response of ***.

⁸⁶ More detailed information on pricing of the subject products is discussed in Part V of this report.

order, or spot-sales, basis.⁸⁷ 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.⁸⁸

The petitioner indicates that OEM brake drums and rotors sell at a premium to aftermarket products because of their higher quality, tighter specifications, and OEM certification, as well as the rigid separation of these markets.⁸⁹ The respondents, on the other hand, argue that prices for OEM brake drums and rotors may be slightly higher than those for aftermarket 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 aftermarket brake drums and rotors overlap.⁹⁰ Testimony by the respondents at the Commission hearing also cited the additional costs for recordkeeping, warranty, advertising, inventory, and carrying costs as contributing to the higher prices for OEM brake drums and rotors.⁹¹

One importer indicated that aftermarket brake drum and rotor prices are not comparable with OEM product prices "because it is a different market."⁹² 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."⁹³

⁸⁷ According to questionnaire responses, *** of sales by three of the aftermarket producers were on a spot basis. However, *** has a *** for *** of its output, and *** indicated that ***. *** indicated that *** of its sales were under contract.

⁸⁸ Field visit to ***.

⁸⁹ Conference TR, pp. 43-44.

⁹⁰ Respondents' postconference brief, p. 30.

⁹¹ Hearing TR, p. 132.

⁹² Questionnaire response of ***.

⁹³ Questionnaire response of ***.

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

MARKET SEGMENTS AND CHANNELS OF DISTRIBUTION

The market for aftermarket brake drums and rotors is distinguishable from the market for OEM brake drums and rotors by a number of factors. The most important factor is the lack of a rigorous certification process for aftermarket brake drums and rotors in comparison with the market for OEM brake drums and rotors. Other factors distinguishing market segments are pricing, channels of distribution, and product stamping. U.S. producers of aftermarket brake drums and rotors and importers of the Chinese products reported selling only in the aftermarket because they are not qualified OEM suppliers.^{1 2}

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.³ Sometimes an importer or a U.S. producer will carry two product lines. For example, ***.⁴ *** 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.

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 arrangements⁵ 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.⁶ One importer (***) reported that it has only one customer, ***. *** produces the subject product in the United States and Canada, purchases from importers, and imports directly.⁷

SUPPLY AND DEMAND CONSIDERATIONS

U.S. Supply

U.S. Production

Such factors as production capacity, availability of alternative market shipments, and the availability 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 domestic aftermarket brake rotor and rotor supply may be somewhat responsive to price.

¹ Four of 5 producers and 10 of 11 importers reported that certification is not required in the brake drum and rotor aftermarket, although some firms require their own material certifications standards. In its questionnaire response, *** stated that OEM manufacturers comply with quality control standards dictated from the automobile manufacturer through a regimented quality control process lasting up to three years, while aftermarket producers individually determine the acceptable level of quality for their customers.

² See the section entitled "Channels of Distribution" in Part I for a more complete discussion.

³ ***. They stated that this does not affect selling price.

⁴ Questionnaires from ***.

⁵ For example, *** stated in its questionnaire response that it deals with 2 levels of customers, the co-manufacturer and the aftermarket distributor.

⁶ Telephone conversation, Apr. 4, 1996.

⁷ See Part III for a more complete discussion of purchases and imports by U.S. producers.

Capacity in the U.S. industries

U.S. production of aftermarket brake drums and rotors increased 44.1 and 17.1 percent, respectively, during 1993-95. These production increases took place during a period of expanding capacity. U.S. aftermarket brake drum and rotor production capacity increased 15.2 and 36.7 percent, respectively, during 1993-95. U.S. producers' capacity utilization for aftermarket brake drums increased from 67.6 percent in 1993 to 84.6 percent in 1995. Capacity utilization for aftermarket brake rotors fell from 96.3 percent in 1993 to 82.5 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 non-subject countries would benefit from any actions limiting imports of the subject products from China.⁸ The petitioners dispute this claim and stated that they were aware of foundries operating at 35 percent of capacity.⁹ Several petitioners had also closed parts of their operations or were working reduced work weeks.¹⁰ According to purchaser questionnaire responses, only one firm reported availability constraints with U.S. product. *** dropped *** as a supplier citing order backlogs during 1994.¹¹

Production Alternatives

Producers' questionnaire responses indicate that their brake drum and rotor plants and equipment are unique to production of the subject products and production workers are dedicated to the production of the subject products. Five of 6 responding producers indicated that plant, equipment, and employees could not be easily switched to the production of other products. In a similar question,¹² all six responding producers indicated no actual production of non-subject products.

Inventory Levels

The existence of inventories influences the degree to which U.S. producers can respond to changes in demand with changes in supply. End-of-period inventories of aftermarket brake drums fluctuated during 1993-95, ranging between 465,000 and 603,000 units for drums, while rotor inventories increased from 1.3 million units to 2.2 million units or by nearly 69 percent. As a ratio to total shipments, subject brake drum inventories declined from 22.8 to 20.4 percent, while the ratio for subject rotors inventories increased from 14.6 to 21.1 percent during 1993-95.

Export Markets

Three of six responding producers reported export shipments of subject product during the period examined. U.S. producers' aftermarket brake drum exports increased 15 percent from 214,000 to 246,000 units, while exports of rotors declined 25 percent from 979,000 to 734,000 units, during 1993-95. Two of the three exporting producers reported exporting subject product to their affiliated automotive production sites offshore.¹³ Such exports, therefore, are more representative of company transfers across national

⁸ Conference TR, p. 111.

⁹ 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.

¹⁰ Conference TR, pp. 180-184.

¹¹ ***. (Staff telephone conversation Jan. 30, 1997.)

¹² The question read, "Has your firm switched to production of other products in response to a relative decline in the price of aftermarket (non-OEM) brake drums and rotors vs. the price of other products?"

¹³ In their questionnaire responses *** reported aftermarket exports to affiliated operations in ***.

boundaries rather than traditional exports between unrelated firms. During 1995, U.S. exports as a percent of total shipments were 8.3 and 7.0 percent for brake drums and rotors, respectively. U.S. producers' ability to divert export shipments in response to domestic price changes is limited by the relatively modest level of exports compared to total shipments.

Subject Imports from China

U.S. imports of aftermarket brake drums (LTFV) from China reached 494,000 units in 1995, 48.3 percent higher than in 1994.¹⁴ The 1995 level of imports represented 9.2 percent of apparent U.S. consumption by volume and 6.3 percent by value. U.S. imports from China of aftermarket brake rotors (LTFV) were 5.1 million units in 1995, or 18.3 percent of apparent U.S. consumption by volume and 11.3 percent by value.¹⁵

Third-Country Imports

Data from Commission questionnaires indicate that Canada is the single largest source of imported aftermarket brake drums and rotors, shipping *** units and *** million units, respectively, during 1995. Aftermarket brake drum and rotor imports from Canada increased *** and *** percent, respectively, between 1993 and 1995. Imports of aftermarket brake drums and rotors from third-country sources accounted for *** and *** percent, respectively, of 1995 apparent U.S. consumption. *** of *** stated that every brake drum and rotor part is available from multiple sources.¹⁶

U.S. Demand

The primary factor contributing to the price sensitivity of overall demand for aftermarket brake drums and rotors is the availability of substitute products. Limitations on the ease with which purchasers can switch to substitute products constrains the price sensitivity of demand.¹⁷

There are no practical substitute products for aftermarket brake drums and rotors. Research has focused on improving the existing drum and rotor systems instead of developing new approaches. OES and OEM drums and rotors could substitute for aftermarket products in theory, but OEM prices are allegedly higher.^{18 19} Producer and importer questionnaire responses unanimously indicated that no economically feasible substitutes exist for aftermarket brake drum and rotors. Furthermore, 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 few performance problems if the dimensions conform to the necessary specifications.²⁰ Thus, despite some evidence of price changes expanding demand at the low-end of the market, the lack of

¹⁴ No or virtually no LTFV brake drum imports from China were reported for 1993.

¹⁵ Non-LTFV imports of aftermarket brakes drums and rotors from China were approximately 374,000 and 1.3 million units, respectively, in 1995.

¹⁶ Telephone conversation, Apr. 4, 1996.

¹⁷ The demand characteristics for aftermarket brake drums are essentially the same as those for aftermarket rotors.

¹⁸ Ibid.

¹⁹ Producers and importers were requested to provide retail price differences between comparable OEM and aftermarket drums and rotors. None of the 6 responding producers and 23 responding importers provided the requested information.

²⁰ *** producer questionnaire.

viable substitutes constrains the overall demand elasticity.

Apparent U.S. consumption of subject brake drums and rotors increased 55.0 and 40.6 percent, respectively, during 1993-95. Reasons for the overall growth in consumption of aftermarket 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 aftermarket brake rotors has increased due to the increased number of automobiles with front-wheel drive and front disc brakes. Questionnaire responses indicate some evidence of increased consumption due to lower-cost imports. Domestic producers, importers, and purchasers noted a new trend towards replacing and discarding old rotors instead of machining them. The new lighter rotors are not as conducive to machining as the older heavier models.²¹ Lower-priced Chinese products are also making replacement a viable alternative.²² In addition, several firms, including U.S. producers, have added a second line of low-cost brake drums and rotors.²³

All responding producers and the vast majority of importers acknowledged an overall increased demand for brake rotors, several of which cited low-cost Chinese imports as the catalyst.²⁴ Nearly all responding producers reported that despite increases in domestic aggregate demand, drum and rotor demand for U.S.-produced product 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.

The petitioners have argued that the demand elasticity for aftermarket drums and rotors is "extremely" price inelastic. Petitioners argue that vehicle owners replace brake drums and rotors when they wear out because of safety and inspection concerns, nullifying the importance of price in product demand.²⁵ Despite some indications of increased consumption due to low-cost imports, aftermarket brake drum and rotor demand remains fairly unresponsive to price changes. The wear-and-replacement cycle for these products in some instances is accelerated by the availability of low-cost imports as an alternative to extending the useful life through machining, but is also a function of lighter products with less machinable iron content than previously. Regardless, safety concerns and inspection requirements necessitate the replacement of worn parts irrespective of price changes. Consequently, the demand for aftermarket brake drums and rotors is fairly price inelastic.

²¹ Mr. Barry Breslow of Kinetics testified that recent safety-limit reductions on rotors, from 6 to 2 millimeters, in an effort to save weight, have reduced the opportunities for machining or resurfacing. With less iron content, fewer resurfacings are permitted before reaching the safety limit, ostensibly reducing the life of the rotor. Hearing TR, p. 194.

²² *** reported that many brake installers, due to attractively priced imports, are replacing rotors rather than turning or refinishing the vehicle's current rotors.

²³ ***, both warehouse distributors, indicated that auto parts retailers are adding second or "value" lines in response to customer demand, increasing their overall sales.

²⁴ *** U.S. producers responded separately for drums, indicating relatively flat demand for brake drums due to increased OEM design changes stressing 4-wheel rotor-equipped vehicles.

²⁵ Conference TR, p. 44.

SUBSTITUTABILITY ISSUES

Factors Affecting Purchasing Decisions²⁶

Purchasers were asked to rank the three most important factors in their sourcing decisions for aftermarket brake drums and rotors. Purchasers of both domestic and imported subject product most frequently ranked quality, price, and availability, in order of importance, in purchasing aftermarket brake drums and rotors. Other factors listed less frequently included contract terms, delivery, service, product presentation, and range of product line (table II-1). Purchasers unanimously concurred that the lowest-priced offering will not always win a contract or sale. Purchasers most frequently indicated that quality and availability, and not price alone, were important factors in their sourcing decisions.

In response to a query concerning Buy American policies, 17 of 18 firms reported no Buy American policies. In a separate question, 13 of 14 responding purchasers listed Buy American as either somewhat or not important in their aftermarket brake drum and rotor purchasing decisions. Only one firm cited Buy American as very important. Purchasers are generally aware of the country origin of their aftermarket brake drum and rotor purchases, and nearly all of their customers are at least sometimes interested in the country of origin. Fourteen out of 18 purchasers indicated that they are either always or usually aware of the product's originating country. Six, four, and seven purchasers reported that their customers are always, usually, or sometimes aware or interested in the country of origin, respectively.²⁷

Table II-1

Major factors affecting purchasing decisions as ranked by U.S. purchasers

Factor	Number of firms ranking factor as:		
	No. 1	No. 2	No. 3
Quality	10	7	-
Price	3	6	8
Availability	2	3	5
Contract terms	2	-	-
Product range/presentation	1	-	3
Delivery	-	1	1
Service	-	1	1
Other	-	-	2

Source: Responses to the Commission's purchasers' questionnaire.

²⁶ Responses to the Commission's purchaser questionnaire were received from 18 companies, including warehouse distributors, retailers, and installers. Purchasers were requested to respond separately if answers for drums and rotors differed. The vast majority of responses did not distinguish between drums and rotors. Accordingly, the discussion on substitutability issues refers to aftermarket brake drums and rotors collectively.

²⁷ Only one firm indicated that its customers are never interested in or aware of the product's country of origin.

Twelve of 17 responding purchasers reported that they or their customers do not specifically order aftermarket brake drums and rotors from one particular country over other possible sources. Of the firms indicating a country preference, three firms indicated the U.S. product is preferred due to perceived quality standards, and one firm indicated that German products were preferred for high-end German automobiles. Finally, one firm cited a preference for Italian product.

Purchaser Sourcing Patterns

Responding purchasers reported contacting anywhere from 1 to 12 different suppliers prior to purchasing brake drum and rotors. The frequency of orders by questionnaire respondents was typically between 1 and 4 weeks, with no firm reporting a change in the frequency of their purchases during the last three years. Changes in suppliers for responding purchasers are predominantly rare or infrequent. Several firms reported maintaining suppliers 2-3 years before any changes. Eight firms reported changing suppliers during the last three years; two dropped third-country (imports other than Chinese) imports for other third-country imports, and six reported adding aftermarket product from China. The six purchasers indicated adding Chinese imports to meet competitive pressures and/or offer lower-cost product.

Nearly half of the responding producers reported some level of pre-purchase certification for suppliers based on quality, availability, price, product range, and credit terms. Certification criteria vary by firm, with no industry standard.²⁸ Purchasers reported certifying suppliers in 1 to 6 months.

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 responding U.S. manufacturers and importers stated that U.S.-produced and imports from China of brake drums and rotors were interchangeable. Fifteen out of 17 purchasers indicated that Chinese product can be used in current applications. Citing quality concerns, two purchases indicated that Chinese product could not currently be used. Responding to a similar question, 16 of 20 importers did not report any applications in which subjects imports could not be used. The four firms reporting restrictions on applications of imports from China cited a narrow product range,²⁹ certain hub applications, and the OEM market as areas where imports from China are not used.

When asked to identify any non-price differences between the U.S.-produced and imported Chinese subject products, 11 importers said there were no such differences, while 6 reported non-price differences. Non-price differences for imports from China included limited product range, perceived lower quality and service, and longer lead times. All petitioning firms agreed that non-price differences between the subject products from the U.S. and Chinese sources were not significant; however, ***. Petitioners reported that the importance of value-added services, including name recognition, warranty, and technical support, are mitigated by the large price gap between domestic and Chinese product. *** reported that customers continue to expect the non-price advantages of U.S.-produced product but at

²⁸ Two firms indicated using SAE requirements for certification. SAE specifications are the basis for automotive gray iron castings (See section entitled "Physical Characteristics and Uses" in Part I of this report).

²⁹ One importer reported that imports from China cover 150 of an estimated 1,700 different aftermarket product numbers.

comparable prices to imports from China. In comparing the quality, price, and availability³⁰ of U.S. and Chinese aftermarket brake drums and rotors, purchasers generally cited superior quality for domestic product, comparable availability, and unanimously lower prices for imports from China. (table II-2).

Table II-2

Comparison of purchasing factors for U.S. brake drums/rotors and imports from China

	U.S. compared to China		
Factor	U.S. superior	Comparable	U.S. inferior
Quality	9	6	-
Price	-	-	15
Availability	5	10	-

Source: Responses to Commission's purchasers' questionnaire.

ELASTICITY ESTIMATES³¹

U.S. Supply Elasticity³²

The domestic supply elasticity measures the extent to which U.S. producers are likely to change the quantity of aftermarket brake drums and rotors supplied to the U.S. market in response to domestic market price changes. The elasticity of domestic supply depends on several factors, including capacity utilization in the aftermarket brake drum and rotor industry, the ease with which producers can alter productive capacity, the ability to shift production to other products, and the availability of alternative markets for U.S.-manufactured product. With modest excess capacity, a proven ability to expand capacity in the short run, and the existence of inventories, U.S. producers may initiate some supply changes in response to price changes. This information suggests that the domestic supply elasticity of aftermarket brake drums and rotors is within the range of 3 to 6.

U.S. Demand Elasticity

The U.S. demand elasticity for aftermarket brake drums and rotors measures the sensitivity of the overall quantity demanded to a change in the U.S. market price. This estimate depends largely on the existence, availability, and commercial viability of substitute products. Based on the available information, staff estimates the elasticity of demand for aftermarket brake drums and rotors to be in the range of -0.5 to -1.0. Overall demand for aftermarket brake drums and rotors is likely to change only slightly with changes in prices.

³⁰ Purchasers listed quality, price, and availability as the most important factors in selecting suppliers for the subject products.

³¹ A COMPAS analysis using these elasticity estimates is presented in app. D.

³² A supply function is not defined in the case of a non-competitive market.

Substitution Elasticity

The elasticity of substitution is a measure of the responsiveness of the relative consumption levels of subject imports and U.S. like products to changes in their relative prices. This reflects purchasers' willingness to switch between U.S.-produced aftermarket brake drums and rotors and subject imports from China when price changes. The elasticity of substitution depends on the extent of product differentiation between domestic and subject imported products. One primary factor considered in assessing product differentiation is perceived quality differences. Other factors include delivery times, product range, and transportation costs. Based on indications of perceived quality differences and the importance of quality in purchasers' sourcing decisions, the elasticity of substitution between domestic aftermarket brake drums and rotors and subject imports is likely to be in the range of 2 to 4.

PART III: CONDITION OF THE U.S. INDUSTRY

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 LTFV margins was presented in Part I of the report and information with regard to the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of 6 firms that accounted for nearly all known of U.S. production of aftermarket brake drums and brake rotors during 1996.

U.S. PRODUCERS

Aftermarket brake drums and rotors are presently manufactured in the United States by six firms¹ whose sales are directed primarily to the automotive aftermarket. In contrast, OEM brake drums and rotors are produced by a number of firms for use primarily as OE installed onto motor vehicles on OE production lines, with most of the balance used as OES parts typically made available or sold through automotive dealers.²

The six aftermarket producers currently in operation consist of the four members of the petitioning coalition (Brake Parts, Kinetic, Iroquois, and Wagner) plus ITT Automotive and Overseas. The producing firms typically serve a national market.

Information on the aftermarket manufacturers (and on firms producing OEM product) responding to Commission questionnaires is provided in table III-1. Of the six firms currently producing for the aftermarket, only one, Overseas, is independently owned. Subsequent to the preliminary investigation, Kinetic, which was independently owned, was put up for sale by its owners³ and, in November 1996, was acquired by Lucas Varity, a British company. Lucas Varity also owns Kelsey Hayes, an OEM producer of brake rotors.

¹ A seventh firm, Excel, ceased production in early 1996 and filed for protection under Federal Bankruptcy Laws. On Sept. 17, 1996, Excel was adjudicated as a Chapter 7 debtor. ***. An eighth firm, Airtex, also ceased its minimal production of aftermarket brake rotors during 1993-95.

² OES brake drums and rotors can be described as being part of the automotive replacement market, albeit the OE replacement market. 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 replacement market. 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, the term "aftermarket" producer is understood to be a firm manufacturing aftermarket (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.

³ Kinetic attributed the need to take this course of action to ***. Final questionnaire response of Kinetic and hearing TR, pp. 36-41. Autospecialty, a full-line distributor of brake components that is related to Kinetic, was also purchased at the same time by Lucas Varity. According to Barry Breslow, Sr., VP of Kinetic and President of Autospecialty, Kinetic is the only production facility in Lucas Varity's automotive aftermarket group. Hearing TR, p. 40. Breslow stated that Lucas Varity acquired the two firms because they "desired to strengthen the position in the North American market via Autospecialty and develop an in-house capability of aftermarket rotor production which they did not have." Hearing TR, p. 40.

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
Aftermarket manufacturers: ¹			
Brake Parts ²	McHenry, IL	Support	***
Iroquois ³	North East, PA	Support	***
ITT Automotive ⁴	Tonawanda, NY	***	***
Kinetic	Harbor City, CA	Support	***
Overseas	Livonia, MI	Support	***
Wagner	St. Louis, MO	Support	***
OEM manufacturers:			
AlliedSignal ⁵	***	***	***
Delphi Chassis Systems	***	***	***
Kelsey Hayes	***	***	***
Motor Wheel	***	***	***
Simpson Industries	(⁶)	***	***

¹ Airtex of Fairfield, IL, produced brake rotors early in the period of investigation. The level of production was small, approximately *** aftermarket rotors during the period reviewed. The firm stated in its preliminary questionnaire response that it has ceased manufacturing operations and that ***. Excel of Toledo, OH, produced rotors through 1995, accounting for ***.

² Brake Parts is owned by Echlin, Inc., Branford, CT. Its related firm, Distex - IPI, manufactures in Ontario, Canada.

³ Iroquois was purchased by Echlin, Inc., Branford, CT, on December 17, 1996.

⁴ ITT Automotive's related firm, ITT Industries of Canada, Ltd., manufactures brake drums and rotors in Ontario, Canada.

⁵ On April 1, 1996, AlliedSignal was ***.

⁶ Plants located in ***. Simpson Industries is headquartered in Plymouth, MI.

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

Echlin, Inc., a Fortune 500 company that manufactures brake parts in over 28 facilities across North America, including both Canada and Mexico, is the owner of Brake Parts and, in December 1996, purchased Iroquois. According to Iroquois, it sought a buyer in the face of the loss of its only customer, AlliedSignal, which had chosen to increase its purchases of Chinese product absent Iroquois' agreement to drop prices by 26 percent.⁴ Wagner is owned by Cooper Industries, Houston, TX, and ITT Automotive is owned by ITT Automotive Enterprises, a major independent automotive supplier.

OEM brake drums and rotors are produced in the United States both by the domestic automobile and light truck manufacturers⁵ and by several outside suppliers that maintain long-term contracts with the OEMs.⁶ Delphi Chassis Systems (part of the Delphi Group supply umbrella for General Motors) provides OEM parts to both General Motors and other OEM manufacturers and also produces for the OES market. 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.⁷ and Rockwell Plus, which sell subassemblies containing brake drums and rotors to OEM customers. General Motors, for the most part, is supplied by its internal supply system, as well as by ***.⁸ Ford obtains OEM brake drums and rotors from ***.⁸ Chrysler reportedly purchases domestically from ***⁹ ***. Domestic automotive manufacturers also import from Canada and Mexico. Supply arrangements among the automotive manufacturers and their suppliers can be relatively complex. For example, ***.¹⁰

Table III-2 provides data, by firm, on the production of aftermarket and OEM brake drums and rotors. While data may be somewhat understated, the extent of OEM production in the United States is clearly larger than that of the aftermarket. In 1995, *** percent of total brake drum production in the United States was for OEMs. OEM brake rotor production in 1995 accounted for *** percent of aggregate production of brake rotors. Publicly available data show that 11.6 million cars and light trucks were produced in the United States in 1995;¹¹ such production would, at a minimum, require the use of 46.4 million brake drums and rotors, not including the additional manufacture of OES parts.¹²

⁴ AlliedSignal made its price demands in a letter to Iroquois dated September 23, 1996. Hearing TR, pp. 35-36 and petitioner's prehearing brief, exh. 2.

⁵ The only in-house production of OEM product staff is aware of occurs at General Motors. Transplant producers (which include Honda, Toyota, Nissan, Mazda, and Mitsubishi) are believed to be served mainly by imports from Japan and, to a lesser extent, Canada. ***.

⁶ OEM contracts are often called "lifers" and typically run for the life of the part, including service (warranty) time. Staff conversation with ***.

⁷ Dana Corp. (Spicer Division) manufactures axles and assembles purchased brake drums and rotors onto the axle. Staff conversation with ***, Dana Corp., Apr. 4, 1996.

⁸ ***.

⁹ ***.

¹⁰ Staff conversation with ***, Delphi Chassis Systems, Mar. 26, 1996.

¹¹ *Ward's Automotive Reports*, Jan. 29, 1996.

¹² Estimate was calculated using figure of four brake drums or rotors per vehicle.

Table III-2

Brake drums and rotors: U.S. production in 1995, by firm and by product

Firm name	U.S. production in 1995 of—			
	Aftermarket brake drums (1,000 units)	Aftermarket brake rotors (1,000 units)	OEM brake drums (1,000 units)	OEM brake rotors (1,000 units)
Aftermarket manufacturers:				
Brake Parts	***	***	***	***
Excel	***	***	***	***
Iroquois	(¹)	***	***	***
ITT Automotive	***	***	***	***
Kinetic	***	***	***	***
Overseas	***	***	***	***
Wagner	***	***	***	***
Total	***	***	***	***
OEM manufacturers:				
AlliedSignal ²	***	***	***	***
Delphi Chassis	***	***	***	***
Kelsey Hayes	***	***	***	***
Motor Wheel	***	***	***	***
Simpson Industries	***	***	***	***
Total	***	***	***	***
Grand total	***	***	***	***

¹ Less than *** percent of Iroquois' production is aftermarket brake drums. Data for aftermarket brake drums are included with aftermarket brake rotors.

² Aftermarket numbers are for product which was intended to be OEM, but failed to meet specifications and was consequently sold in the aftermarket. There may be additional such sales. ***, another OEM manufacturer, indicated in its questionnaire response that the ***.

Note—All known producers of aftermarket parts provided at least a partial response to the Commission's questionnaires. However, only limited information (mainly production data) was received from OEM producers. The only known non-responding OEM producer is ***. Further, ***.

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

Data presented in the table show *** million units of domestically-produced OEM brake drums and rotors, to which 10.3 million imported units¹³ must be added for total reported OEM consumption of *** million units in 1995. The following tabulation presents data on OEM production received in response to Commission questionnaires (in 1,000 units):

	<u>1993</u>	<u>1994</u>	<u>1995</u>
OEM brake drums	***	***	***
OEM brake rotors	***	***	***
Total	***	***	***

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).^{14 15} 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.¹⁶

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. All other U.S. aftermarket producers either manufacture the casting input or purchase castings that have not been advanced.¹⁷ Of the final brake or rotor products sold by Kinetic, approximately *** percent are machined from semifinished or unfinished rotors purchased from ***; the remaining *** percent are made in the firm's California facility.¹⁸

¹³ 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. The 10.3 million unit figure comprises ***.

¹⁴ ***.

¹⁵ Respondents contend that a lack of casting capacity in the United States constrains the ability of downstream manufacturers to produce the finished product. Conference TR, 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 ***.

¹⁶ *** and *** produce only castings that they sell in that form (or without any additional machining). Staff conversations with ***, Mar. 28, 1996, and ***, Mar. 28, 1996.

¹⁷ ***.

¹⁸ 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 ***.

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

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

Note.--Data are calculated from responses to the producers' questionnaire in the preliminary phase of the investigation 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; both responding firms *** showed *** between the casting and unfinished stages.

Imports and Other Purchases by U.S. Producers of Aftermarket Product

Table III-3 presents data concerning U.S. producers' imports and purchases of aftermarket 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, ***¹⁹ ***.²⁰ Finally, ***.

Table III-3

Aftermarket brake drums and rotors: U.S. producers' production, 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. ITT Automotive offers the AIMCO²¹ brand line consisting *** of *** and sells the Chinese imports under its lower-priced ITT GBM 2000 brand line.²² The domestically produced product that Autospecialty purchases from Kinetic is sold under a premium label; its Chinese imports are marketed as a value product.²³ Finally, the part numbers that Wagner imports (or purchases) from China are also not mingled with its domestic production, but sold under its GVL product line.²⁴

¹⁹ ***.

²⁰ ***.

²¹ 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.

²² ***.

²³ Staff conversation with ***, Apr. 9, 1996.

²⁴ According to Wagner, it acquired the Chinese product (57 rotor part numbers) in an attempt to maintain customers that were switching to brake drums and rotors manufactured in China. Hearing TR, pp. 188-189.

A comparison of the import and purchase data with production data also presented in table III-3 shows the relative size of the imports and purchases of subject product to the U.S. manufacturing operations of each firm producing for the aftermarket market. The following statements summarize that comparison:

* * * * *

In the Commission's preliminary determinations, it concluded that AlliedSignal, ITT Automotive, Kinetic, and Wagner were related parties with respect to the aftermarket rotor industry and that AlliedSignal was a related party with respect to the aftermarket drum industry. It found appropriate circumstances existed to exclude AlliedSignal from both the drum and rotor industries. It did not find appropriate circumstances to exclude ITT Automotive, Kinetic, or Wagner from the aftermarket rotor industry, although it stated that it would again examine whether appropriate circumstances existed to exclude ITT Automotive or Kinetic in the final phase of the investigation. In compiling the aggregate industry data in this report for the domestic aftermarket drum and rotor industries, data from all the responding producers are included; AlliedSignal has not provided any additional information beyond the limited data that it provided in the preliminary phase of the investigation.

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Data on U.S. manufacturers' capacity to produce aftermarket brake drums and rotors and their utilization of that capacity are presented in table III-4.²⁵ Table III-5 shows capacity and production data, by firm. *** reported increased capacity to produce at least one of the subject products. There was some variation in capacity utilization data for the reporting firms. Annual capacity utilization ratios to produce both subject products were typically above 80 percent for *** from 1993 through 1995. *** reported much lower utilization rates.

Throughout this investigation, respondents have contended that petitioners cannot expand their capacity to produce for the entire market.²⁶ Apparent U.S. consumption is presented in Part IV of this report. As shown in Part IV (tables IV-3 and IV-4), 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, far exceed current reported production capacity in the United States.

²⁵ Table III-4 does not include data from Excel. Excel provided no capacity, shipment, inventory, financial, or pricing data.

²⁶ Respondents' postconference brief, pp. 39 and 43 and hearing TR, p. 131.

Table III-4

Aftermarket brake drums and rotors: U.S. capacity, production, and capacity utilization, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept.	
				1995	1996
Average-of-period capacity (1,000 units)					
Aftermarket brake drums	2,968	3,168	3,418	2,563	2,925
Aftermarket brake rotors	9,514	12,416	13,005	9,783	10,415
Production (1,000 units)					
Aftermarket brake drums	2,007	2,527	2,892	2,126	2,017
Aftermarket brake rotors	9,159	10,905	10,726	7,957	7,893
Capacity utilization (percent)					
Aftermarket brake drums	67.6	79.8	84.6	82.9	69.0
Aftermarket brake rotors	96.3	87.8	82.5	81.4	75.8

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

Table III-5

Aftermarket brake drums and rotors: U.S. capacity, production, and capacity utilization, by product and by firms, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

U.S. PRODUCERS' SHIPMENTS AND INVENTORIES

Table III-6 presents data on U.S. commercial shipments, internal shipments, and export shipments. *** reported exports of both products were to Canada. Petitioner contends that sales of high-volume items generate the large margins that are necessary for profitability; it is these items that importers of Chinese product have allegedly targeted.²⁷ Further, importers are expanding their lines, adding more models.²⁸ Information received from importers essentially bears out the latter. A number of firms reported an increase in the number of new part numbers available with anywhere from 300 to 700

²⁷ At the Commission's hearing, Pete Painter, VP, Marketing, Wagner, testified that Wagner has identified 124 parts that fit domestic vehicles as being available from Chinese sources. According to Painter, "those 124 part numbers represent over 90 percent of most of our customer sales. These are the rotors that fit popular vehicles and have many sales opportunities." Hearing TR, pp. 43-44.

²⁸ Hearing TR, pp. 151 and staff field trip to Wagner, Mar. 20, 1996.

Table III-6

Aftermarket brake drums and rotors: U.S. producers' shipments, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept. 1995	1996
<i>Quantity (1,000 units)</i>					
Aftermarket brake drums:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	214	210	246	185	176
Total	2,052	2,472	2,949	2,243	2,143
Aftermarket brake rotors:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	979	783	734	551	545
Total	9,045	10,141	10,534	8,110	8,891
<i>Value (1,000 dollars)</i>					
Aftermarket brake drums:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	3,901	3,345	3,635	2,727	2,862
Total	38,969	44,741	51,033	39,073	38,544
Aftermarket brake rotors:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	15,858	11,692	10,890	8,167	9,064
Total	144,728	160,124	164,915	127,162	145,005
<i>Unit value</i>					
Aftermarket brake drums:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	\$18.23	\$15.93	\$14.78	\$14.74	\$16.26
Average	18.99	18.10	17.31	17.42	17.99
Aftermarket brake rotors:					
Commercial shipments	***	***	***	***	***
Internal shipments	***	***	***	***	***
Export shipments	16.20	14.93	14.84	14.82	16.63
Average	16.00	15.79	15.66	15.68	16.31

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

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

part numbers available from China. A more detailed discussion of the increase in product availability appears in Part IV.

Data with respect to inventories held by U.S. producers of aftermarket brake drums and rotors are presented in table III-7.

Table III-7

Aftermarket brake drums and rotors: U.S. producers' end-of-period inventories, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

				Jan.-Sept.	
Item	1993	1994	1995	1995	1996
Aftermarket brake drums:					
EOP inventories (1,000 units)	467	465	603	600	563
Ratio to production (percent)	23.3	18.4	20.9	21.2	20.9
Ratio to U.S. shipments (percent)	25.4	20.6	22.3	21.9	21.5
Aftermarket brake rotors:					
EOP inventories (1,000 units)	1,319	1,762	2,227	2,186	1,885
Ratio to production (percent)	14.4	16.2	20.8	20.6	17.8
Ratio to U.S. shipments (percent)	16.4	18.8	22.7	21.7	16.9

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

Note.—Data for Brake Parts are for fiscal year September through August. Iroquois' data for aftermarket rotors include ***.

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Aggregate data on employment are presented in table III-8. As noted in Part I, all U.S. aftermarket producers *** use cell manufacturing to produce brake drums and rotors. ***. Producers manufacturing both brake drums and rotors (Brake Parts, ITT Automotive, and Wagner) indicate that the skills and training required to produce both are essentially the same; however, as a practical matter, workers are usually dedicated to the production of one product or the other.

Table III-8

Aftermarket brake drums and rotors: Average number of production and related workers, hours worked, wages paid to such employees, and hourly wages, productivity, and unit labor costs, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept. 1995	1996
Aftermarket brake drums:					
PRWs (<i>number</i>)	164	174	209	209	183
Hours worked (<i>1,000 hours</i>)	363	449	483	362	315
Wages paid (<i>\$1,000</i>)	5,227	6,450	7,151	5,367	4,474
Hourly wages	\$14.40	\$14.37	\$14.81	\$14.83	\$14.20
Productivity (<i>units per hour</i>)	5.5	5.6	6.0	5.9	6.4
Unit labor costs (<i>dollars per unit</i>)	\$2.60	\$2.55	\$2.47	\$2.52	\$1.22
Aftermarket brake rotors:					
PRWs (<i>number</i>)	814	934	931	926	884
Hours worked (<i>1,000 hours</i>)	1,728	1,976	1,938	1,449	1,376
Wages paid (<i>\$1,000</i>)	24,081	26,812	26,775	19,983	18,839
Hourly wages	\$13.94	\$13.57	\$13.82	\$13.79	\$13.69
Productivity (<i>units per hour</i>)	5.3	5.5	5.5	5.5	5.7
Unit labor costs (<i>dollars per unit</i>)	\$2.63	\$2.46	\$2.50	\$2.51	\$2.39

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

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

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

U.S. IMPORTERS AND MEASUREMENT OF IMPORTS

Thirty-three firms provided importer information; six of the firms were either U.S. producers or directly affiliated with same. Of the 33 firms, 26 (including 3 U.S. producers) imported brake drums and/or rotors from China. These firms accounted for all, or nearly all, of the imports of the subject products from China. Twenty-one of the firms imported both products during the period examined while the other five¹ limited their imports solely to rotors. Brake rotors accounted for most of the import activity from both China and Canada, outpacing imports of brake drums by nearly 7 to 1 during 1995. Likewise, rotors accounted for most of the imports from all other countries.

Aftermarket brake drums and rotors are imported by a number of firms that act as importer/brokers, distributors, or serve both functions. The majority of the importing firms are independently owned; however, eight of the firms importing from China are related to firms either engaged in exporting brake drums or rotors from China to the United States, or to other U.S. importers from China.

For both brake drums and rotors, imports were fairly concentrated among a few firms. Two firms, ***,² accounted for *** of LTFV brake drum imports from China in 1995. With respect to rotors, six firms, ***,³ *** were responsible for ****⁴ of LTFV rotor imports from China in 1995.

Aftermarket brake drums and 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 castings and unfinished/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. 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.

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

China.—Responding importers reported imports of nearly 7.3 million units from China in 1995, or nearly all of the just more than 7.3 million units reported in official Commerce statistics. Hence, the import numbers for China used in this report are those obtained from questionnaires. (Staff notes, however, that the official statistics for January-September 1996 are higher than questionnaire data and, therefore, import numbers for that period may be understated.) No imports of OEM product or of "other" imports (i.e., product of aluminum or for heavy trucks) were reported. As noted in Part I, Commerce

¹ ***.

² ***.

³ ***.

⁴ ***.

made final LTFV determinations of 0.00 percent for a number of firms, thereby excluding them from the investigation. For brake drums those firms are: China National Machinery Import & Export Corp.; Beijing Xinchangyuan Automobile Fittings Corp., Ltd.; Qingdao Metals, Minerals & Machinery Import & Export Corp.; and Yantai Import/Export Corp. For brake rotors those firms are: China National Automotive Industry Import & Export Corp., Shandong Laizhou CAPCO Industry and CAPCO International USA; China National Machinery and Equipment Import & Export (Xinjiang) Corp., Ltd.; and Shenyang Honbase Machinery Corp., Ltd., Laizhou Luyuan Automobile Fittings Co., Ltd., MAT Automotive, Inc., and Midwest Air Technologies, Inc. Imports from those firms are identified as "non-LTFV" imports from China in the tables throughout this report. Total imports from China reflect importer questionnaire totals and non-LTFV imports were taken from foreign producer questionnaires furnished by all of the firms that have been excluded by Commerce; LTFV imports were calculated as the difference between these figures.

Canada.--The aftermarket brake drum and rotor import numbers for Canada used in this report are those obtained from questionnaires. The import numbers from these responses are relatively complete and, given the overstated numbers for Canada in both official Commerce statistics and information provided by the U.S. Customs Service, are the most accurate numbers available.⁵

All other sources.--Brake drum and rotor imports from "all other sources" are derived from official statistics. ***.

While data reported for imports from China and Canada in this report are believed by staff to be accurate, data for imports from all other countries may be somewhat less so owing to the degree of estimation used to arrive at those numbers.

U.S. IMPORTS

Imports from China

The quantity of LTFV imports of aftermarket brake drums from China grew by just over 48 percent from 333,000 units in 1994 to 494,000 units in 1995 (table IV-1).⁶ Interim (January-September) 1996 LTFV imports were down nearly 26 percent compared with the same period in 1995. LTFV rotor imports from China more than tripled from 1993 to 1995, growing from nearly 1.6 million units to more than 5.1 million units. Interim 1996 rotor imports were up nearly 17 percent compared with imports in interim 1995.

⁵ See USITC Publication No. 2957, p. IV-4.

⁶ There were no LTFV imports of brake drums from China in 1993; non-LTFV drum imports from China amounted to 378,000 units in 1993.

Table IV-1

Aftermarket brake drums and rotors: U.S. imports, by sources, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept.	
				1995	1996
Quantity (1,000 units)					
Aftermarket brake drums imported from--					
China (LTFV)	0	333	494	456	339
China (non-LTFV)	378	339	374	286	507
Total	378	672	868	742	846
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total	1,626	2,126	2,667	2,112	2,534
Aftermarket brake rotors imported from--					
China (LTFV)	1,594	4,025	5,125	3,378	3,948
China (non-LTFV)	641	1,107	1,282	817	1,610
Total	2,235	5,132	6,407	4,195	5,558
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total	11,843	15,851	18,198	13,018	14,479
Value (\$1,000)					
Aftermarket brake drums imported from--					
China (LTFV)	0	3,361	4,804	4,443	2,898
China (non-LTFV)	4,020	3,050	4,115	2,950	5,965
Total	4,020	6,411	8,919	7,393	8,863
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total	17,847	22,220	28,458	22,150	27,198
Aftermarket brake rotors imported from--					
China (LTFV)	11,277	29,232	38,057	26,330	29,094
China (non-LTFV)	4,237	7,446	9,556	6,222	12,994
Total	15,513	36,677	47,613	32,553	42,089
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total	139,416	169,541	182,141	134,504	156,931
Unit value					
Aftermarket brake drums imported from--					
China (LTFV)	(1)	\$10.09	\$9.73	\$9.73	\$8.56
China (non-LTFV)	\$10.63	9.00	11.00	10.33	11.76
Average	10.63	9.54	10.28	9.96	10.48
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Average	10.98	10.45	10.67	10.49	10.74
Aftermarket brake rotors imported from--					
China (LTFV)	7.07	7.26	7.43	7.79	7.37
China (non-LTFV)	6.61	6.73	7.45	7.62	8.07
Average	6.94	7.15	7.43	7.76	7.57
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Average	11.77	10.70	10.01	10.33	10.84

(1) Not applicable.

Source: Imports from China and Canada compiled from data submitted in response to questionnaires of the USITC (total imports from China reflect importer questionnaire totals; non-LTFV imports taken from foreign producer questionnaires; LTFV imports calculated as the difference between these figures; values for imports from China constructed using these quantities and average unit values as reported by LTFV and non-LTFV importers); all other imports estimated from official statistics of the U.S. Department of Commerce.

The shares of LTFV imports subject to company-specific rates and those subject to China-wide rates as found by Commerce in its final determination are presented in the following tabulation (*in percent*):⁷

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Jan.-Sept.</u> <u>1995</u>	<u>1996</u>
Brake drums:					
Company specific rates	0.0	4.5	43.5	43.9	81.4
China-wide rates	100.0	95.5	56.5	56.1	18.6
Brake rotors:					
Company specific rates	40.3	24.1	29.4	36.0	32.8
China-wide rates	59.7	75.9	70.6	64.0	67.2

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 hearing that out of perhaps a total of 750 rotor models, Chinese importers now provide over 150 models to the United States⁸ while a much smaller number (about 50 models) were imported in 1993.⁹ This point is supported by several of the importers that returned questionnaires to the Commission. *** 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.¹⁰ ***¹¹ Other cited reasons for an increase in imports by specific importing firms included: increase in market share (***), "new applications" (***), "demand" by ***,¹² and "new marketing program" (***).

However, not all importers from China reported increased U.S. imports; a number (particularly smaller importers) experienced sales declines. A sharp decline in selling prices was the factor most commonly cited for the fall-off in imports. Specifically, *** 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.

⁷ The Commission received foreign producer questionnaires from all Chinese firms that received company-specific rates from Commerce in its final LTFV determinations (see tables VII-1 and VII-2). Shares are calculated by comparing "exports to the United States" in those tables with LTFV imports from China in table IV-1. Data from firms that were excluded with a 0.00 percent finding are not included in tables VII-1 and VII-2 and are shown as "non-LTFV" imports in table IV-1.

⁸ As noted earlier in this report, Wagner has identified 124 model numbers from China that compete with its products. According to Wagner, these 124 models represent over 90 percent of Wagner's sales. Hearing TR, pp. 43-44.

⁹ Conference TR, p. 26, and hearing TR, p. 51.

¹⁰ 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."

¹¹ A staff analysis of California Drum and Rotor's largest-selling brake drums and rotors from China in 1996 indicates that the model numbers ***. (Based on data appearing in California Drum and Rotor's posthearing brief and petitioner's prehearing and posthearing briefs.)

¹² *** , as noted previously, was ***. All product it imports is sold to ***.

Throughout this investigation, respondents have contended that increased imports from China have occurred at the expense of imports from other countries rather than the U.S. industry.¹³ In the questionnaire for the final phase of the investigation, importers were asked to comment concerning the extent to which their imports of brake drums and rotors from China replaced their imports from countries other than China.¹⁴ The responses of those that chose to comment are as follows:

* * * * *

As noted earlier in this report, Commerce made a final determination that critical circumstances exist with respect to the imports of brake rotors from China subject to the China-wide rate. In making this finding Commerce stated:

“... {W}e are imputing knowledge of dumping based on the China-wide dumping rate. As noted above, we have determined that importers knew or should have known that there would be material injury to the U.S. brake rotors industry based on the ITC’s preliminary determination of a reasonable indication of present material injury for brake rotors. In the absence of shipment data for the China-wide entity, we have determined based on the facts available, and making the adverse inference permitted under section 776(b) of the Act because this entity did not provide an adequate response to our questionnaire, that there were massive imports of brake rotors . . . Furthermore, we note that the record indicates a post filing surge in U.S. brake rotor imports from the PRC which is not accounted for by the cooperating respondents. Therefore, for the China-wide entity, we determine that critical circumstances exist with respect to imports of brake rotors.”¹⁵

In evaluating the critical circumstances allegations to determine whether imports of rotors were “massive,”¹⁶ Commerce compared official monthly imports from August 1995 to February 1996 (the comparison period)¹⁷ with official monthly imports from March 1996 to September 1996 (the base period).¹⁸ In that comparison, drums were not distinguished from rotors and LTFV imports were not distinguished from non-LTFV imports. That comparison showed a 29.0 percent increase in the base period over the comparison period. Table IV-2 presents the comparison using only the rotor imports subject to Commerce’s critical circumstances finding and shows a 28.1 percent increase in the base period over the comparison period.

¹³ Hearing TR, pp. 20-21.

¹⁴ Importers’ questionnaire, p. 7.

¹⁵ 62 FR 9165 (Feb. 28, 1997).

¹⁶ Pursuant to 19 CFR 351.16(f)(2), unless the imports in the comparison period have increased by at least 15 percent over the imports during the base period, Commerce will not consider the imports to have been “massive.”
Id.

¹⁷ Prior to the March 7, 1996, filing of the petition.

¹⁸ Prior to Commerce’s October 10, 1996, preliminary LTFV determinations.

Table IV-2

Aftermarket brake rotors: Imports from China subject to Commerce's critical circumstances finding, by periods, Aug. 1995-Feb. 1996 and Mar. 1996-Sept. 1996

Comparison period ¹		Base period ²	
Month	Quantity (1,000 units)	Month	Quantity (1,000 units)
August 1995	582	March 1996	446
September 1995	862	April 1996	112
October 1995	313	May 1996	571
November 1995	380	June 1996	565
December 1995	460	July 1996	973
January 1996	492	August 1996	785
February 1996	468	September 1996	1,105
Total	3,557	Total	4,557

¹ Prior to the March 7, 1996, filing of the petition.

² Prior to Commerce's October 10, 1996, preliminary LTFV determinations.

Source: Derived from official statistics of the U.S. Department of Commerce.

Note.--The monthly figures were calculated by staff by taking 87 percent of monthly official statistics as total rotor imports and subtracting monthly rotor export data as provided to Commerce by firms that received 0.00 percent margins as well as by firms that received company-specific findings to arrive at the number of monthly rotor imports subject to the critical circumstances finding. Use of the 87 percent figure reflects the 87/13 percent rotor/drum ratio found in importer questionnaire responses for China over the period of investigation. To the extent all the firms that received company-specific rates did not furnish Commerce with monthly export data, the monthly numbers in table IV-2 may be overstated.

Imports From Other Sources

Collectively, imports from other countries are significant; however, the data for imports from other countries (except for Canada) reported herein are derived from official statistics and are less accurate than the data for Canada and China. In 1995, *** percent of all imports of aftermarket brake drums were from Canada and *** percent entered from all other countries combined (table IV-1). Similarly, in 1995, *** percent of all aftermarket brake rotors were imported from Canada and *** percent from other sources.

Respondents describe the market for aftermarket brake drums and rotors as global in scope, with imports from numerous sources. They cite product imported from Argentina, Brazil, Canada, and Mexico, in particular, as being available at "competitive prices." The overall quantity of imports from nonsubject sources (not including Canada) has trended upward since 1993.

APPARENT U.S. CONSUMPTION

Data delineating the size of the U.S. markets for aftermarket brake drums and aftermarket brake rotors are presented in tables IV-3 and IV-4. As shown, demand 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.¹⁹ 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.²⁰

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

¹⁹ In this regard, Barry Breslow, VP, Kinetic, testified:

"Rotors today are lighter than they were in previous years. What has happened is that, if the thickness of a rotor started at 22 millimeters, there would be printed on any of the samples that you have what's called a discard thickness. That may be 16 millimeters, which says the rotor could wear down to 16 millimeters at which state it is no longer safe.

If we went to a car that was 15 years old, the difference between where the rotor started and the discard, the throw away, safety limit, may be six millimeters. Today in an effort to save weight, the difference between the start point and the safety margin is only two millimeters. So what happens is the rotors become in effect disposable. You throw them out quicker.

In previous years you could, and people have used the term, machine the rotor. In other words, resurface the rotor and reuse it for one or two additional brake jobs. Because there isn't enough iron on them anymore due to the need to lighten them, they've become disposable so to speak.

It is not a pricing issue. It is an issue of safety and an issue of the fact that there just isn't enough iron on there not to be disposable. And that would be the dimensional issues would be the same for U.S. and Chinese." Hearing TR, pp. 193-194.

²⁰ Cited from information provided by the Automotive Parts & Accessories Association to Commission staff on Mar. 26, 1996.

Table IV-3

Aftermarket brake drums: U.S. shipments of domestic product, U.S. imports, by sources, apparent U.S. consumption, and market shares, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept.	
				1995	1996
Quantity (1,000 units)					
U.S. producers' shipments	1,838	2,262	2,703	2,058	1,967
U.S. imports from--					
China (LTFV)	0	333	494	456	339
China (non-LTFV)	378	339	374	286	507
Total	378	672	868	742	846
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	1,626	2,126	2,667	2,112	2,534
Apparent consumption	3,464	4,388	5,370	4,170	4,501
Value (\$1,000)					
U.S. producers' shipments	35,068	41,396	47,398	36,346	35,682
U.S. imports from--					
China (LTFV)	0	3,361	4,804	4,443	2,898
China (non-LTFV)	4,020	3,050	4,115	2,950	5,965
Total	4,020	6,411	8,919	7,393	8,863
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	17,847	22,220	28,458	22,150	27,198
Apparent consumption	52,915	63,616	75,856	58,496	62,880
Share of quantity (percent)					
U.S. producers' shipments	53.1	51.6	50.3	49.4	43.7
U.S. imports from--					
China (LTFV)	0.0	7.6	9.2	10.9	7.5
China (non-LTFV)	10.9	7.7	7.0	6.8	11.3
Total	10.9	15.3	16.2	17.8	18.8
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	46.9	48.4	49.7	50.6	56.3
Share of value (percent)					
U.S. producers' shipments	66.3	65.1	62.5	62.1	56.7
U.S. imports from--					
China (LTFV)	0.0	5.3	6.3	7.6	4.6
China (non-LTFV)	7.6	4.8	5.4	5.0	9.5
Total	7.6	10.1	11.8	12.6	14.1
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	33.7	34.9	37.5	37.9	43.3

Source: Data for U.S. producers and imports from China and Canada compiled from data submitted in response to questionnaires of the USITC (total imports from China reflect importer questionnaire totals; non-LTFV imports taken from foreign producer questionnaires; LTFV imports calculated as the difference between these figures; values for imports from China constructed using these quantities and average unit values as reported by LTFV and non-LTFV importers); all other imports estimated from official statistics of the U.S. Department of Commerce.

Table IV-4

Aftermarket brake rotors: U.S. shipments of domestic product, U.S. imports, by sources, apparent U.S. consumption, and market shares, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	1993	1994	1995	Jan.-Sept.	
				1995	1996
Quantity (1,000 units)					
U.S. producers' shipments	8,066	9,358	9,800	7,559	8,346
U.S. imports from--					
China (LTFV)	1,594	4,025	5,125	3,378	3,948
China (non-LTFV)	641	1,107	1,282	817	1,610
Total	2,235	5,132	6,407	4,195	5,558
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	11,843	15,851	18,198	13,018	14,479
Apparent consumption	19,909	25,209	27,998	20,577	22,825
Value (\$1,000)					
U.S. producers' shipments	128,870	148,432	154,025	118,995	135,941
U.S. imports from--					
China (LTFV)	11,277	29,232	38,057	26,330	29,094
China (non-LTFV)	4,237	7,446	9,556	6,222	12,994
Total	15,513	36,677	47,613	32,553	42,089
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	139,416	169,541	182,141	134,504	156,931
Apparent consumption	268,286	317,973	336,166	253,499	292,872
Share of quantity (percent)					
U.S. producers' shipments	40.5	37.1	35.0	36.7	36.6
U.S. imports from--					
China (LTFV)	8.0	16.0	18.3	16.4	17.3
China (non-LTFV)	3.2	4.4	4.6	4.0	7.1
Total	11.2	20.4	22.9	20.4	24.4
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	59.5	62.9	65.0	63.3	63.4
Share of value (percent)					
U.S. producers' shipments	48.0	46.7	45.8	46.9	46.4
U.S. imports from--					
China (LTFV)	4.2	9.2	11.3	10.4	9.9
China (non-LTFV)	1.6	2.3	2.8	2.5	4.4
Total	5.8	11.5	14.2	12.8	14.4
Canada	***	***	***	***	***
Other sources	***	***	***	***	***
Total imports	52.0	53.3	54.2	53.1	53.6

Source: Data for U.S. producers and imports from China and Canada compiled from data submitted in response to questionnaires of the USITC (total imports from China reflect importer questionnaire totals; non-LTFV imports taken from foreign producer questionnaires; LTFV imports calculated as the difference between these figures; values for imports from China constructed using these quantities and average unit values as reported by LTFV and non-LTFV importers); all other imports estimated from official statistics of the U.S. Department of Commerce.

U.S. MARKET SHARES

As shown in tables IV-3 and IV-4, the share of the quantity of U.S. consumption held by U.S. producers declined from 1993 to 1995 for both aftermarket brake drums and rotors. Over the same period, the market share for LTFV imports from China of aftermarket brake drums increased by 9.2 percentage points, while the increase for LTFV imports from China of aftermarket rotors was 10.3 percentage points. Imports from other sources, especially Canada, hold a significant share of both U.S. markets.

As discussed in Part III and earlier in this section of the report, some U.S. manufacturers of aftermarket brake drums and rotors are, themselves, importers (or purchasers) of the products. All of the U.S. producers' imports (both brake drums and rotors) from China were LTFV imports. The following tabulation shows that a portion of the increase in LTFV imports from China is due to increased acquisitions by U.S. producers during the period reviewed, primarily by ***, of aftermarket brake rotors. To the extent U.S. producers were not able to identify Chinese producer/exporters as LTFV or non-LTFV, the numbers for "share of LTFV imports" may be overstated.

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Jan.-Sept.</u> <u>1995</u>	<u>1996</u>
Aftermarket brake drums: ¹					
Imports (1,000 units)	***	***	***	***	***
Share of LTFV imports (percent)	***	***	***	***	***
Aftermarket brake rotors:					
Imports (1,000 units)	***	***	***	***	***
Purchases from China ² (1,000 units)	***	***	***	***	***
Total (1,000 units)	***	***	***	***	***
Share of LTFV imports (percent)	***	***	***	***	***

¹ ***.

² ***.

PART V: PRICING AND RELATED DATA

FACTORS AFFECTING PRICES

Transportation Costs and Tariffs

Transportation charges for brake drums and rotors delivered to the United States from China are estimated to range between 11.5 and 12.9 percent of the imported value during the period examined. These estimates are derived from official U.S. import data and represent the ocean freight and other charges on imports valued on a c.i.f. basis compared to customs value.

U.S. inland transportation costs for the subject product were reported by U.S. producers and importers. The median U.S. transport cost for the reporting importers of the Chinese products was 7 percent of total delivered costs, with a range between 1 and 20 percent. The median transport cost for the reporting U.S. producers was 4 percent of total delivered costs. Three of 16 responding U.S. purchasers ranked U.S. transportation costs as very important in their brake drum and rotor sourcing decisions, 8 purchasers ranked transport costs as somewhat important, and the remaining 5 purchasers indicated transport costs as not important. Tariffs levied on HTS subheading 8708.39.50 were 2.9 and 2.7 percent *ad valorem* in 1996 and 1997, respectively.

Commerce Margins of Dumping

Commerce's final "China-wide" LTFV dumping margins for Chinese brake drums and rotors were 86.02 and 43.32 percent, respectively.¹ Dumping margins by firm (manufacturers/producers/exporters in China) for those firms found to be selling at LTFV were 17.20 percent *ad valorem* for aftermarket brake drums and ranged between 3.56 and 16.35 percent *ad valorem* for rotors. Commerce determined *de minimis* final margins for several Chinese aftermarket drum producers and rotor producers.²

Exchange Rates

Quarterly data reported by the IMF indicate that the nominal value of the Chinese yuan depreciated 30.7 percent from January 1993-September 1996 (figure V-1).³ The real value of the Chinese currency is not shown because producer price information for China is not available.⁴

¹ Commerce's assigned China-wide rates of LTFV sales for brake drums and rotors based on the revised highest petition rates. Company-specific rates were calculated on a weighted-average basis for rotors and a simple-average basis for drums.

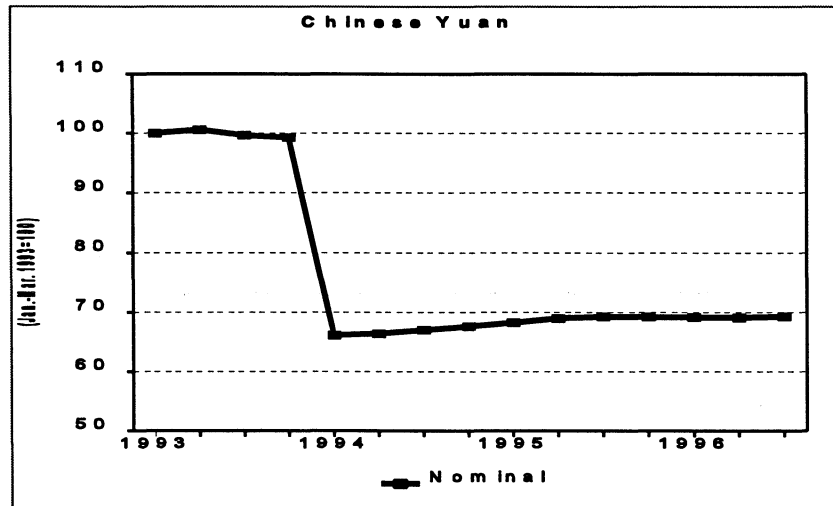
² See "Sales at LTFV" in Part I of this report for further details.

³ Beginning Jan. 1, 1994, the People's Bank of China changed the manner in which the official exchange rate was determined.

⁴ Source: IMF, *International Financial Statistics*, Jan. 1997.

Figure V-1

Exchange rates: Index of the nominal exchange rate of the Chinese yuan relative to the U.S. dollar, Jan. 1993-Sept. 1996



Production and Packaging

Weight and quality of material are the predominant price determinants for aftermarket brake drums and rotors. Consequently, heavier models, due to additional materials and processing, are priced higher than lighter ones. The amount of machining required also affects prices, but to a lesser degree. Other factors include style, model, and finishing. 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.⁵

U.S. producers and importers 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 their 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.

PRICING PRACTICES

The majority of U.S. producers and importers of the Chinese products reported using set price lists or negotiating from predetermined price lists. Firms that did not use price lists established price on a transaction-by-transaction basis. Nearly all U.S. producers and importers selling from price lists reported

⁵ *** questionnaire.

offering volume or preferred buyer discounts. Volume discounts, based on the number of different models purchased, ranged from 3 to 30 percent for U.S. producers and between 2 and 50 percent for Chinese imports. Group discounts, based on customer type and purchasing history, were also provided, with large programmed distribution groups receiving preferential treatment.

Three out of six U.S. producers and 16 out of 20 importers reported selling brake drums and rotors exclusively on a spot basis. Two importers sell exclusively on a contract basis, while three U.S. producers and two importers sell product on both a spot and contract basis. Contract terms varied by company, with the duration ranging between 1 and 10 years. However, contracts for both the U.S. producers and importers of the Chinese products tended to fix price and leave quantity variable.

Several U.S. producers and importers reported offering other brake-related products in combination with sales of brake drums and rotors. These products include calipers, pads/shoes, fluids, and other friction materials, helping the sellers offer an expanded brake part line. *** indicated 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.

Half the responding U.S. producers and a majority of importers reported selling brake drums and rotors on delivered basis. The remaining responding firms sold either on an f.o.b plant/warehouse basis or c.i.f. Payment terms varied for both U.S. producers and importers of the Chinese products, with 2/10 net 30 days being the most prevalent.

Delivery times for U.S. producers' and importers' domestically inventoried Chinese brake drums and rotors were similar, ranging between 3 and 14 days, and 2 and 10 days, respectively. Shipments not available from U.S. inventory require 2 to 4 months for delivery 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 DATA⁶

The Commission requested U.S. producers and importers to report the total quantity shipped and the total net f.o.b. value shipped in each quarter for the specified brake drum and rotor products sold to all unrelated U.S. customers between January-March 1993 and July-September 1996. U.S. purchasers were also requested to report quarterly purchase values and quantities for purchases of the specified products from U.S. and Chinese producers sold to unrelated U.S. customers. The products for which pricing data were requested, two drums and two rotors, are as follows:

- Product 1:** Aftermarket (non-OEM) brake drums, AIMCO part number 8839
- Product 2:** Aftermarket (non-OEM) brake drums, AIMCO part number 8939
- Product 3:** Aftermarket (non-OEM) brake rotors, AIMCO part number 5552
- Product 4:** Aftermarket (non-OEM) brake rotors, AIMCO part number 5558

⁶ Producers, importers, and purchasers were requested to report price and shipment data for their imports from China. Price and shipment data for imports from China of brake drums and rotors that were identified as non-LTFV were excluded from the data presented herein.

Four U.S. producers (3 petitioners plus ITT Automotive),⁷ 18 importers, and 11 purchasers provided price data in response to the Commission's questionnaire, but not necessarily for all products or all quarters over the period examined. All four producers providing price data produce exclusively for the aftermarket.⁸ 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. Weighted-average prices (by quantity shipped) in each quarter and margins of underselling for U.S. producers and importers are presented in tables V-1-4 and figures V-2-5. Purchaser data are presented in tables V-5-8 and figures V-6-9.⁹

U.S. Producers' and Importers' Prices

U.S. Product

U.S. producers' prices for the specified brake drum and rotor products declined during the latter half of the period examined. U.S. producers' prices for AIMCO drum 8839 (product 1) fluctuated during 1993 and 1994, peaking at \$16.34 per drum during October-December 1994, then declining thereafter on fluctuating volumes. During the period, prices declined *** percent from *** to \$13.70 per drum. U.S. producers' prices for AIMCO drum 8939 (product 2) were highest, peaking at *** per drum, during July-September 1993, then declined unevenly thereafter. Overall, prices declined *** percent from *** to \$18.31 per drum. Prices for the specified brake rotors were highest during 1993, declining unevenly during the remainder of the period examined. U.S. producers' prices for AIMCO rotor 5552 (product 3) declined 15.2 percent from \$12.59 to \$10.68 per rotor during the period examined. Similarly, U.S. producers' prices for AIMCO rotor 5558 (product 4) decreased steadily after 1993, falling 29.6 percent overall from \$13.40 to \$9.44 per rotor during the period examined.

Chinese Product

Importers' prices for the subject drums from Chinese declined unevenly throughout the period on increasing volume, while prices for Chinese subject rotors increased over the period. The volume of importers' average quarterly shipments of the specified products increased substantially from 1993 to 1996. Average quarterly shipments of the specified drum products increased from *** to 24,655 units, while rotor shipments increased from *** to 55,154 units between 1993 and 1996. Importers' prices for AIMCO drum 8839 (product 1) were stable during the first three quarters of 1993,¹⁰ then declined, from *** to *** per drum on increasing volumes during the next four quarters, before increasing to \$13.00 per drum during first quarter of 1995. During the last six quarters examined, prices fluctuated between \$10.57 and \$11.70 per drum. Prices for Chinese AIMCO drum 8939 were reported for the last eight quarters of the period examined, peaking at \$17.90 per drum during October-December 1995 and declining thereafter. Overall, prices declined *** percent from *** to \$8.87 per drum during the eight quarters for which prices were reported. For AIMCO rotor 5552, importers' prices fluctuated between

⁷ ***. Consequently, *** price information was not used in computing the weighted-average prices.

⁸ The only other known U.S. aftermarket producer, Excel, responded to the preliminary questionnaire but did not provide price data. OEM producers were not requested to provide price data.

⁹ U.S. importers and purchasers were requested to indicate separately shipments of products from those firms receiving *de minimis* margins. The majority of responding producers, importers, or purchasers indicating sales or purchases of non-LTFV products were unable to separate these data. Consequently, their data were not included in the analysis herein (Part V).

¹⁰ ***.

\$6.14 and \$8.85 per rotor. Overall, prices increased 8.3 percent during the period examined. Prices for AIMCO rotor 5558 fluctuated between \$5.43 and \$9.25 per rotor, increasing 13.5 percent overall from \$6.52 to \$7.41 per rotor during the period examined.

Price Comparisons ¹¹

Price comparisons can be made for domestic and Chinese brake drums and rotors in 53 of the possible 60 instances for products 1-4. In all 53 comparisons the Chinese product was priced below the domestic product. Margins of underselling ranged from 0.8 to 45.6 percent for drum product 1 and from 9.5 to 51.5 percent for drum product 2. In all 30 comparisons for rotor products, Chinese imports were priced lower than domestic brake rotors by margins ranging from 20.1 to 45.9 percent (product 3) and from 11.3 to 51.3 percent (product 4).

¹¹ Purchasers were requested to rate comparable U.S., Chinese, and third-country brake drum and rotor prices as either higher, lower, or the same. Responses were as follows:

Comparison	Higher	Lower	Same	Total Responses
U.S. vs. China	16	-	-	16
U.S. vs. third-country	9	-	-	9
U.S. vs. Italy	4	-	1	5
China vs. Mexico	1	1	1	3
China vs. Canada	-	2	-	2
China vs. Taiwan	-	3	-	3
China vs. third-country	-	4	-	4

Table V-1

Product 1: Weighted-average net f.o.b. prices and quantities for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	***	***	2	***	***	1	5.1
Apr.-June	***	***	2	***	***	1	0.8
July-Sept.	***	***	2	***	***	1	5.6
Oct.-Dec.	\$15.07	53,459	3	***	***	2	***
1994--							
Jan.-Mar.	15.15	50,182	3	***	***	2	***
Apr.-June	15.69	75,365	3	***	***	2	***
July-Sept.	15.36	110,749	3	***	***	2	***
Oct.-Dec.	16.34	42,327	3	\$8.97	4,741	3	45.1
1995--							
Jan.-Mar.	***	***	2	13.00	2,508	4	***
Apr.-June	16.29	60,171	3	11.10	9,189	5	31.8
July-Sept.	14.01	57,323	3	11.70	7,742	6	16.5
Oct.-Dec.	14.25	44,606	3	10.57	17,212	6	25.8
1996--							
Jan.-Mar.	13.93	41,398	3	10.88	9,477	6	21.9
Apr.-June	14.33	57,519	3	11.24	13,803	6	21.5
July-Sept.	13.70	49,214	3	11.11	12,297	7	18.9
Source: Compiled from data submitted in response to Commission questionnaires.							

Table V-2

Product 2: Weighted-average net f.o.b. prices and quantities for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	***	***	2	(¹)	(¹)	(¹)	(²)
Apr.-June	***	***	2	(¹)	(¹)	(¹)	(²)
July-Sept.	***	***	2	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	\$22.46	20,735	3	(¹)	(¹)	(¹)	(²)
1994—							
Jan.-Mar.	19.99	23,604	3	(¹)	(¹)	(¹)	(²)
Apr.-June	21.30	38,677	3	(¹)	(¹)	(¹)	(²)
July-Sept.	19.20	25,956	3	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	19.54	24,745	3	***	***	1	***
1995—							
Jan.-Mar.	19.27	30,979	3	\$14.09	918	3	26.9
Apr.-June	19.01	34,281	3	16.41	1,005	4	13.7
July-Sept.	19.06	32,281	3	14.44	1,661	5	24.2
Oct.-Dec.	19.78	32,200	3	17.90	1,185	4	9.5
1996—							
Jan.-Mar.	18.34	41,398	3	10.43	4,053	5	43.1
Apr.-June	17.76	57,519	3	9.70	13,327	5	45.4
July-Sept.	18.31	49,214	3	8.87	21,009	6	51.5

¹ Data not reported.

² Margins not calculated.

Source: Compiled from data submitted in response to Commission questionnaires.

Table V-3

Product 3: Weighted-average net f.o.b. prices and quantities for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price	Quantity	No. of	Price	Quantity	No. of	
	(Per unit)	(Units)	firms	(Per unit)	(Units)	firms	(Percent)
1993—							
Jan.-Mar.	\$12.59	115,132	3	\$7.88	9,943	3	37.4
Apr.-June	12.44	201,447	3	7.71	23,653	5	38.1
July-Sept.	11.63	199,355	3	7.07	17,987	5	39.2
Oct.-Dec.	11.78	181,356	4	6.86	17,644	6	41.7
1994—							
Jan.-Mar.	11.62	150,639	4	6.92	28,240	6	40.4
Apr.-June	11.21	258,528	5	6.74	39,756	6	39.9
July-Sept.	11.25	205,356	5	6.93	47,649	6	38.4
Oct.-Dec.	11.34	153,098	5	6.14	50,677	7	45.9
1995—							
Jan.-Mar.	11.61	183,372	5	7.35	34,308	8	36.7
Apr.-June	11.15	251,105	5	8.23	43,558	8	26.2
July-Sept.	11.09	220,971	5	8.03	39,698	7	27.8
Oct.-Dec.	11.28	153,603	5	8.85	35,594	7	21.6
1996—							
Jan.-Mar.	11.05	143,211	5	8.14	32,032	6	26.3
Apr.-June	11.21	207,611	4	8.73	35,137	5	22.2
July-Sept.	10.68	202,521	5	8.53	34,476	7	20.1
Source: Compiled from data submitted in response to Commission questionnaires.							

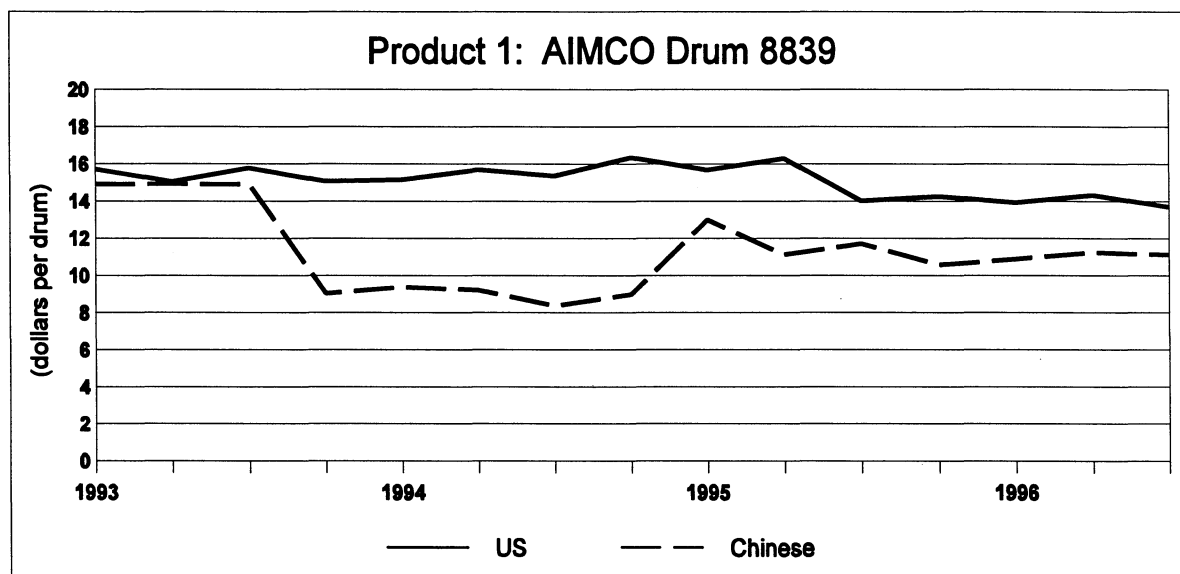
Table V-4

Product 4: Weighted-average net f.o.b. prices and quantities for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	\$13.40	133,528	3	***	***	2	***
Apr.-June	11.44	229,471	3	\$6.52	8,514	3	43.0
July-Sept.	11.38	225,561	3	6.03	28,995	5	47.0
Oct.-Dec.	10.75	248,649	4	5.67	32,427	4	47.3
1994--							
Jan.-Mar.	10.73	179,331	4	5.75	20,567	5	46.5
Apr.-June	10.22	291,158	5	5.88	41,855	5	42.4
July-Sept.	10.21	253,962	5	6.33	21,840	5	38.0
Oct.-Dec.	10.36	179,474	5	5.43	42,834	6	47.6
1995--							
Jan.-Mar.	10.12	229,535	5	6.38	26,884	7	36.9
Apr.-June	10.28	236,908	5	7.67	24,154	5	25.4
July-Sept.	10.24	209,956	5	8.36	32,108	6	18.4
Oct.-Dec.	10.42	146,812	5	9.25	17,412	7	11.3
1996--							
Jan.-Mar.	10.14	142,521	5	7.73	14,038	5	23.7
Apr.-June	10.25	178,551	4	7.36	25,777	4	28.2
July-Sept.	9.44	189,215	5	7.41	24,003	5	21.5
Source: Compiled from data submitted in response to Commission questionnaires.							

Figure V-2

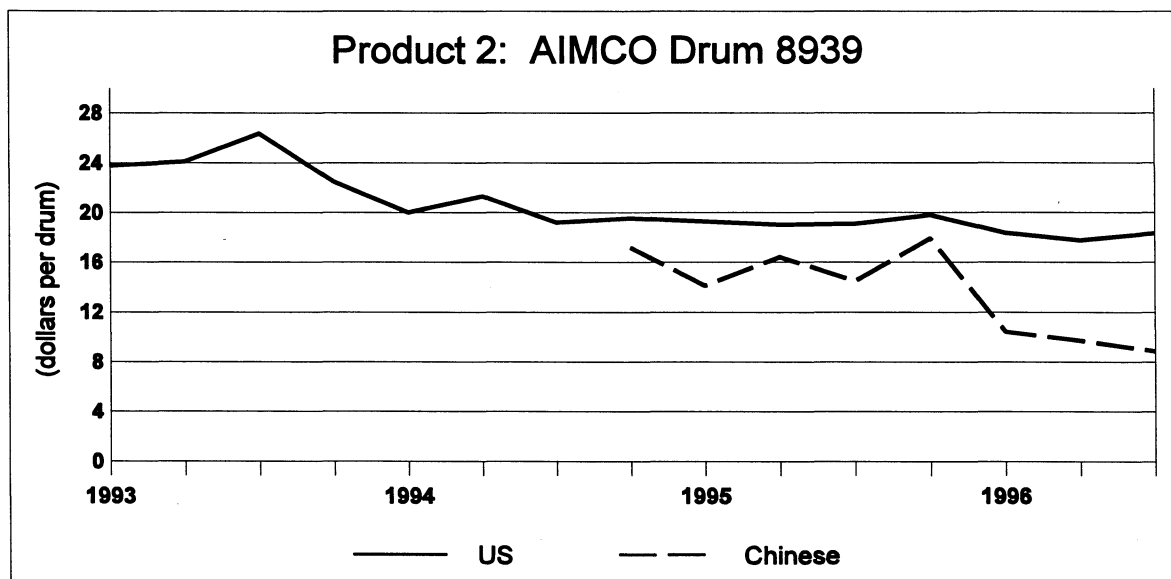
Product 1: Weighted-average net f.o.b. prices for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-1.

Figure V-3

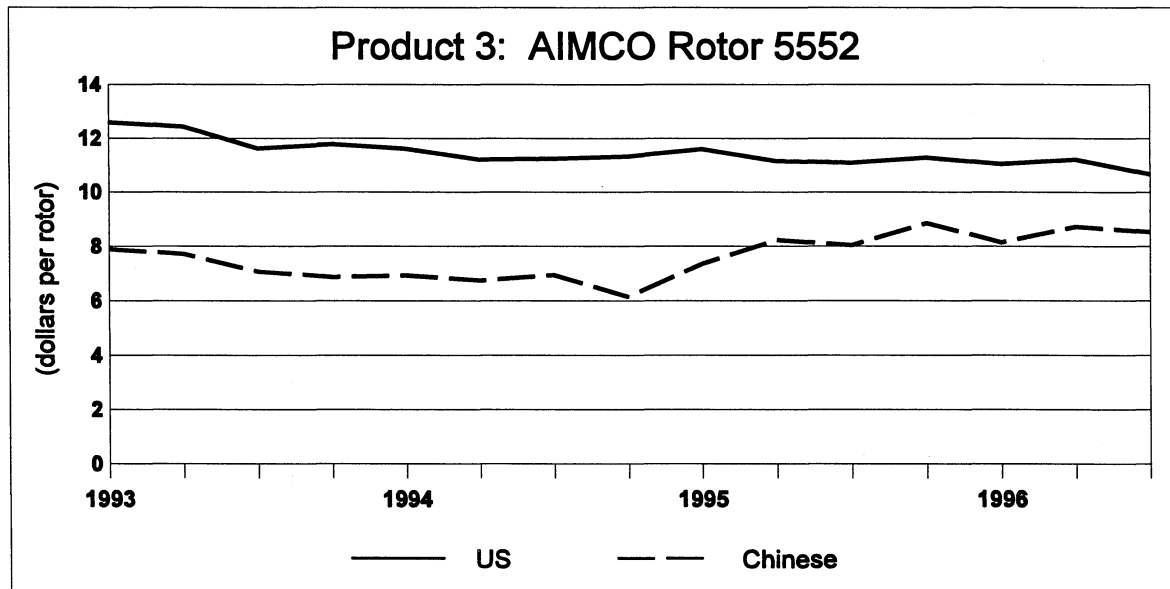
Product 2: Weighted-average net f.o.b. prices for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-2.

Figure V-4

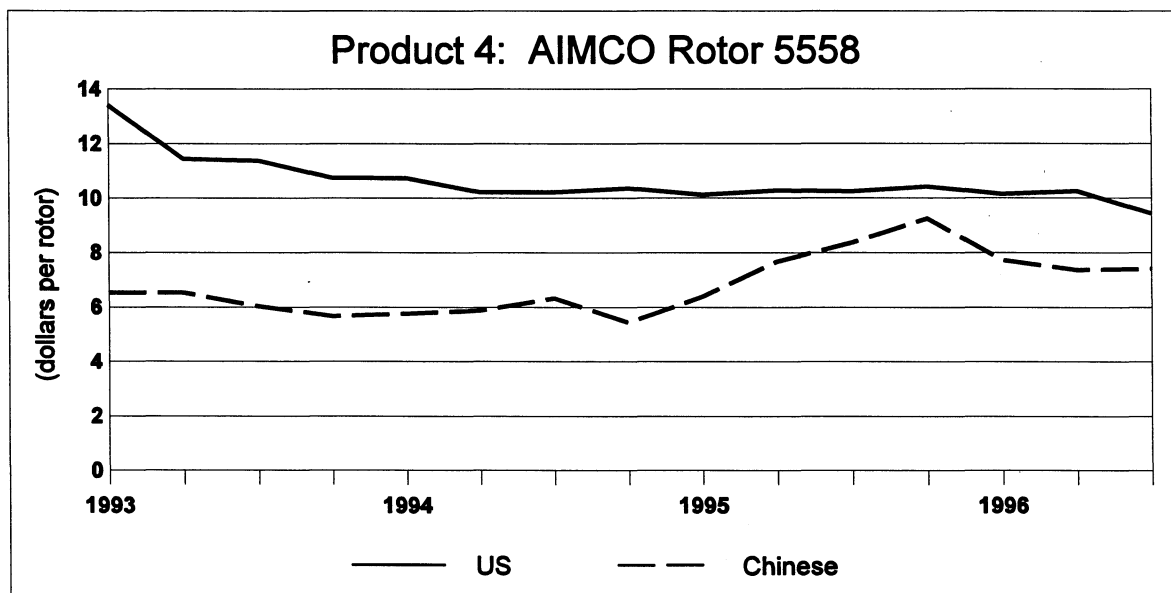
Product 3: Weighted-average net f.o.b. prices for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-3.

Figure V-5

Product 4: Weighted-average net f.o.b. prices for sales reported by U.S. producers and importers, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-4.

Purchaser Prices

Purchase prices for domestically produced and imported brake drums and rotors from China were based on weighted-average net f.o.b. prices reported by purchasers in questionnaire responses. Eleven firms purchasing domestic and/or Chinese-produced brake drums and rotors provided usable price data for January 1993-September 1996, but not necessarily for each product or for each quarter of the period examined. Reported purchase prices for U.S.-produced subject products trended downward during the 15 quarters examined for products 1, 2, and 4, while prices increased slightly for product 3. Purchase prices for Chinese products 2 and 4 increased modestly over the period for which prices were reported, while prices for products 1 and 3 declined. Purchase prices for U.S.-produced and Chinese drum and rotors were reported for 60 and 40 quarters, respectively.

U.S. Product

Purchase prices for AIMCO drum 8839 declined 13.4 percent from \$14.97 to \$12.97 per drum during the period examined.¹² Domestic AIMCO drum 8939 purchase prices declined 9.8 percent from \$16.12 to \$14.54 per drum during the period examined. AIMCO rotor 5552 purchase prices from domestic producers fluctuated in a narrow range, ending the period slightly higher. Prices increased from \$10.36 during the first quarter of 1993 to \$10.82 per rotor during the last quarter examined, increasing 4.4 percent. Domestic prices for AIMCO rotor 5558 were highest at \$16.75 per rotor during January-March 1993, declined sharply the following two quarters, and fluctuated in a relatively narrow range thereafter. Between April-June 1993 and July-September 1996, prices declined 14.4 percent.

Chinese Product

Purchase prices for Chinese AIMCO drum 8839 declined *** percent from *** to \$10.97 per drum during Jan.-Mar. 1994 through July-Sept. 1996.¹³ Chinese AIMCO drum 8939 purchases were reported for Jan.-Mar 1995 through July-Sept. 1996.¹⁴ These prices increased 4.9 percent during this period. Purchase prices for Chinese AIMCO rotor 5552 were reported for Jan.-Mar. 1994 through July-Sept. 1996, declining from \$7.28 to \$7.11 per rotor, or by 2.3 percent.¹⁵ Prices for AIMCO rotor 5558 produced in China fluctuated between \$6.42 and \$8.60 per rotor, but increased 12.8 percent during Jan-Mar. 1994 through July-Sept. 1996.¹⁶

Price Comparisons

Price comparisons were made in 40 of the 60 quarters examined. In 37 of the 40 comparisons Chinese product was priced below the domestic product. Margins of underselling for AIMCO drums 8839 and 8939 were reported in 15 of the 18 comparisons, ranging between *** and 20.9 percent. In three instances Chinese imports were priced higher than domestic product by margins of *** percent. In the 22 comparisons during the period examined between the specified Chinese and U.S. rotors, imports were priced between 15.3 and 38.7 percent lower than domestic product.

¹² No prices were reported for 1993.

¹³ *** firm reported purchase prices for Chinese product 1993.

¹⁴ No prices were reported for 1993 and 1994.

¹⁵ No prices were reported for 1993.

¹⁶ Ibid.

Table V-5

Product 1: Weighted-average f.o.b. net purchase prices and quantities reported by U.S. firms, and margins of under/(over)selling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	\$14.97	6,967	6	(¹)	(¹)	(¹)	(²)
Apr.-June	13.94	12,184	6	(¹)	(¹)	(¹)	(²)
July-Sept.	13.78	8,968	5	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	13.62	13,922	5	(¹)	(¹)	(¹)	(²)
1994--							
Jan.-Mar.	12.20	12,425	6	***	***	2	***
Apr.-June	13.97	13,346	5	***	***	1	***
July-Sept.	13.54	12,141	6	***	***	2	***
Oct.-Dec.	13.10	8,951	5	***	***	1	***
1995--							
Jan.-Mar.	13.42	15,491	8	\$11.74	4,307	5	12.5
Apr.-June	13.13	21,103	9	11.39	1,526	5	13.2
July-Sept.	13.14	13,755	9	11.00	2,697	5	16.3
Oct.-Dec.	12.78	15,343	9	10.92	1,620	4	14.5
1996--							
Jan.-Mar.	13.29	14,859	9	11.07	1,790	6	16.7
Apr.-June	13.14	16,368	9	10.94	3,531	5	16.7
July-Sept.	12.97	15,551	9	10.97	4,171	7	15.5

¹ Data not reported.

² Margins not calculated.

Source: Compiled from data submitted in response to Commission questionnaires.

Table V-6

Product 2: Weighted-average f.o.b. net purchase prices and quantities reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	\$16.12	3,087	5	(¹)	(¹)	(¹)	(²)
Apr.-June	16.11	3,407	6	(¹)	(¹)	(¹)	(²)
July-Sept.	15.86	3,893	6	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	16.19	3,029	5	(¹)	(¹)	(¹)	(²)
1994--							
Jan.-Mar.	15.30	3,757	5	(¹)	(¹)	(¹)	(²)
Apr.-June	15.72	4,313	6	(¹)	(¹)	(¹)	(²)
July-Sept.	15.64	4,702	6	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	14.56	4,990	7	(¹)	(¹)	(¹)	(²)
1995--							
Jan.-Mar.	13.91	9,567	10	\$11.56	569	4	16.9
Apr.-June	14.50	8,436	8	11.48	1,042	5	20.9
July-Sept.	14.67	7,950	8	11.84	869	6	19.3
Oct.-Dec.	14.64	6,856	8	12.96	514	4	11.5
1996--							
Jan.-Mar.	14.57	8,457	9	12.27	1,127	5	15.8
Apr.-June	14.69	9,559	9	11.78	2,939	6	19.8
July-Sept.	14.54	9,341	9	12.13	2,144	6	16.5

¹ Data not reported.

² Margins not calculated.

Source: Compiled from data submitted in response to Commission questionnaires.

Table V-7

Product 3: Weighted-average f.o.b. net purchase prices and quantities reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	\$10.36	32,683	6	(¹)	(¹)	(¹)	(²)
Apr.-June	11.10	35,649	5	(¹)	(¹)	(¹)	(²)
July-Sept.	10.12	41,144	6	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	10.25	35,582	6	(¹)	(¹)	(¹)	(²)
1994--							
Jan.-Mar.	10.15	36,342	6	\$7.28	7,731	3	28.3
Apr.-June	10.83	24,280	5	7.30	2,495	3	32.6
July-Sept.	11.13	35,123	5	***	***	2	***
Oct.-Dec.	10.42	36,319	6	7.18	2,028	3	31.1
1995--							
Jan.-Mar.	11.38	21,798	8	6.97	8,886	5	38.7
Apr.-June	10.76	38,037	8	6.97	10,527	5	35.2
July-Sept.	10.58	34,869	9	7.14	13,245	5	32.5
Oct.-Dec.	10.40	25,441	8	7.01	11,407	6	32.6
1996--							
Jan.-Mar.	10.96	19,318	8	6.90	11,922	6	37.1
Apr.-June	10.70	38,646	8	7.05	16,222	6	34.1
July-Sept.	10.82	37,511	8	7.11	12,741	6	34.3

¹ Data not reported.

² Margins not calculated.

Source: Compiled from data submitted in response to Commission questionnaires.

Table V-8

Product 4: Weighted-average f.o.b. net purchase prices and quantities reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996

Period	United States			China			Margin
	Price (Per unit)	Quantity (Units)	No. of firms	Price (Per unit)	Quantity (Units)	No. of firms	(Percent)
1993--							
Jan.-Mar.	\$16.75	15,796	6	(¹)	(¹)	(¹)	(²)
Apr.-June	10.82	36,739	5	(¹)	(¹)	(¹)	(²)
July-Sept.	9.62	34,555	6	(¹)	(¹)	(¹)	(²)
Oct.-Dec.	9.42	46,527	6	(¹)	(¹)	(¹)	(²)
1994--							
Jan.-Mar.	9.59	33,152	6	\$6.95	6,104	3	27.5
Apr.-June	10.20	29,558	5	8.60	7,142	3	15.7
July-Sept.	10.19	37,908	5	7.24	6,633	4	29.0
Oct.-Dec.	10.55	32,548	5	7.93	11,788	4	24.9
1995--							
Jan.-Mar.	9.79	24,243	7	6.42	11,020	6	34.5
Apr.-June	9.38	28,051	8	7.21	11,554	5	23.1
July-Sept.	9.75	28,075	8	7.05	20,128	6	27.7
Oct.-Dec.	8.76	17,872	9	6.50	17,524	8	25.8
1996--							
Jan.-Mar.	10.00	17,881	8	7.06	22,818	8	29.4
Apr.-June	9.90	32,506	8	7.38	23,623	7	25.5
July-Sept.	9.26	20,916	8	7.84	27,689	6	15.3

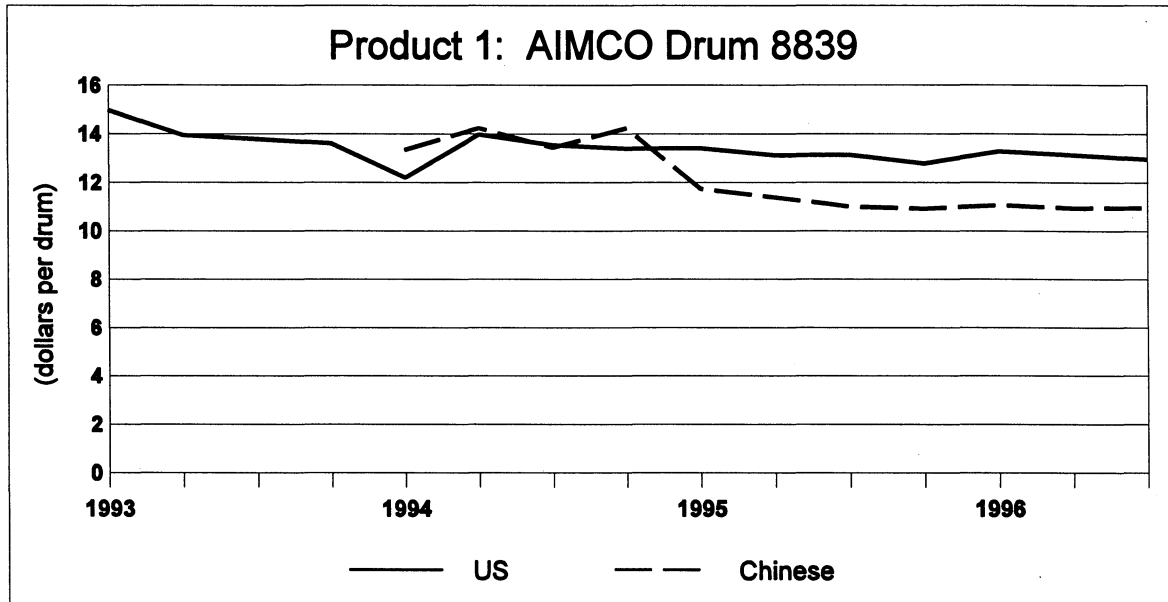
¹ Data not reported.

² Margins not calculated.

Source: Compiled from data submitted in response to Commission questionnaires.

Figure V-6

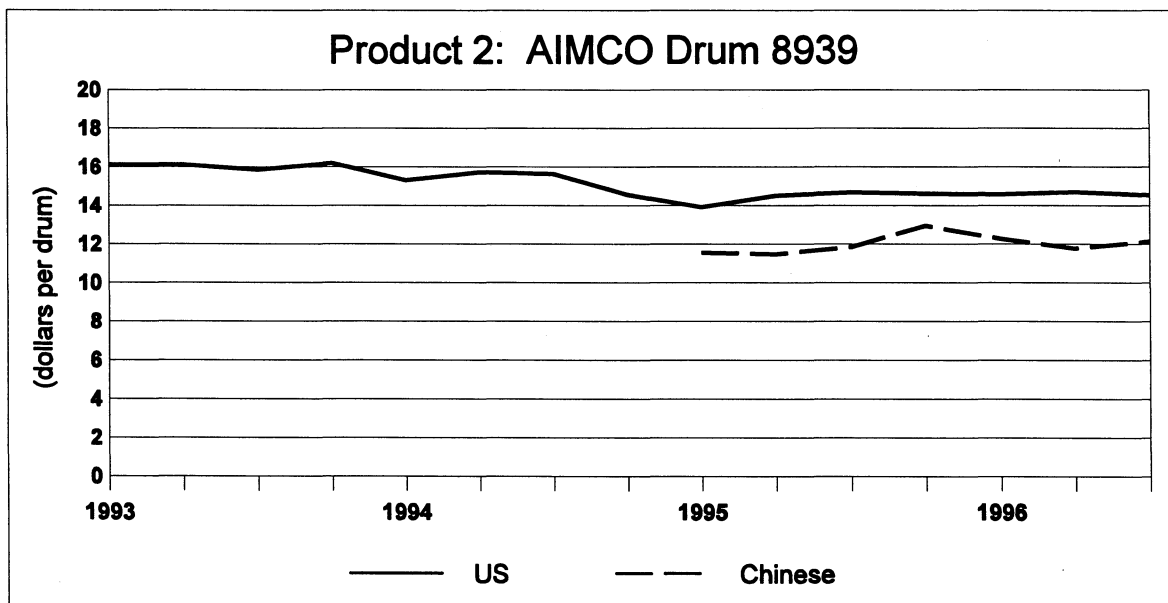
Product 1: Weighted-average net f.o.b. purchase prices reported by U.S. firms, and margins of under/(over)selling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-5.

Figure V-7

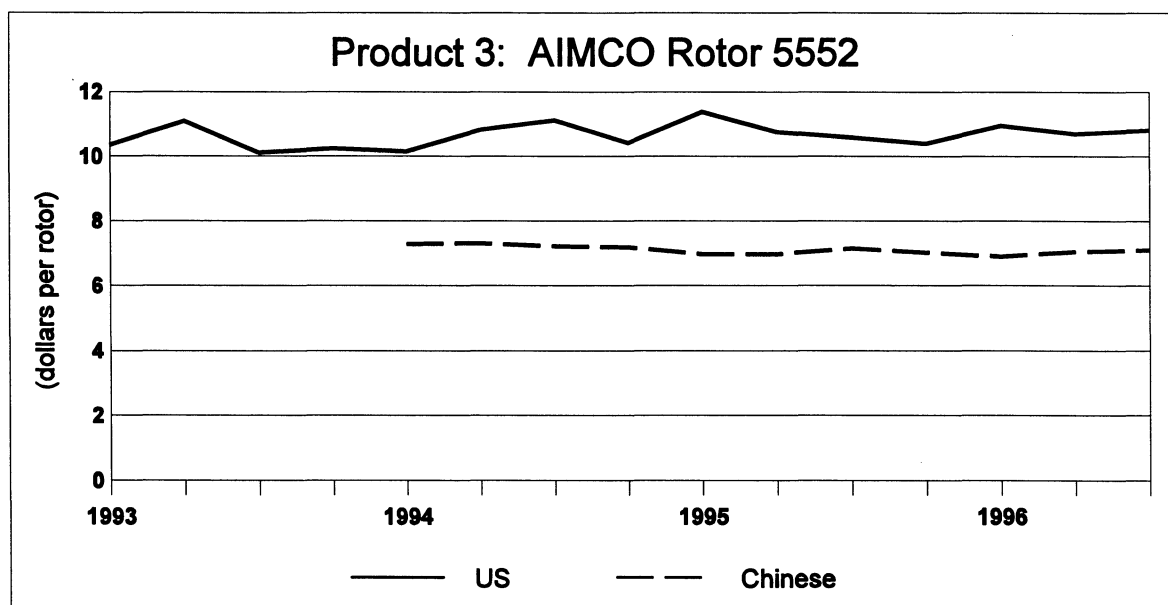
Product 2: Weighted-average net f.o.b. purchase prices reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-6.

Figure V-8

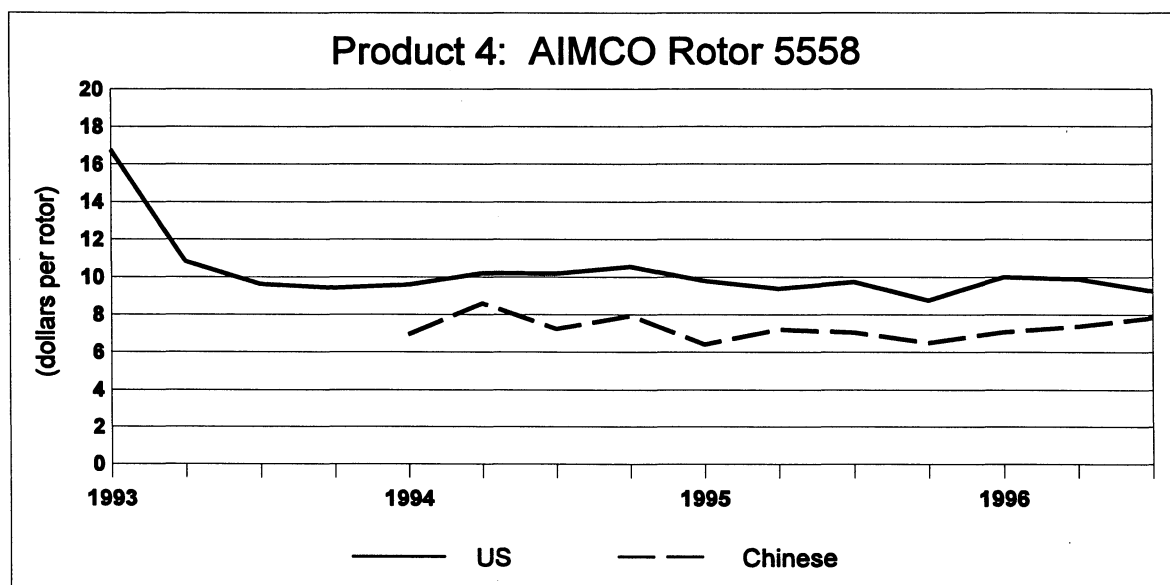
Product 3: Weighted-average net f.o.b. purchase prices reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-7.

Figure V-9

Product 4: Weighted-average net f.o.b. purchase prices reported by U.S. firms, and margins of underselling, by quarters, Jan. 1993-Sept. 1996



Source: Table V-8.

LOST SALES AND LOST REVENUES

The Commission received *** lost sales allegations from the petitioners.¹⁷ Lost sales allegations total ***.¹⁸ The staff was able to contact purchasers regarding 17 instances cited.

In its questionnaire response, *** alleged that it *** due to competition from imports from China. *** cited lost sales of *** to *** in 1993 due to Chinese imports. *** indicated that the alleged value of *** exceeded the average yearly U.S.-produced purchases of approximately ***. *** stated that his firm purchased *** and *** in Chinese brake drums and rotors from *** respectively, during ***. Chinese purchases were similar from the same suppliers during 1993. *** said that until recently Chinese brake drums and rotors were typically priced *** percent lower than domestic products. Recent Chinese price increases have reduced this price difference. *** contends that two separate markets exist, with Chinese brake drums and rotors serving the low-end and domestic producers serving the high-end. *** indicated that purchases from U.S. producers had declined as Chinese purchases rose during the last 3-4 years.¹⁹

***. Staff contacted ***, who said that the amount could not have been that high. He said that *** purchases Chinese products ***. He said that *** purchased only approximately *** for its economy line during that time. He said that *** has only about *** 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 lost sales of *** resulting from Chinese competition. *** stated that in *** began stocking Chinese product due to competitive pressures and that the product was purchased strictly on price. During *** of Chinese product compared to *** in domestic purchases. *** further stated that competitors' Chinese prices had eroded *** sales of ***, but that the market for Chinese imports is leveling off as fewer firms are switching from domestic to Chinese product.²⁰

***, an automotive warehouse distributor in ***, was named in *** reported by ***. *** alleged that in *** it lost about *** in sales of its domestically produced brake drums and rotors to Chinese products imported and sold by *** under the latter firm's *** labels. ***, buyer for ***, asserted that *** produce brake drums and rotors in the United States and also import these products from several countries. He indicated that each year he buys about *** SKU (stock keeping units) brake drum and rotor items from *** and about *** SKU brake drum and rotor items from ***. He also noted that his purchase prices of the *** products are significantly lower than prices of the *** products. He was not able to make a precise price comparison between the *** and *** products, however, because of the large number of different brake drum and rotor products that he buys from each supplier. In addition, his purchase records did not provide enough country of origin detail to allow him to say how much, if any, of the products he purchased from *** were imported from China. *** asserted that *** has lower prices than *** for a number of reasons, including likely lower production and distribution costs as well as a

¹⁷ ***.

¹⁸ The vast majority of producers' reported allegations did not distinguish between drums and rotors. Therefore, except where specifically noted, discussions involve aftermarket brake drums and/or rotors. Also, the total value of allegations by product type (i.e., drum or rotor) cannot be provided.

¹⁹ Staff telephone conversation, Jan. 30, 1997.

²⁰ Ibid.

greater reliance on imports.²¹ *** noted that some customers preferred the domestic products to the imported products because of an impression that the quality of the domestic products was better than that of the imported products. He was unable, however, to identify specific physical characteristics of the domestic brake drums and rotors that would lead to a quality advantage.

***, a regional automotive warehouse distributor and automotive parts retailer headquartered in ***,²² was named in a lost sales allegation reported by ***. *** alleged that in 1995 it lost about *** in sales of its domestically produced brake drums and rotors to Chinese products imported and sold by ***. ***, product manager for ***, indicated that until 1995 it purchased only domestically produced brake drums and rotors, but many of its competitors such as *** and *** were selling lower-priced imported brake drums and rotors. To remain price competitive, *** began offering imported products in 1995, which *** purchased from ***. *** noted that the imported brake drums and rotors he purchased from *** were sourced from several countries, including China, Mexico, Japan, Germany, and some countries in South America. *** asserted that in 1995 he purchased about *** in brake drums and rotors from *** and about *** in brake drums and rotors from ***.²³ *** indicated that *** prices of its imported brake drums and rotors were about *** percent lower compared to prices of *** domestic brake drums and rotors. According to ***, customers that demanded the domestic products were willing to pay a price premium of 5 to 9 percent above prices of the imported products. U.S.-produced brake drums and rotors reportedly have a lower defect rate than the imported products. Because of the large number of SKUs purchased by *** and the multiple country sourcing of ***, *** could not say how much, if any, of the *** in imported brake drums and rotors that his firm purchased from *** in 1995 were imported from China.²⁴

***, a regional automotive warehouse distributor headquartered in ***,²⁵ was named in a lost sales allegation reported by ***. *** alleged that in 1994 it lost *** in sales of its domestically produced brake drums and rotors to *** due to low-priced Chinese products. ***, buyer for ***, indicated that until 1993 his firm purchased only domestically produced brake drums and rotors (from ***), but many of its competitors such as *** and *** were selling lower-priced imported brake drums and rotors. To remain price competitive, *** began offering imported products in 1993, which *** purchased from ***.²⁶ *** noted that the imported brake drums and rotors he purchased from *** were sourced from several countries, including ***. *** checked his purchase volumes and reported the following purchase

²¹ *** asserted that, compared to ***, *** produced a limited line of brake drum and rotor products, had a limited sales force, and had no warehouse facilities.

²² *** has *** distributor outlets and sells to retailers in ***, and ***; the firm also operates *** retail outlets in this *** area.

²³ *** brake drum and rotor purchases involved *** SKUs from *** and *** SKUs from ***.

²⁴ *** indicated that when his firm sells the *** brake drums and rotors they designate such products as import program parts to their customers; they do not specify individual countries of origin.

²⁵ *** is one of *** shareholders in the *** buying group and serves retailer customers in ***.

²⁶ *** purchases of U.S.-produced brake drums and rotors from *** carry the producer's *** label, whereas its purchases of the *** products carry its *** private label. *** indicated that *** also sells an offshore line of brake drums and rotors at a lower price than its domestic products, but *** buys only domestically produced products from ***. *** noted that *** had sent his firm some imported products instead of domestic products in an order and *** sent them back.

expenditures (in dollars) for U.S.-produced brake drums and rotors from *** and those purchased from *** during 1993-96.

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
*** ²⁷	***	***	***	***
***	***	***	***	***

According to ***, the brake drums and rotors that it purchases from *** run *** percent cheaper than comparable products from ***.²⁸ *** considered the quality of the domestic and imported products to be comparable. Using *** 1996 warranty claim data for its sales of brake drums and rotors, *** reported that *** percent of its sales (by value) of *** products were returned to *** by its customers for defects and *** percent of its sales (by value) of its *** label supplied by *** were returned. *** characterized the difference in return rates as negligible. Because of the large number of brake drum and rotor products purchased by *** and the multiple country sourcing of ***, *** could not say how much, if any, of the imported brake drums and rotors that his firm purchased from *** during 1993-96 were imported from China.

***, a regional automotive warehouse distributor headquartered in ***,²⁹ was named in a lost sales allegation reported by ***. *** alleged that in 1995 it lost *** in sales of its domestically produced brake drums and rotors to *** due to low-priced Chinese products. ***, warehouse manager for ***, indicated that until 1995 his firm purchased only domestically produced brake drums and rotors, primarily from ***. In 1995, *** bought about *** worth of foreign produced brake drums and rotors, all from ***, a U.S. importer that reportedly sourced these products from several countries, including China, Canada, and some South American countries. In 1996, *** purchased about *** worth of imported Chinese brake drums and rotors, all from ***, a U.S. importer of auto parts. *** indicated that prices of the Chinese products were about *** percent less than prices of the U.S.-produced products. As an example, he noted that U.S.-made rotors cost his firm about *** per unit, while for a comparable Chinese rotor the price is *** per unit. *** felt that the quality of the domestic and imported brake drums and rotors was comparable.³⁰ *** asserted that his firm's purchases of the imported brake drums and rotors were in addition to, not instead of, its purchases of the U.S.-produced products. He explained that his firm bought the imported products to compete in the low-price end of the market where domestic products do not compete. But he emphasized that his firm did so only after its concerns about quality of the imported products had been satisfied. *** indicated that many of his firm's customers still prefer the U.S.-produced brake drums and rotors because they perceive these products to be a better quality than the imported products or because of "Buy-American" policies/preferences.

²⁷ *** commented that declining dollar purchases from *** during 1994-96 largely reflected ***, while the physical volume of brake drums and rotors *** purchased from *** was stable during this period.

²⁸ *** felt that imports of brake drums and rotors have reduced significantly the cost of these products to consumers in the aftermarket. He asserted that today rotors retail for as little \$10 to \$15, whereas 10 years ago the retail price was \$50 to \$60.

²⁹ *** sells to auto parts retailers in northern *** and southern ***.

³⁰ *** explained that his firm initially was concerned about quality and, hence, potential liability problems with the imported brake drums and rotors. But in 1995 *** purchased the imported products based on discussions with their customers indicating that the quality of the domestic and imported products was comparable.

***,³¹ a regional automotive warehouse distributor headquartered in ***, was named in seven lost sales allegations reported by ***. *** alleged that, in 1995, it lost a total of *** in sales of its domestically produced brake drums and rotors to *** due to low-priced Chinese products.³² In addition, it alleged losing another *** in sales of its domestically produced brake drums and rotors to *** during 1993-96.³³ ***, Vice President of Operations for ***, indicated that the dollar figures for its purchases of brake drums and rotors from *** and *** were correct, but he strongly disputed the assertion that all of the brake drums and rotors were of Chinese origin. He explained that *** is his firm's principal supplier of brake drums and rotors and that no more than *** of the *** of its cited purchases from that supplier were of Chinese origin. The remaining *** in brake drums and rotors were sourced by *** from other foreign countries such as Korea, Venezuela, and other South American countries, and from suppliers of U.S.-produced brake drums and rotors.³⁴ He indicated, however, that all of his firm's purchases of the cited *** in brake drums and rotors from *** were of Chinese origin. *** explained that this represented a one-time purchase from *** and that his firm has not purchased any brake drums and rotors from *** since then because his customers perceived Chinese brake drums and rotors to be inferior in quality to the domestic products. *** noted that his firm's purchases of brake drums and rotors from *** have increased over the last two years because this supplier offers readily available, good quality products at attractive prices.³⁵ He indicated that *** prices of brake drums and rotors typically run *** percent less than prices of the U.S. producers.³⁶

***, a regional automotive-parts distributor headquartered in ***,³⁷ was named in a lost sales allegation reported by ***. *** alleged that, in 1994, it lost *** in sales of its domestically produced brake drums and rotors to *** due to low-priced Chinese products imported by ***. ***, purchaser for ***, indicated that his firm buys three domestic lines and one foreign line of brake drums and rotors. The three domestic labels are ***; the foreign line is the *** label. He indicated that the *** brake drums and rotors are about *** percent lower in price than the domestic products but the product quality is comparable. As a result, his sales of the *** brake drums and rotors have increased and sales of the domestically produced products have fallen in the last three years. *** noted that about *** percent of his purchases of the *** brake drums and rotors were produced in China and the remainder were produced in Mexico and other countries. He felt that in 1994 his firm purchased about *** of imported *** brake drums and rotors instead of the domestic products.

***, a regional automotive-parts distributor in ***,³⁸ was named in a lost sales allegation reported by ***. *** alleged that, in 1994, it lost *** in sales of its domestically produced brake drums and

³¹ *** sells brake drums and rotors primarily to automotive parts jobbers from several different warehouse locations on the ***. *** warehouses identified by *** in its lost sales allegations are ***, and the following city and state locations: ***.

³² One importer, ***, reportedly supplied *** in imported brake drums and rotors and, another importer, ***, reportedly supplied *** in imported brake drums and rotors.

³³ *** reportedly supplied all of these imported brake drums and rotors.

³⁴ *** felt that *** obtained U.S.-produced products from closeout sales of U.S. automotive parts distributors and retailers.

³⁵ *** reported that his firm purchased 35 different brake drum and rotor part numbers from *** in 1996 at a total purchase value of ***. Because of increased demand for the *** products, his firm is currently purchasing 86 different part numbers from ***.

³⁶ *** noted that his firm also buys brake drums and rotors from Canada, which, he asserts, have undersold the U.S. products by up to 20 percent over the last several years.

³⁷ *** sells to about *** automotive retail outlets in the ***.

³⁸ *** sells to jobbers in eastern ***.

rotors to *** due to low-priced Chinese products imported by ***. ***, purchaser for ***, reported that his firm bought *** in brake drums and rotors from *** during 1994. *** did not know how much, if any, of *** brake drums and rotors were of Chinese origin. *** explained that he used to buy private label *** brake drums and rotors from *** and also *** regular label products; *** sold the private label products for about *** percent less than its regular label products. *** now buys all the *** brake drums and rotors from *** because its prices are about *** percent lower than *** prices for the *** products. He reported that he still buys *** regular label brake drums and rotors and so far this year he has purchased twice as much from *** than he has from ***.

*** 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 *** percent price reduction resulted from this manufacturing audit and not from competition from Chinese imports.

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

*** alleged that it lost a sale in *** for aftermarket rotors to *** due to competition from Chinese imports. *** that showed the Chinese price for *** as *** and *** price as ***. *** but found the current price for the Chinese import in his information system and stated that it was ***. He stated that *** bought the castings for these rotors in China and machined them in the United States and sold them for ***. He said that ***.

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

BACKGROUND

Seven U.S. producers reported income-and-loss data on their operations producing aftermarket and OEM brake drums and aftermarket brake rotors as follows:

	<u>Aftermarket brake drums</u>	<u>Aftermarket brake rotors</u>	<u>OEM brake drums</u>
Brake Parts	Yes	Yes	(1)
Iroquois.	(1)	Yes	(1)
ITT Automotive	Yes	Yes	(1)
Kinetic	(1)	Yes	(1)
Overseas	(1)	Yes	(1)
Simpson Industries	(1)	(1)	Yes
Wagner	Yes	Yes	(1)

(1) Not applicable.

No U.S. producer reported financial data on OEM brake rotors. Brake Parts provided financial data for the fiscal years ending August 31 of 1994, 1995, and 1996. The fiscal year end for the six other companies is December 31. Data for Wagner were verified by the Commission's staff. As a result of the verification, Wagner changed its originally-reported income-and-loss data for aftermarket brake drums and rotors.

OPERATIONS ON AFTERMARKET BRAKE DRUMS

Income-and-loss data on aftermarket brake drums are shown in table VI-1. Net sales value increased each year but decreased in interim 1996 compared with interim 1995. The operating income margin fluctuated, decreasing in 1994 and then increasing in 1995 but not to the level realized in 1993. Selected financial data for the three producers are shown in table VI-2. ***. Changes in product mix have an effect on any brake drum unit value analysis. In addition, ***.

Table VI-1

Income-and-loss experience of U.S. producers on their aftermarket brake drum operations, 1993-95,
Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	Fiscal year ended--			Jan.-Sept.--	
	1993	1994	1995	1995	1996
Quantity (1,000 units)					
Net sales.	2,392	2,781	2,908	2,023	2,046
Value (\$1,000)					
Net sales.	43,668	49,491	52,065	38,426	38,329
Cost of goods sold.	28,741	34,628	35,221	26,517	24,869
Gross profit	14,927	14,863	16,844	11,909	13,460
SG&A expenses	7,713	8,219	9,065	6,602	6,305
Operating income	7,214	6,644	7,779	5,307	7,155
Interest expense	379	435	720	483	501
Other expense	***	***	***	***	***
Other income	***	***	***	***	***
Net income before income taxes.	6,475	5,629	6,545	4,395	6,162
Depreciation/amortization	1,525	1,787	1,708	1,222	1,189
Cash flow	8,000	7,416	8,253	5,617	7,351
Ratio to net sales value (percent)					
Cost of goods sold	65.8	70.0	67.6	69.0	64.9
Gross profit	34.2	30.0	32.4	31.0	35.1
SG&A expenses.	17.7	16.6	17.4	17.2	16.4
Operating income	16.5	13.4	14.9	13.8	18.7
Net income before income taxes.	14.8	11.4	12.6	11.4	16.1
Value (per unit)					
Net sales	\$18.26	\$17.80	\$17.90	\$18.99	\$18.73
Cost of goods sold.	12.02	12.45	12.11	13.11	12.15
Gross profit	6.24	5.34	5.79	5.89	6.58
SG&A expenses	3.22	2.96	3.12	3.26	3.08
Operating income	3.02	2.39	2.68	2.62	3.50
Number of firms reporting					
Operating losses.	0	0	0	0	0
Net losses.	1	0	0	0	0
Data.	3	3	3	3	3

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

Table VI-2

Selected income-and-loss data of U.S. producers (by firm) on their aftermarket brake drum operations, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

OPERATIONS ON AFTERMARKET BRAKE ROTORS

Income-and-loss data for the producers of aftermarket brake rotors are shown in table VI-3. Net sales quantity and value increased each year and also increased in interim 1996 compared to interim 1995. The operating income margin for the combined companies decreased substantially in 1994, increased slightly in 1995, and also increased in interim 1996 compared with interim 1995. Selected financial data for the six producers¹ are shown in table VI-4. ***. Changes in product mix have an effect on any rotor unit value analysis. In addition, ***.

OPERATIONS ON OEM BRAKE DRUMS

Income-and-loss data for Simpson, the only reporting producer of OEM brake drums, are shown in table VI-5. ***.

¹ ***.

Table VI-3

Income-and-loss experience of U.S. producers on their aftermarket brake rotor operations, 1993-95,
Jan.-Sept. 1995, and Jan.-Sept. 1996

Item	Fiscal year ended--		1995	Jan.-Sept.--	
	1993	1994		1995	1996
Quantity (1,000 units)					
Net sales.	9,483	10,730	11,373	8,099	8,828
Value (\$1,000)					
Net sales	152,459	169,965	182,086	128,668	147,159
Cost of goods sold.	110,593	130,807	139,611	98,502	109,147
Gross profit	41,866	39,158	42,475	30,166	38,012
SG&A expenses	28,563	30,651	32,631	23,823	27,588
Operating income	13,303	8,507	9,844	6,342	10,424
Interest expense	1,613	2,172	2,964	2,045	2,620
Other expense	***	***	***	***	***
Other income	***	***	***	***	***
Net income before income taxes.	10,718	4,882	5,834	3,699	6,786
Depreciation/amortization	4,906	5,978	6,553	4,685	4,820
Cash flow	15,624	10,860	12,387	8,383	11,606
Ratio to net sales value (percent)					
Cost of goods sold	72.5	77.0	76.7	76.6	74.2
Gross profit.	27.5	23.0	23.3	23.4	25.8
SG&A expenses.	18.7	18.0	17.9	18.5	18.7
Operating income	8.7	5.0	5.4	4.9	7.1
Net income before income taxes.	7.0	2.9	3.2	2.9	4.6
Value (per unit)					
Net sales	\$16.08	\$15.84	\$16.01	\$15.89	\$16.67
Cost of goods sold.	11.66	12.19	12.28	12.16	12.36
Gross profit	4.41	3.65	3.73	3.72	4.31
SG&A expenses	3.01	2.86	2.87	2.94	3.13
Operating income	1.40	0.79	0.87	0.78	1.18
Number of firms reporting					
Operating losses.	1	3	4	3	2
Net losses.	1	4	4	4	4
Data.	5	6	6	6	6

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

Table VI-4

Selected income-and-loss data of U.S. producers (by firm) on their aftermarket brake rotor operations, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

Table VI-5

Income-and-loss experience of Simpson Industries on its OEM brake drum operations, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

VALUE ADDED

The value added as a percent of cost of goods sold and as a percent of total operating expenses, by product and by firm, for 1995 is presented in the following tabulation:

	<u>Aftermarket brake drums</u>	<u>Aftermarket brake rotors</u>	<u>OEM brake drums</u>
Percent of cost of goods sold:			
Brake Parts	***	***	---
Iroquois.	---	***	---
ITT Automotive	***	***	---
Kinetic	---	***	---
Overseas	---	***	---
Simpson Industries	---	---	***
Wagner	***	***	---
Percent of operating expenses:			
Brake Parts	***	***	---
Iroquois.	---	***	---
ITT Automotive	***	***	---
Kinetic	---	***	---
Overseas	---	***	---
Simpson Industries	---	---	***
Wagner	***	***	---

An analysis of the components of cost of goods sold (raw material, direct labor, and other factory overhead) for each company for aftermarket brake drums for 1995 indicates that the value added to raw material as a percent of cost of goods sold was ***. Adding SG&A expenses and computing the value added as a percent of total operating expenses results in ***.

A similar analysis for aftermarket brake rotors for 1995 indicates that the value added to raw material as a percent of cost of goods sold for those companies beginning production with castings ranged from ***. The value added as a percent of total operating expenses results in a range for those producers beginning production with castings from ***.

An analysis for Simpson Industries for OEM brake drums for 1995 indicates that the value added to raw material as a percent of cost of goods sold was ***.

INVESTMENT IN PRODUCTIVE FACILITIES

The original cost and the book value of property, plant, and equipment used in the production of aftermarket brake drums and rotors and OEM brake drums are shown in table VI-6.

Table VI-6

Property, plant, and equipment of U.S. producers, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

Capital expenditures and research and development expenses are shown by product in table VI-7.

Table VI-7

Capital expenditures and research and development expenses of U.S. producers, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

* * * * *

CAPITAL AND INVESTMENT

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

PART VII: THREAT CONSIDERATIONS

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, respectively; 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 any dumping in third-country markets, follows.

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 Counsel representing the Chinese aftermarket brake drum and rotor producers, exporters, and/or manufacturers that received company-specific rates at Commerce provided information with regard to their clients' operations in China (tables VII-1 and VII-2). Exports from responding Chinese brake drum producers (table VII-1) were equivalent to 43.5 percent of imports of LTFV aftermarket brake drums² from China in 1995³ while reported rotor exports (table VII-2) were equivalent to 29.4 percent of LTFV rotor imports⁴ from China for the same year.⁵

For both aftermarket brake drums and rotors, the United States served as the primary market for Chinese products. From 1994 through September 1996, more than 91 percent of Chinese LTFV brake drum shipments went to the United States, with most of the balance going to the home market. With respect to rotors, the share of LTFV shipments going to the United States grew from nearly 53 percent in 1993 to just over 65 percent in January-September 1996. The balance of rotor shipments was roughly split between the home market and third country markets. Canada, France, Germany, Japan, Korea, and the United Kingdom were noted as third country markets. Most of the responding firms reported no production of products other than aftermarket brake drums and rotors on the equipment and machinery used in the production of the subject products.

Petitioner contends that capacity to produce aftermarket brake drums and rotors is expanding in China, and cites, in part, information obtained through Huajia International Co. indicating that production of Chinese rotors "started" four or five years ago and that there are four main centers of

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

² Calculated by comparing "exports to the United States" in table VII-1 with LTFV brake drum imports from China in table IV-1. Data from firms that were excluded with a 0.00 percent finding are not included in table VII-1.

³ ***.

⁴ Calculated by comparing "exports to the United States" in table VII-2 with LTFV brake rotor imports from China in table IV-1. Data from firms that were excluded with a 0.00 percent finding are not included in table VII-2.

⁵ ***.

Table VII-1

Aftermarket brake drums: Capacity, production, inventories, capacity utilization, and shipments of reporting Chinese firms receiving LTFV margins at Commerce, 1993-95, Jan.-Sept. 1995, Jan.-Sept. 1996, and projected 1996-97

* * * * *

Table VII-2

Aftermarket brake rotors: Capacity, production, inventories, capacity utilization, and shipments of reporting Chinese firms receiving LTFV margins at Commerce, 1993-95, Jan.-Sept. 1995, Jan.-Sept. 1996, and projected 1996-97

Item	1993	1994	1995	Jan.-Sept.		Projected	
				1995	1996	1996	1997
Quantity (1,000 units)							
Capacity	1,334	2,006	2,833	2,372	2,748	2,754	2,136
Production	1,241	1,747	2,419	1,873	1,964	1,761	1,402
End-of-period inventories	48	62	101	129	76	76	78
Shipments:							
Home market	286	362	412	287	377	382	400
Exports to:							
United States	643	970	1,507	1,215	1,296	1,088	619
All other markets	292	402	461	304	315	315	354
Total exports	935	1,372	1,968	1,519	1,611	1,403	973
Total shipments	1,221	1,734	2,380	1,806	1,988	1,785	1,373
Ratios and shares (percent)							
Capacity utilization	93.0	87.1	85.4	79.0	71.5	63.9	65.6
Inventories/production	3.9	3.5	4.2	5.2	2.9	4.3	5.6
Inventories/shipments	3.9	3.6	4.3	5.4	2.9	4.3	5.7
Share of total shipments:							
Home market	23.4	20.9	17.3	15.9	19.0	21.4	29.1
Exports to:							
United States	52.7	55.9	63.3	67.3	65.2	61.0	45.1
All other markets	23.9	23.2	19.4	16.8	15.8	17.6	25.8
Total exports	76.6	79.1	82.7	84.1	81.0	78.6	70.9

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

rotor production in China, namely, in Shenyang, Shanxi, Sichuan, and Shandong.⁶ Respondents, in 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.⁷

In response to the question "Has your firm imported or arranged for the importation of aftermarket (non-OEM) brake drums or rotors from China for delivery after September 30, 1996?", importer questionnaire respondents reported plans for the importation of just over 300,000 brake drums and more than 715,000 rotors.⁸

There is no indication that brake drums or rotors from China have been the subject of any other import relief investigations, including antidumping findings or remedies, in the United States or in any other countries.

U.S. IMPORTERS' INVENTORIES

U.S. importers' end-of-period inventories are presented in table VII-3.

Table VII-3

Aftermarket brake drums and rotors: U.S. importers' end-of-period inventories of Chinese product, by product, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

				<u>Jan.-Sept.</u>	
Item	1993	1994	1995	1995	1996
Aftermarket brake drums:					
Inventories (<i>1,000 units</i>)	134	301	364	322	404
Ratio to imports (<i>percent</i>)	45.7	44.9	42.1	32.7	37.6
Ratio to U.S shipments of imports (<i>percent</i>)	59.6	59.6	45.5	34.5	41.9
Aftermarket brake rotors:					
Inventories (<i>1,000 units</i>)	739	1,159	1,366	1,147	1,515
Ratio to imports (<i>percent</i>)	36.9	25.1	21.8	21.2	21.8
Ratio to U.S shipments of imports (<i>percent</i>)	42.0	28.1	22.6	22.2	22.7

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

⁶ Huajia International Co. information, submitted as exhibit L to the petition. Of the 11 firms providing rotor information for this report, five reported no production in 1993 ***. For the four brake drum firms providing data, two had no production in 1993 ***.

⁷ Respondents' postconference brief, pp. 45-46.

⁸ The latter number includes planned purchases by *** and imports of approximately ***.

APPENDIX A
***FEDERAL REGISTER* NOTICES**

International Trade Administration**[A-570-845, A-570-846]****Notice of Final Determinations of Sales at Less Than Fair Value: Brake Drums and Brake Rotors From the People's Republic of China**

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

EFFECTIVE DATE: February 28, 1997.

FOR FURTHER INFORMATION CONTACT:
Brian C. Smith or Michelle A. Frederick,
Import Administration, International
Trade Administration, U.S. Department
of Commerce, 14th Street and
Constitution Avenue, N.W.,
Washington, D.C. 20230; telephone:
(202) 482-1766 and (202) 482-0186,
respectively.

THE APPLICABLE STATUTE: Unless
otherwise indicated, all citations to the
Tariff Act of 1930, as amended (the Act)
are references to the provisions effective
January 1, 1995, the effective date of the
amendments made to the Act by the
Uruguay Rounds Agreements Act
(URAA).

FINAL DETERMINATIONS: We determine
that 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
(LTFV), as provided in section 735 of
the Act.

Case History

Since the amended preliminary
determination in the brake drum
investigation (Amended Preliminary
Determination of Sales at Less Than Fair
Value: Brake Drums from the People's
Republic of China, 61 FR 60682
(November 29, 1996)), the following
events have occurred:

The petitioner, the Coalition for the
Preservation of American Brake Drum
and Rotor Aftermarket Manufacturers,
and all of the respondents¹ requested a
hearing.

¹ The respondents in the brake drums case are:
(1) China North Industries Guangzhou Corporation
(CNIGC); (2) Qingdao Metal, Minerals & Machinery
Import & Export Corporation (Qingdao); (3) China
National Machinery Import & Export Corporation
(CMC); (4) Beijing Xinchangyuan Automobile
Fittings Corporation, Ltd. (Xinchangyuan); and (5)
Yantai Import/Export Corporation (Yantai).

The respondents in the brake rotors case are:
China National Automotive Industry Import &
Export Corporation (CAIEC), Shandong Laizhou
CAPCO Industry (Laizhou CAPCO) and their U.S.
affiliate CAPCO International USA (CAPCO
USA) (collectively CAIEC/Laizhou CAPCO); CNIGC;
China North Industries Dalian Corporation (Dalian);
Shenyang Honbase Machinery Co., Ltd., Lai Zhou
Luyuan Automobile Fitting Co., Ltd. (collectively
Shenyang/Laizhou) and their U.S. affiliates MAT
Automotive, Inc., and Midwest Air Technologies,

From October 1996 through January
1997, we verified the questionnaire
responses of the selected respondents.
In January 1997, we issued our
verification reports.

Interested parties submitted
additional information on surrogate
values on January 9 and 10, 1997, for
consideration in the final
determinations. Also in January 1997, at
the Department's request, we received
revised computer tapes incorporating
data corrections identified at the
verifications from the following
respondents: CAIEC, Dalian, Qingdao,
Shenyang/Laizhou, Southwest,
Xinchangyuan and Xinjiang.

The petitioner and all of the
respondents submitted case briefs on
January 21, 1997, and rebuttal briefs on
January 27, 1997. The Department held
a public hearing for these investigations
on January 29, 1997.

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

Inc. (MAT); Southwest Technical Import & Export
Corporation, Yangtze Machinery Corporation
(collectively Southwest), and its U.S. affiliate MMB
International, Inc. (MMB); China National
Machinery and Equipment Import & Export
(Xinjiang) Corporation, Ltd. (Xinjiang); and Yantai.

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 HTSUS. Although the HTSUS subheading is provided for convenience and Customs purposes, our written description of the scope of this investigation is dispositive.

Period of Investigations

The period of these investigations (POI) comprises each exporter's two most recent fiscal quarters prior to the filing of the petition. For Southwest, the POI is June 1995–December 1995. For all other respondents, the POI is July 1995–December 1995.

Separate Rates

Each of the participating respondents in these investigations claim to be eligible for individual dumping margins. Of those, CAIEC/Laizhou CAPCO, CMC, CNIGC, Dalian, Qingdao,

Southwest, Xinjiang and Yantai claim to be owned by "all the people."

The ownership structure of the remaining respondents is as follows:

(1) Shenyang/Laizhou are affiliated parties. Shenyang is owned entirely by GRI Honbase, a Hong Kong company which is U.S. owned. Laizhou is a joint venture between GRI Honbase and "all the people." The share in Laizhou owned by "all the people" is a minority share.

(2) Xinchangyuan is a joint venture between a U.S. company and a PRC company, Beijing Changyuan Automotive Parts Factory. The PRC company is the majority shareholder and is owned by "all the people."

As stated in the Final Determination of Sales at Less than Fair Value: Silicon Carbide from the People's Republic of China, 59 FR 22585, 22586 (May 2, 1994) (Silicon Carbide) and in the Final Determination of Sales at Less than Fair Value: Furfuryl Alcohol from the People's Republic of China, 60 FR 22544 (May 8, 1995) (Furfuryl Alcohol), ownership of a company by "all the people" does not require the application of a single rate. Accordingly, each of these respondents is eligible for separate rate consideration.

To establish whether a firm is sufficiently independent from government control to be entitled to a separate rate, the Department analyzes each exporting entity under a test arising out of the Final Determination of Sales at Less Than Fair Value: Sparklers from the People's Republic of China, 56 FR 20588 (May 6, 1991) (Sparklers) and amplified in Silicon Carbide. Under the separate rates criteria, the Department assigns separate rates in nonmarket economy cases only if the respondents can demonstrate the absence of both *de jure* and *de facto* governmental control over export activities.

1. Absence of De Jure Control

Each of the respondents has placed on the administrative record a number of documents to demonstrate absence of *de jure* control, including laws, regulations and provisions enacted by the State Council of the central government of the PRC. Each has also submitted documents which establish that brake drums and brake rotors are not included on the list of products that may be subject to central government export constraints. In addition, the respondents Xinchangyuan and Laizhou each submitted the "Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures" (April 13, 1988). The articles of this law authorize joint venture companies to make their

own operational and managerial decisions.

In prior cases, the Department has analyzed the laws which the respondents have submitted in this record and found that they establish an absence of *de jure* control. See Notice of Final Determination of Sales at Less Than Fair Value: Certain Partial-Extension Steel Drawer Slides With Rollers From the People's Republic of China, 60 FR 54472 (October 24, 1995) (Drawer Slides); see also Furfuryl Alcohol. We have no new information in these proceedings which would cause us to reconsider this determination.

However, as in previous cases, there is some evidence that the PRC central government enactments have not been implemented uniformly among different sectors and/or jurisdictions in the PRC. (See Silicon Carbide and Furfuryl Alcohol.) Therefore, the Department has determined that an analysis of *de facto* control is critical in determining whether respondents are, in fact, subject to a degree of governmental control which would preclude the Department from assigning separate rates.

2. Absence of De Facto Control

The Department typically considers four factors in evaluating whether each respondent is subject to *de facto* governmental control of its export functions: (1) Whether the export prices are set by or subject to the approval of a governmental authority; (2) whether the respondent has authority to negotiate and sign contracts and other agreements; (3) whether the respondent has autonomy from the government in making decisions regarding the selection of management; and (4) whether the respondent retains the proceeds of its export sales and makes independent decisions regarding disposition of profits or financing of losses (see Silicon Carbide and Furfuryl Alcohol). These factors are not necessarily exhaustive and other relevant indicia of government control may be considered.

CAIEC/Laizhou CAPCO, CMC, Qingdao, Shenyang/Laizhou, Southwest, Xinchangyuan, Xinjiang, and Yantai asserted, and we verified, the following: (1) They establish their own export prices; (2) they negotiate contracts, without guidance from any governmental entities or organizations; (3) they make their own personnel decisions; and (4) they retain the proceeds of their export sales, use profits according to their business needs and have the authority to sell their assets and to obtain loans. In addition, the questionnaire responses submitted by the above-referenced respondents

indicate company-specific pricing during the POI which does not suggest coordination among exporters. During the verification proceedings, Department officials viewed such evidence as sales documents, company correspondence, and bank statements. This information supports a finding that there is a *de facto* absence of government control of the export functions of these companies. Consequently, we have determined that these exporters have met the criteria for the application of separate rates.

CNIGC and Dalian also claimed separate rates and provided additional documentation at verification in support of their claims that there is a *de facto* absence of government control of the export functions of their companies. However, for the final determinations, we have denied these respondents separate rates. Since the preliminary determinations, we have collected additional information which indicates that CNIGC and Dalian are still branches of the national corporation, China North Industries Corporation (NORINCO), which is controlled by the PRC government (see Comment 1 for further discussion).

China-Wide Rate

U.S. import statistics indicate that the total quantity and value of U.S. imports of brake drums and brake rotors from the PRC is substantially greater than the total quantity and value of brake drums and brake rotors reported by all PRC companies that submitted responses in both the brake drums and brake rotors cases. Given these significant discrepancies, we have no choice but to conclude that not all exporters of PRC brake drums and brake rotors responded to our questionnaire. Accordingly, we are applying in each investigation a single antidumping deposit rate—the China-wide rate—to all exporters in the PRC (other than those named above and those exporters which cooperated with our investigations but which were not selected as respondents and received separate rates), based on our presumption that those respondents who failed to show that they are entitled to separate rates are under common control by the PRC government. See, e.g., Final Determination of Sales at Less Than Fair Value: Bicycles from the People's Republic of China, 61 FR 19026 (April 30, 1996) (Bicycles).

Facts Available

The China-wide antidumping rate is based on adverse facts available. Section 776(a)(2) of the Act provides that "if an interested party or any other person— (A) withholds information that has been

requested by the administering authority; (B) fails to provide such information by the deadlines for the submission of the information or in the form and manner requested, subject to subsections (c)(1) and (e) of section 782; (C) significantly impedes a proceeding under this title; or (D) provides such information but the information cannot be verified as provided in section 782(i), the administering authority * * * shall, subject to section 782(d), use the facts otherwise available in reaching the applicable determination under this title."

In addition, section 776(b) of the Act provides that, if the Department finds that an interested party "has failed to cooperate by not acting to the best of its ability to comply with a request for information," the Department may use information that is adverse to the interests of that party as the facts otherwise available. The statute also provides that such an adverse inference may be based on secondary information, including information drawn from the petition.

When multiple companies are treated as a single enterprise, the enterprise must submit a complete, consolidated response. If it fails to do so, the Department may base the margin calculation for the enterprise on the facts available. Additionally, as discussed above, those PRC exporters that have not qualified for a separate rate have been treated as a single enterprise. Because some exporters of the single enterprise failed to respond to the Department's requests for information, that single enterprise is considered to have failed to cooperate to the best of its ability. Accordingly, consistent with section 776(b)(1) of the Act, we have applied in each investigation the higher of the applicable margin from the petition or the highest rate calculated for a respondent in each proceeding as total adverse facts available. In both cases, based on our comparison of the calculated margins for the other respondents in these proceedings to the estimated margins in the petitions, we have concluded that the petition is the most appropriate record information on which to form the basis for the China-wide rate in the brake drums and brake rotors investigations.

Section 776(c) of the Act provides that where the Department relies on "secondary information," the Department shall, to the extent practicable, corroborate that information from independent sources reasonably at the Department's disposal. The Statement of Administrative Action (SAA), accompanying the URAA

clarifies that the petition is "secondary information." See SAA at 870. The SAA also clarifies that "corroborate" means to determine that the information used has probative value. *Id.* However, where corroboration is not practicable, the Department may use uncorroborated information.

In accordance with section 776(c) of the Act, we corroborate the margins in the petition to the extent practicable. The petitioner based export prices on prices charged by U.S. distributors of brake drums and brake rotors and deducted from these prices a distributor mark-up. We compared the starting prices used by the petitioner to prices derived from U.S. import statistics and found that the similarity to the import statistics corroborated the starting prices in the petition. See Notice of Final Determination of Sales at Less Than Fair Value: Circular Welded Non-Alloy Steel Pipe from South Africa, 61 FR 24271 (May 14, 1996). We found that the deduction for the distributor mark-up was sufficiently documented for purposes of corroboration by examining affidavits submitted by industry experts.

The normal value (NV) was based on factors of production employed by the petitioner to produce brake drums and brake rotors, and to the extent possible, surrogate factor values which were obtained from Indian publicly available information. When analyzing the petition, the Department examined and confirmed the accuracy of the NV data as provided in the petition by comparing the values used in the petition with values obtained from publicly available information collected in these and previous non-market economy (NME) investigations. However, in examining the factors which served as the basis for NVs calculated in the petition, the Department found that petitioner treated certain factory overhead items as direct materials. Therefore, we have recalculated NV in the petition by treating these items as part of factory overhead. In addition, we assigned an Indian surrogate value to one material for which a value based on a U.S. price was assigned previously in our NV calculations (See Margin Corroboration Memorandum from the team to Gary Taverman, dated February 12, 1997). Thus, the highest revised petition rate for brake drums is 86.02 percent. The highest revised petition rate for brake rotors is 43.32 percent.

Fair Value Comparisons

To determine if the brake drums and brake rotors from the PRC sold to the United States by the PRC exporters receiving separate rates were sold at less

than fair value, we compared the "United States Price" (USP) to NV, as specified in the "United States Price" and "Normal Value" sections of this notice.

United States Price

We based USP on export price (EP) in accordance with section 772(a) of the Act, when the brake drums or brake rotors were sold directly to the first unaffiliated purchaser in the United States prior to importation and when constructed export price (CEP) methodology was not otherwise appropriate. In accordance with section 777A(d)(1)(A)(i) of the Act, we compared POI-wide weighted-average EPs to the factors of production.

Shenyang/Laizhou/MAT and Southwest/MMB both claimed that their sales are EP, not CEP, transactions and that the Department should treat their sales accordingly. However, the Department has determined that the sales of these two companies are CEP transactions (see Comment 14 for Shenyang/Laizhou/MAT and Comment 16 for Southwest/MMB).

We corrected the respondents' data for errors and minor omissions found at verification. For CMC, Xinjiang and Yantai, we calculated EP in accordance with our preliminary determinations. In addition, we made company-specific adjustments as follows:

1. CAIEC/Laizhou CAPCO

We calculated EP and CEP in accordance with our preliminary calculations, except that we (a) corrected credit expenses, inland freight, repacking, indirect selling expenses, and inventory carrying expenses; (b) removed credit returns from CAPCO's U.S. sales database; (c) recalculated commissions based on the verified commission rates; (d) revised brokerage and handling expenses; and (e) deducted from the U.S. price of certain sales an inspection charge based on information obtained at verification.

2. Qingdao

We calculated EP in accordance with our preliminary calculations except that we excluded U.S. sales of one product that was found to be outside the scope of the investigation.

3. Shenyang/Laizhou/MAT

We calculated EP and CEP in accordance with our preliminary calculations except that we have recalculated credit and indirect selling expenses based on information obtained at verification.

4. Southwest/MMB

We calculated EP and CEP in accordance with our preliminary calculations except that we have adjusted the gross unit price for certain U.S. sales where the price was incorrectly reported. We then recalculated the credit and indirect selling expenses to take into account revised prices.

5. Xinchangyuan

We calculated EP in accordance with our preliminary calculations except that we did not deduct foreign brokerage and handling expenses based on information derived at verification (see Comment 21 below). In addition, we excluded U.S. sales of three products that were found to be outside the scope of the investigation.

Normal Value

A. Factors of Production

In accordance with section 773(c) of the Act, we calculated NV based on factors of production reported by the factories in the PRC which produced brake drums and/or brake rotors for the exporters. Where an input was sourced from a market economy and paid for in market economy currency, we used the actual price paid for the input to calculate the factors-based NV in accordance with our practice. See *Lasko Metal Products v. United States*, 437 F. 3d 1442, 1443 (Fed. Cir. 1994). We valued the remaining factors using publicly available information from India where possible. Where appropriate Indian values were not available, we used publicly available information from Indonesia.

B. Factor Valuations

The selection of the surrogate values was based on the quality and contemporaneity of the data. Where possible, we attempted to value material inputs on the basis of tax-exclusive domestic prices. Where we were not able to rely on domestic prices, we used import prices to value factors. As appropriate, we adjusted input prices to make them delivered prices. For those values not contemporaneous with the POI, we adjusted for inflation using wholesale price indices or, in the case of labor rates, consumer price indices, published in the International Monetary Fund's International Financial Statistics. For a complete analysis of surrogate values, see the Preliminary Determinations Factors Memorandum, dated October 3, 1996, and the Final Determinations Factors Memorandum, (Final Factors Memorandum) dated February 24, 1997. We have noted

changes to surrogate valuation since the preliminary determinations as follows:

To value unfinished castings used in producing rotors, we used a purchase price for unfinished castings contained in the 1995-96 financial report of the Indian producer, Jayaswals Neco Limited (Jayaswals), because only this producer's financial report contained a POI purchase value for unfinished castings used to produce brake rotors that are within the scope of our investigation (see Comment 15).

To value copper, copper powder, ferromanganese, ferrosilicon, other ferrosilicon, ferrochromium, manganese, limestone, lubrication oil, adhesive tape, corrugated cartons, nails, polyethylene, fiberboard, steel angles, steel stamp, steel straps, printed and unprinted labels, instruction sheets, wood brackets, wood pallets and wood crates, we used import prices for months contemporaneous with the POI for which such data were available from Monthly Statistics of the Foreign Trade of India (Monthly Statistics). Where submitted data encompassed part of the POI but also encompassed months outside the POI, we limited our use of such data to the portion contemporaneous with the POI.

To value pig iron, steel scrap and iron scrap, we used the input-specific prices contained in the 1995-96 financial report of the Indian producer, Shivaji Works Limited (Shivaji) because Shivaji produces goods which are in the same general category as the subject merchandise (e.g., products similar to what the respondents produce) and because we find that the separate line-item values for pig iron, steel scrap and iron scrap contained in Shivaji's report are more specific than the prices for these same inputs contained in the Indian publication Steel Authority of India Limited (SAIL) or in Monthly Statistics (see Comment 7).

To value steel sheet, steel strip and steel wire rod, we used POI prices from SAIL and not from Monthly Statistics (see Comment 7).

To value scrap wood, we have used a price from a 1990 U.S. government publication, Marketing Opportunities for Social Forestry Produce in Uttar Pradesh, because the price is more specific to the input than the value previously obtained from Monthly Statistics.

We could not obtain a product-specific price from India to value lug nuts for PRC companies which purchased this input from non-market economies (NME). Therefore, we used Indonesian import data covering July through November 1995 from

Indonesian Foreign Trade Statistical Bulletin (see Bicycles).

To value barge rates, we relied on information from an August 1993 cable from the U.S. consulate in India. Since the preliminary determinations, the respondents submitted new prices for coke, ball bearings and LPG gas for consideration in the final determinations. However, we have continued to rely on the values assigned to these inputs in the preliminary determinations for our final determinations (see Comment 7 and Final Factors Memorandum for further discussion).

To value factory overhead, SG&A, and profit in the brake drums and brake rotors cases, we calculated a simple average using the financial reports of Jayaswals, Kalyani Brakes Limited (Kalyani), Krishna Engineering Works (Krishna), Nagpur Alloy Castings Limited (Nagpur), and Rico Auto Industries Limited (Rico) because these companies produced both brake drums and brake rotors within the scope of these investigations during the POI. We did not use the financial reports of Ennore Foundries Limited (Ennore), Electrosteel Castings Limited (Electrosteel), Bhagwati Autocast Limited (Bhagwati), or Shivaji in the surrogate factory overhead, SG&A, and profit percentage calculations because there was no indication in the reports or any corroborating publicly available information showing that these companies produced brake drums or brake rotors within the scope of these investigations during the POI (see Comment 5).

Where appropriate, we have removed from the surrogate overhead and SG&A calculations the excise duty amount listed in the financial reports (see Bicycles, 61 FR 19039). We also made certain adjustments to the percentages calculated as a result of reclassifying expenses contained in the financial reports.

For the Indian companies, we treated the line item labeled "stores and spares consumed" as part of factory overhead where possible and not part of materials consumed because stores and spares are not direct materials consumed in the production process. Publicly available information examined in the preliminary determination indicates that Indian accounting practices require Indian companies to record molding inputs (*i.e.*, all types of sand, bentonite, lead powder, steel pellets (if used for sand cores or molding), coal powder and waste oil) under "stores and spares consumed." Therefore, we are considering these molding inputs as indirect materials (*i.e.*, a part of factory

overhead), and are not valuing them as materials. In addition to the molding materials mentioned above, based on our verification findings, we find that additional materials previously valued as direct inputs such as dextrin, parting spray, rust inhibitor, antirust, steel shot, cutting oil, cleaning agent, and dehydration oil, are in fact indirect materials not incorporated into the final product. Therefore, we have also considered these additional materials part of factory overhead (see Comment 8). We have continued to treat rustproofing oil, limestone and firewood as direct materials and valued them accordingly (see Comment 8).

We have considered the line item labeled "raw materials consumed" to include direct materials such as pig iron, steel scrap, and steel inputs, and non-steel direct inputs and not included them in factory overhead. The designation of these items is consistent with standard accounting procedures and recent determinations (see Final Determination of Sales at Less Than Fair Value: Polyvinyl Alcohol from the People's Republic of China, 61 FR 14062 (March 29, 1996) (PVA) and Bicycles). We based our factory overhead calculation on the cost of goods manufactured rather than on the cost of goods sold. We also included interest and/or financial expenses in the SG&A calculation. In addition, we only reduced interest and financial expenses by amounts for interest income if the Indian financial report noted that the income was short-term in nature (see Comment 6). Where a company did not distinguish interest income as a line item within total "other income" we used the relative ratio of interest income to total other income as reported for the Indian metals industry in the Reserve Bank of India Bulletin. (For a further discussion of other adjustments made, see Final Factors Memorandum).

Verification

As provided in section 782(i) of the Act, we verified the information submitted by all selected respondents for use in our final determinations. We used standard verification procedures, including examination of relevant accounting and production records and original source documents provided by the respondents.

Critical Circumstances

Section 735(a)(3) of the Act provides that, in a final determination, the Department will determine whether:

(A)(i) there is a history of dumping and material injury by reason of dumped imports in the United States or elsewhere of the subject merchandise, or

(ii) the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the subject merchandise at less than its fair value and that there would be material injury by reason of such sales, and

(B) there have been massive imports of the subject merchandise over a relatively short period.

Because there is no history of dumping and material injury by reason of dumped imports for either brake drums or brake rotors, we conducted our analysis under section 735(a)(3)(A)(ii) of the Act (importer knowledge of dumping and material injury).

1. Importer Knowledge of Material Injury

Pursuant to the URAA, and in conformance with the WTO Antidumping Agreement, the statute now includes a provision requiring the Department to determine, when relying upon section 735(a)(3)(A)(ii) to determine whether critical circumstances exist, whether the importer knew or should have known that there would be material injury by reason of the less than fair value sales. In this respect, the preliminary finding of the International Trade Commission (ITC) is instructive, especially because the general public, including importers, is deemed to have notice of that finding as published in the Federal Register. Thus, the Department has determined that a preliminary ITC finding of a reasonable indication of present material injury to the U.S. industry, when coupled with massive imports and a high rate of dumping by a given exporter (see Importer Knowledge of Dumping section, below) permits the conclusion that importers of the subject merchandise from such exporters knew or should have known that such imports would cause injury to the domestic industry. When the ITC has preliminarily found no reasonable indication that a U.S. industry is experiencing present material injury by reason of the dumped subject merchandise, but only a threat of such injury, the Department has determined that it is not reasonable to conclude that an importer knew or should have known that its imports would cause material injury. (See Decision Memorandum Regarding Imputed Knowledge of Material Injury.)

Because the ITC preliminarily determined that there is no reasonable indication that the U.S. brake drums industry is experiencing present material injury, but only a reasonable indication of threat of material injury,

we find that the "importer knowledge of material injury" prong is not met with respect to brake drums. Therefore, we find that critical circumstances do not exist with respect to brake drums, and it is not necessary to examine the other critical circumstances criteria for this product. Because the ITC preliminarily determined that there is a reasonable indication that the U.S. brake rotors industry is, in contrast, experiencing present material injury, we determine that critical circumstances exist with respect to those exporters of brake rotors which we have determined are responsible for massive imports and high dumping margins, as described below.

2. Importer Knowledge of Dumping

In determining whether an importer knew or should have known that the exporter was selling the subject merchandise at less than fair value, the Department normally considers margins of 15 percent and 25 percent or more sufficient to impute knowledge of dumping for CEP sales and EP sales respectively.

Since the company-specific margins in the final determinations for brake drums and brake rotors are below 15 percent for CEP sales (with the exception of brake rotors sales made by Southwest) and below 25 percent for EP sales, we have not imputed importer knowledge of dumping and injury with respect to any firms except Southwest in the brake rotors investigation. Therefore, we have only analyzed the brake rotor shipment data of Southwest.

3. Massive Imports

When examining the volume and value of trade flow data, the Department typically compares the export volume for equal periods immediately preceding and following the filing of the petition. Pursuant to 19 CFR 353.16(f)(2), unless the imports in the comparison period have increased by at least 15 percent over the imports during the base period, we will not consider the imports to have been "massive." In order to determine whether there have been massive imports of brake rotors for the companies for which we have determined that there is knowledge of dumping and material injury, we compared sales from August 1995 to February 1996 (the comparison period) to sales from March 1996 to September 1996 (the base period).

In determining whether imports have been "massive," pursuant to 19 CFR 353.16(f), we will normally consider, in addition to the volume and value of imports, any seasonal trends affecting the merchandise and the share of

domestic consumption accounted for by the imports. There is no indication on the record that brake rotors are a seasonal product. Also, we were unable to consider the share of U.S. consumption represented by the selected respondents, because we have insufficient information with regard to the selected respondents' market share of domestic consumption. Based on our analysis of Southwest, we determine that the increase in imports was less than 15 percent with respect to that firm. Because imports from Southwest have not been massive, we determine that critical circumstances do not exist with respect to imports of subject merchandise from this company.

4. Unexamined Respondents/China-Wide Entity

As indicated in Preliminary Critical Circumstances Determinations, 61 FR 55269 (October 25, 1996), and in the Preliminary Determinations, 61 FR 53190 (October 10, 1996), the Department does not believe it is appropriate to find critical circumstances with respect to respondents whose individual data have not been analyzed due to the Department's own administrative constraints. Therefore, we do not consider critical circumstances to exist with regard to the non-analyzed cooperative respondents in the brake rotors case.

With respect to the China-wide entity, we are imputing knowledge of dumping, based on the China-wide dumping rate. As noted above, we have determined that importers knew or should have known that there would be material injury to the U.S. brake rotors industry based on the ITC's preliminary determination of a reasonable indication of present material injury for brake rotors. In the absence of shipment data for the China-wide entity, we have determined based on the facts available, and making the adverse inference permitted under section 776(b) of the Act because this entity did not provide an adequate response to our questionnaire, that there were massive imports of brake rotors. See Preliminary Critical Circumstances Determinations, 61 FR at 55269. Furthermore, we note that the record indicates a post filing surge in U.S. brake rotor imports from the PRC which is not accounted for by the cooperating respondents. Therefore, for the China-wide entity, we determine that critical circumstances exist with respect to imports of brake rotors.

5. Conclusion

With regard to brake rotors, we find that critical circumstances exist only for

companies subject to the China-wide rate.

With regard to brake drums, we find that critical circumstances do not exist.

Interested Party Comments

General Comments

Comment 1: Separate Rates—CNIGC and Dalian

The petitioner maintains that there is sufficient evidence on the record to deny CNIGC and Dalian separate rates in these cases. It points out that these respondents failed to demonstrate at verification that they were (1) not part of NORINCO, a trading company which is monitored, if not controlled, by the PRC government; (2) not part of the NORINCO Group, an organization controlled by the People's Liberation Army (PLA); and (3) independent from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), because they withheld all information concerning their relationship with MOFTEC. The petitioner further contends that the PRC government deliberately withheld information which might have revealed that CNIGC and Dalian were part of the NORINCO Group.

CNIGC and Dalian maintain that they demonstrated at verification the absence of both *de jure* and *de facto* government control over their export activities and that they have established through documentation that they are separate from NORINCO and are entitled to a separate rate. In addition, they argue that there is no information on the record that supports the claim that they are affiliated with the PRC government. Moreover, the two respondents contend that the PRC government did not fail to cooperate with the Department because they answered the Department's questions to the extent possible. However, if the Department decides that the PRC government was uncooperative, then they maintain that the Department cannot impute this lack of cooperation to CNIGC or Dalian. They cite to Notice of Court Decision; Exclusion From the Application of the Antidumping Duty Order, in Part; Termination of Administrative Review in Part; and Amended Final Determination: Certain Compact Ductile Iron Waterworks Fittings and Glands from the People's Republic of China, 60 FR 2078 (January 6, 1995) and Final Determination of Sales at Less Than Fair Value: Certain Helical Spring Lock Washers from the People's Republic of China, 58 FR 48833 (September 20, 1993) in support of their arguments.

DOC Position

The Department's NME separate rates policy is based upon a rebuttable presumption that NME entities operate under government control and do not merit separate rates. This presumption can only be overcome by a respondent's affirmative showing that it operates without *de jure* or *de facto* government control.

CNIGC and Dalian have met their affirmative evidentiary burden with respect to the Department's criteria of *de jure* control, insofar as they have provided copies of business licenses and applicable government statute granting them the right to operate as independent trading companies.

These two respondents have also provided evidence that purportedly demonstrates absence of *de facto* control. However, other evidence supports a conclusion that Dalian and CNIGC remain under the control of the national corporation, NORINCO. Dalian and CNIGC were, until 1988 and 1991, respectively, legal and operational subsidiaries of NORINCO. Although PRC law and regulations mandated the legal and operational separation of these branches from their parent, evidence on the record suggests that the two respondents have only partially severed their ties to NORINCO, and are still recognized in the PRC and overseas as branches of NORINCO.

At the Department's visit to NORINCO's Beijing office, we obtained a NORINCO brochure which identifies CNIGC and Dalian as branches of NORINCO. The brochure continued to be distributed to the public as of the time of verification in late 1996. See exhibit 3 of the NORINCO verification report, dated January 8, 1997. This is consistent with the verification finding that NORINCO still maintains an office within the headquarters of CNIGC. See CNIGC verification report dated January 8, 1997, at 6. It is also consistent with 1995 information obtained from the U.S. Department of Defense which states that "Norinco Guangzhou [CNIGC] is a leading branch of NORINCO," and with a 1996 Company Intelligence International article indicating that CNIGC is a branch of NORINCO. Thus, it appears that the *de facto* relationship between government-controlled NORINCO and its branches, including Guangzhou and Dalian, has not been entirely severed.

We note that in the instant investigation, NORINCO has not made a claim of independence from government control. Furthermore, there is evidence on the record that NORINCO is controlled by the PRC government. See,

e.g., organizational chart submitted to the file on October 3, 1996, describing NORINCO as under the control of the PRC's State Council, and Foreign Broadcast Information Service reports.

In view of CNIGC's and Dalian's continuing ties to NORINCO, and in the absence of a showing that NORINCO is independent from government control, the two respondents fail to overcome the presumption of *de facto* government control. Thus, we have not assigned separate rates to these companies.

Comment 2: Treatment of Non-Selected Respondents

The petitioner maintains that the Department had sufficient resources to investigate all of the responding PRC companies in these investigations. The petitioner further states that the Department should, at a minimum, request shipment data from non-selected respondents in order to determine whether critical circumstances exist for those companies, especially since U.S. import statistics indicate that massive imports of one product type (*i.e.*, brake rotors) has occurred. The petitioner cites to Bicycles in support of its argument.

Eight respondents (*i.e.*, the ten respondents except for Shenyang/Laizhou and Southwest) (hereafter referred to as "the eight respondents") state that the Department's sampling methodology is not contrary to law. However, the eight respondents claim that the Department should not impute knowledge of likelihood of material injury to U.S. importers merely because of the existence of dumping, maintaining that there is no inherent causal relationship between dumping and injury. Therefore, the eight respondents argue that the Department should find critical circumstances exist only if it determines that importers knew or should have known that there was likely to be material injury because of sales of brake drums and brake rotors at less than fair value.

DOC Position

We disagree in part with the petitioner and the respondents. In accordance with section 777A(c)(2) of the Act, given our limited resources, we had to limit the number of respondents examined in these cases in order to lessen the administrative burden on the Department, and we did so by choosing the largest exporters to the United States (see Honey and Bicycles). As for requesting shipment data from the non-selected respondents which have cooperated in these investigations, we did not do so due to the Department's own administrative constraints, which

limited our ability to examine questionnaire responses or request shipment data for analysis. With respect to importer knowledge of material injury by reason of sales at less than fair value, the Department's position has changed since the preliminary determination. This decision is now based on the ITC's preliminary determination, in conjunction with massive imports and a high level of dumping. (See "Importer Knowledge of Material Injury" section of this notice and Decision Memorandum from the team to Richard W. Moreland, dated February 24, 1997).

Comment 3: Facts Available

The petitioner argues that the Department should resort to facts available and deny all of the respondents separate rates. According to the petitioner, throughout these proceedings the respondents have submitted to the Department "boiler plate" answers in response to the antidumping questionnaire, significantly revised their responses during the course of the proceedings, and requested numerous extensions of time to submit their incorrect data. In addition, the petitioner claims that the Department found a large number of errors at verification for the respondents and lists both general and respondent-specific instances upon which the Department should base an adverse facts available determination (see the petitioner's January 21, 1997, case brief, at 13-20.)

The petitioner also contends that the Department should deny separate rates to the companies under investigation because they withheld information regarding their relationship with MOFTEC, and because it could not be determined from a meeting at the Ministry of Machinery Industry and letters sent to MOFTEC whether the respondents have any relationship with any level of the PRC government. The petitioner further urges the Department to assign the China-wide rate to all of the respondents, claiming that not doing so may cause a massive diversion of shipments of the subject merchandise between PRC companies, with exports being shifted to companies assigned lower rates.

The eight respondents first contend that the petitioner erroneously equates "facts available" with "adverse assumptions." They argue that the Act has been amended so that the Department cannot automatically make an adverse inference when applying facts available, but rather must consider all evidence on the record in

determining whether adverse inferences are warranted.

The eight respondents and Southwest argue that there is no instance in these proceedings that would justify the Department resorting to adverse inferences or resorting to facts available. They state that (1) there were no instances in any of the verifications in which the Department was unable to verify particular information; (2) the errors described by petitioner often were adverse to the respondents; and (3) when the Department did find errors, the Department was able to obtain and verify the correct information. Moreover, they maintain that there is no evidence that they failed to cooperate by not acting to the best of their ability to comply with Departmental requests for information or that the errors discovered during verification undermined the validity of any responses.

With respect to separate rates, all of the respondents stated that they had made adequate showings of independence.

Respondent Shenyang/Laizhou states that the Department may use facts available in making its determination if necessary information is not on the record or if a respondent: (1) Withholds requested information, (2) fails to provide requested information by the deadlines for the submission of the information, or in the form and manner requested, (3) significantly impedes an investigation, or (4) provides unverifiable information. (See Section 776 of the Act). Information that is adverse to a respondent may be used by the Department when the respondent "has failed to cooperate by not acting to the best of its ability to comply with a request for information." (See Section 776(b) of the Act). Shenyang/Laizhou notes that none of these conditions are present in its case and that although a few discrepancies were noted at verification, they were resolved during verification.

Furthermore, all respondents urge the Department to make those corrections to the corresponding databases which were brought to the attention of the Department prior to and during verification.

Lastly, all respondents address the list of verification errors noted by the petitioner as reason for facts available, arguing that while the Department verified every factor input, for those that were in error, the corrections were clerical and minor in nature. They further assert that with respect to the areas affected by these errors, there are alternative verified data on the record that allow for recalculation of the relevant factors.

DOC Position

We agree with all respondents that neither an across-the-board denial of separate rates nor an across-the-board recourse to "total" facts available is warranted in these investigations. First, regarding the petitioner's concern over the massive diversion of shipments of brake drums and rotors between exporters if the Department does not assign the China-wide rate to all exporters, the Department has established that the companies receiving separate rates in these investigations operate independently of each other and of government entities with respect to their exports of the subject merchandise. Thus, these respondents have been assigned rates based on their different cost and pricing structures. It would be a normal phenomenon that respondents with lower dumping margins would experience an increase in sales of the subject merchandise as a result of an increase in customers' demand for products with lower duty margins.

Second, we disagree with the petitioner that the other companies (*i.e.*, not including CNIGC and Dalian) in these investigations should be denied separate rates based on the facts available. The information submitted on the record by each of these companies, as well as the Department's verification findings, show that these respondents under investigation have met the qualifying criteria for separate rates (see "Separate Rates" section for further discussion). The records in these investigations affirmatively indicate the absence of *de jure* and *de facto* control by government entities over those responding companies' operations with respect to the products under investigation. In its verification, the Department found no evidence that these respondents are controlled by MOFTEC or the Ministry of Machinery Industry, or any level of the PRC government.

Third, we disagree with the petitioners depiction of the respondents' "numerous" extension requests and errors. In this instance, the number of extensions granted was not extraordinary, nor did these extensions prevent the petitioner from commenting on the responses or the Department from making its preliminary determinations.

Lastly, with respect to the errors listed by the petitioner, a review of the respondents' response revisions indicates that such revisions were not unduly extensive. We do not believe that failure to initially submit an error-free response, or the correction of these errors, should result in the use of facts

available because we found no basis to conclude that these errors affect the overall integrity of the response. Moreover, in an antidumping investigation, it is not unusual to encounter errors throughout the proceeding up to the commencement of verification.

As described in Ferrosilicon from Brazil: Final Results of Antidumping Duty Administrative Review, 61 FR 59407 (November 22, 1996), errors that are not substantial do not affect the integrity of the response. In addition, the errors in question do not warrant wholesale rejection of the reported data since all such deficiencies can be corrected using verified data on the record.

Comment 4: CEP Deductions and Circumstance-of-Sale (COS) Adjustments

Southwest argues that the Department should not make adjustments to CEP transactions for indirect selling expenses, credit and profit because making an adjustment to one side of the equation without making a comparable adjustment to the other results in an unfair calculation. Alternatively, Southwest suggests that if the Department makes these adjustments to the U.S. price then the Department should make similar adjustments to NV.

The petitioner states that section 772(c)(2)(D) of the Act requires the Department to reduce CEP by the selling expenses associated with economic activity in the United States, and that the Act provides no exception for cases involving NMEs. As for making COS adjustments, the petitioner states that section 773(a)(6)(C) of the Act does not require the Department to make COS adjustments to NV unless it has been established to the satisfaction of the administering authority that such adjustments are warranted.

DOC Position

We agree with the petitioner. Section 772(d)(1) of the Act requires the Department to reduce CEP by the selling expenses associated with economic activity in the United States (see SAA at 153, Final Determination of Sales at Less Than Fair Value: Certain Pasta from Italy, 61 FR 30326 (June 14, 1996), and Bicycles at 19031. Moreover, section 772(d)(3) of the Act requires us to make a deduction for profit associated with CEP selling expenses (see SAA at 154, and Bicycles, at 19032). As for COS adjustments to NV, given the imprecise nature of the information about direct and indirect selling expenses in the record in these cases (*e.g.*, the financial reports of

Indian producers), we have no basis to conclude that such adjustments are warranted in these cases (see *Bicycles* at 19031).

Comment 5: Indian Producer Financial Statements

The respondents, except for Southwest, argue that the Department should only use data from financial statements of Indian producers of brake drums and brake rotors to calculate factory overhead, SG&A and profit percentages in respective investigations. In addition, the respondents maintain that the Department should only consider using data from the financial statements of Ennore, Jayaswals, Kalyani, Krishna, Nagpur, and Rico because these Indian companies produce the subject merchandise. The respondents claim that the financial reports of Electrosteel and Shivaji should not be used to derive the percentages because neither company produces the subject merchandise. Alternatively, if the Department uses financial data from Shivaji's report, then the eight respondents claim that the Department must also use Electrosteel's financial data because both companies produce grey iron castings which are similar to the subject merchandise. The respondents cite to the Notice of Final Determination of Sales at Less Than Fair Value: Melamine Institutional Dinnerware Products From the People's Republic of China, 62 FR 1708 (January 13, 1997) (Melamine), Notice of Final Determination of Sales at Less Than Fair Value: Tapered Roller Bearings and Parts Thereof, Finished or Unfinished, from the Hungarian People's Republic, 52 FR 17428 (May 8, 1987), and *Bicycles* in support of their arguments.

The respondent Southwest maintains that all but Ennore's financial report should be used to calculate the percentages because there is no publicly available information indicating that Ennore produced the subject merchandise during the POI. It argues that a letter from Ennore (submitted on the record by other respondents) that stated that this company produces brake drum castings should be rejected as "private information."

The petitioner states that the Department should use the financial reports of Ennore, Jayaswals, Kalyani, Krishna, Nagpur, Rico and Shivaji to calculate percentages for both investigations and that the Department should calculate the percentages based on the petitioner's calculations of the data as shown in its case brief.

DOC Position

The Department disagrees with certain of the respondent's specific statements, while agreeing in general, that the companies selected for calculation of factory overhead, SG&A, and profit should reflect the Department's preference for "the most product-specific information possible from the surrogate market" as noted in Melamine. Based on publicly available information, we find that Jayaswals, Kalyani, Krishna, Nagpur and Rico produced both brake drums and brake rotors within the scope of these investigations and sold during the POI. Therefore, we are using these Indian producers' financial reports to calculate surrogate percentages for use in both investigations. We are not using the financial data of Electrosteel or Ennore because we have no publicly available information which indicates that these companies produced subject merchandise during the POI. Although the eight respondents submitted a letter from Ennore which stated that it produces brake drums, we have relied on publicly available information instead of the private correspondence as the basis for our decision because we normally prefer to rely on publicly available information and consider the contents of the correspondence files of a company, by nature, not to be publicly available information. We are not using Shivaji's financial report for these calculations because publicly available information, along with information from the U.S. consulate in India, establishes that Shivaji did not produce subject merchandise during the POI.

Comment 6: Adjustments to Indian Financial Reports' Data

The eight respondents argue that, when calculating SG&A, the Department should offset the interest and financial expenses by the amount of financial gains (i.e., items such as "operating income, miscellaneous receipts, miscellaneous income, and other interest income") when calculating SG&A. They contend that adding the financial expenses to SG&A without reducing those amounts by any corresponding operating income results in imprecise and overstated selling expenses. They cite to the Notice of Final Results of Antidumping Duty Administrative Review: Frozen Concentrated Orange Juice from Brazil (Orange Juice), 55 FR 26721 (June 29, 1990) (Comment 8) in which the Department offset financial expenses with short-term operating income.

The petitioner argues that the Department should not offset financial

expenses against financial gains, citing *Bicycles*, and claims that section 773(a)(7) of the Act states that an offset to NV is only required upon sufficient showing that differences exist justifying the adjustment.

DOC Position

We agree with the respondents that we should offset interest expense by the amount of short-term interest income when calculating G&A, as in *Orange Juice* and in accordance with Departmental practice. However, we disagree that operating income or all of miscellaneous receipts should be in the offset. We do not include in our offset long-term interest income nor short-term income from activities such as rental. Thus, we reduced interest expenses by amounts for interest income for those items identified in the financial reports as being related to short-term interest, and utilized the April 1995 Indian Reserve Bank Bulletin to allocate a portion of "other income" or "miscellaneous receipts" as short-term interest income for those companies which did not specify a breakdown of their non-operating income.

The petitioner's reliance on section 773(a)(7) of the Act and *Bicycles* is misplaced. Section 773(a)(7) deals with level of trade adjustments. The comment in *Bicycles* to which the petitioner refers deals with a circumstance-of-sale (COS) adjustment. 61 FR at 19031 (Comment 1). This adjustment is not a COS adjustment but simply a reduction in the total amount of SG&A expenses based on short-term income received by the Indian producer.

Comment 7: Surrogate Values for Certain Material Inputs

The petitioner asserts that the Department should value pig iron, steel sheet, steel wire rod and steel scrap using POI import prices from the Indian publication Monthly Statistics rather than the POI domestic prices from the Indian publication SAIL or from the financial reports of certain Indian producers because the prices in Monthly Statistics are exclusive of taxes and duties whereas the prices in SAIL and in the financial reports are not. If the Department elects not to use pig iron prices from Monthly Statistics, then the petitioner urges the Department to use Indian Iron & Steel Company Limited (IISCO) prices rather than SAIL prices for the same reason noted above. The petitioner claims that the Department should not value ball bearing cups by using prices from Indian Customs Daily Lists provided by International Data Services (IDS) because IDS data is of

inferior quality and is therefore unreliable. For coke, the petitioner maintains that the article containing domestic prices submitted by all of the respondents on January 10, 1997, indicates that the prices are controlled by the Indian government and therefore should not be considered.

The eight respondents maintain that in past NME cases the Department has expressed a clear preference for using tax-exclusive domestic prices rather than import prices when valuing factors of production. In addition, they state that in previous NME cases, the Department has used SAIL data when the specificity of the steel product has been most important in valuing the factor. They cite to Drawer Slides and to the Notice of Final Results of Administrative Review: Certain Helical Spring Lock Washers from the People's Republic of China, 61 FR 41994, 41997 (August 13, 1996) in support of their argument. For ball bearing cups, the respondents maintain that the IDS data is publicly available information and is more specific to imports of ball bearing cups than the category of "other ball/roller bearing parts" listed in Monthly Statistics. For coke, they state that the data from Economic Times of Mumbai provide prices for coke which are contemporaneous with the POI and specific to Indian foundry industries.

DOC Position

We disagree in part with both the petitioner and the respondents. The fact that domestic prices may include taxes is not determinative when deciding which prices are preferable for use in valuing the factors of production. For pig iron, steel scrap and iron scrap, we find that the separated line item prices for each of these inputs in Shivaji's 1995-96 report are more specific than the prices contained in SAIL, Monthly Statistics or IISCO. Therefore, the prices in Shivaji's report are more reflective of prices paid for inputs used by domestic producers of castings (*i.e.*, products of the same general category as the subject merchandise). We have also removed, where possible, any taxes included in the prices obtained from Shivaji's report.

The Department normally prefers to use prices that are representative of prices in effect during the POI. For ball bearing cups, we find that the IDS data is less representative of prices in effect during the POI than the prices contained in Monthly Statistics because the IDS data, selected by the respondents, consist of a single transaction at a single port for a single customer and do not appear to be more product-specific than the Monthly

Statistics data. Therefore, we have valued this input using prices from Monthly Statistics.

For coke, though the prices from Economic Times of Mumbai are POI prices, we find that these prices are clearly government administered. Since we have a POI coke value from Monthly Statistics in these investigations which is not government administered, we have used these prices to value this input.

Comment 8: Treatment of Indirect Materials

All of the respondents urge that, in calculating NV, the Department should continue to consider molding inputs as indirect materials and part of factory overhead, rather than as materials consumed. In addition, Southwest maintains that the Department should also treat dextrin, steel shot, antirust, cutting oil, cleaning agent, dehydrating oil, and rustproofing oil as indirect materials and part of factory overhead. In order for a material to be considered a direct material, Southwest argues that the material must be physically incorporated into the finished product, citing the Compendium of Statements and Standards published by the Institute of Chartered Accountants of India. Finally, Shenyang/Laizhou claims that limestone and firewood should be treated as indirect materials because they are not physically incorporated into the final product.

The petitioner did not comment on this issue.

DOC Position

We have continued to treat molding materials listed in the "Factors of Production" section of this notice as indirect materials because although these inputs are used to produce the subject merchandise, these inputs are not incorporated into the final product and are also categorized as "stores and spares consumed" based on Indian accounting standards. According to the Compendium of Statements and Standards, in order for a material to be considered as part of factory overhead, it must "assist the manufacturing process, but * * * not enter physically into the composition of the finished product." We agree that dextrin, steel shot, antirust, cutting oil, cleaning agent and dehydrating oil are indirect materials and should be treated as part of factory overhead, because the function of these materials is to "assist" in the manufacturing process and do not enter physically into the composition of the finished product. With respect to rustproofing oil, we find that this input is a direct material because it is used as

a packaging material. As for limestone and firewood, we find that limestone is a direct material which is consumed during the smelting process as flux (*i.e.*, a material resulting from the production process which removes undesirable substances, like sand, from the metal bath) and that firewood is an energy input used in the production process.

Comment 9: Surrogate Value for Rustproofing Oil

Southwest claims that if the Department treats rustproofing oil as a direct material, then the Department should value it using the value of lubrication oil because other respondents, such as CAIEC/Laizhou CAPCO, use rustproofing oil for the same process. Thus, the Department should use the same surrogate value for all respondents (*i.e.*, lubrication oil).

The petitioner did not comment on this issue.

DOC Position

We disagree with Southwest. We found at the verification of Southwest's factory that it used a rustproofing oil, not lubrication oil, to coat its finished brake rotors for packaging. In contrast, although we found that CAIEC/Laizhou CAPCO used an oil to protect its brake rotors before packaging, it is clear that CAIEC/Laizhou CAPCO uses lubrication oil and not rustproofing oil. However, given that we could not obtain a surrogate value for rustproofing oil, we have used the value of lubrication oil to value this input for all respondents.

Comment 10: Foreign Inland Freight

The eight respondents maintain that the Department should not deduct an amount for foreign inland freight from EP or CEP because that expense was incurred by the factories and not by the trading companies. According to these respondents, the original places of shipment were the seaports where the suppliers delivered the merchandise for shipment to the United States. Citing Notice of Final Results of Antidumping Duty Administrative Review: Titanium Sponge from the Russian Federation, 61 FR 58525 (November 15, 1996), (Titanium Sponge from Russia), they claim that the Department should consider the seaports from which the subject merchandise was shipped to be the original places of shipment and to deduct only the movement charges incurred in transporting the merchandise from the PRC to the U.S. customers from EP and CEP. Alternatively, they maintain that if the Department does deduct the foreign inland freight from the factories to the seaports from EP and CEP, then the

Department should, at a minimum, ensure that a similar amount is excluded from the overhead and selling expense ratios calculated for building normal value. They contend that if the overhead and selling expense ratios are derived from Indian producer financial statements wherein overhead and/or SG&A contain delivery expenses, the inclusion of such expenses in normal value with the simultaneous exclusion of such expenses from EP and CEP would constitute double-counting.

The petitioner did not comment on this issue.

DOC Position

The Department disagrees with the respondents' implied conclusion that in these investigations, the cost of transporting the subject merchandise from the factory to the PRC port of exportation should be treated as a component of the factories' total costs (i.e., as a factor in the construction of normal value) instead of as a deduction from the price to the U.S. customer. While it is true that, in Titanium Sponge from Russia, the Department did not deduct factory-to-port movement charges from the U.S. starting price, and instead included "in normal value an amount for the inland freight," the circumstances in that particular case were very different from those of the instant investigations. Our normal methodology is to strip all movement charges, including all foreign inland freight, from the U.S. price being compared to NME normal value based on factors of production. The facts in these instant investigations differ from those in Titanium from the Russian Federation, wherein (1) the subject merchandise produced in an NME country was sold to an exporter located in a market economy without knowledge on the part of the producer of the United States as the ultimate destination and (2) the exporter took physical possession of the subject merchandise. Since neither of these conditions apply to these instant investigations, the comparison to Titanium from the Russian Federation is misplaced, and the Department has followed its normal methodology.

The respondents in these investigations are either (1) PRC self-exporting producers, such as Xinchangyuan or (2) PRC trading companies, such as CMC, which purchased subject merchandise from PRC producers. We are therefore deducting the surrogate value for the cost of transporting the subject merchandise from the factories to the port of exportation from the U.S. price, whether EP or CEP, in keeping with our

past practice. See Bicycles. As to the respondents' claim that the overhead and/or SG&A rates applied in calculating normal value may already contain the cost of transporting the merchandise to the port as a selling expense, and that the deduction of foreign inland freight charges from the U.S. price constitutes a double-counting of expenses, we have ensured that any expense line-item which refers to "freight," "movement," "carriage," or "transportation" of goods, as well as the portion of "vehicle maintenance" and "vehicle depreciation" expenses applicable to product delivery, have been removed from the total SG&A costs and total overhead costs contained in the financial statements of Indian companies used in calculating NV.

Comment 11: Use of Exchange Rates

The eight respondents maintain that when calculating the exchange rate used in converting Indian surrogate values into U.S. dollars, the Department should use the buying exchange rates for U.S. dollars contained in Federal Exchange Bulletin, because the issue here is not how many dollars it takes to purchase one Indian rupee, but rather how many rupees are required to purchase one U.S. dollar.

The petitioner argues that the Department should not reject its use of daily Indian rupee-U.S. dollar exchange rates from the Federal Reserve Bank of Chicago and argues that there is no merit in respondents' request for the Department to abandon the use of these exchange rates in favor of simple average rates in the Federal Exchange Bulletin.

DOC Position

We agree with the petitioner. Based on Policy Bulletin 96-1: Import Administration Exchange Rate Methodology, we have used daily noon buying rates to establish the Indian rupee exchange rates used in these investigations. The daily noon buying rates are based on the rates in New York for cable transfers, which are certified by the New York Federal Reserve Bank for customs purposes, as required by section 522 of the Act. This information has been downloaded from an electronic bulletin board maintained by the Chicago Federal Reserve Bank. (See "Currency Conversion" section of this notice for further discussion).

Comment 12: Currency Conversion

The eight respondents urge the Department to round to the nearest one-thousandth of a dollar when converting Indian rupee values to U.S. dollars, because rounding to the nearest one-

hundredth of a dollar often can cause significant distortions.

The petitioner did not comment on this issue.

DOC Position

We disagree with the respondents. In converting values from Indian rupees to U.S. dollars, we have derived U.S. values and rounded those values to the nearest one-hundredth, not one-thousandth, of a dollar because we do not find their use to have a significant effect on the margins.

Company-Specific Issues

Qingdao

Comment 13: Calculation of Total Material Cost

The petitioner claims that the Department did not include the cost of wire rod scrap when it calculated the total material cost for each model in the factors of production database for Changzhi Automobile Parts Factory (Changzhi), Qingdao's supplier. The petitioner urges the Department to include this factor in its calculation of total material cost.

Changzhi states that the Department correctly did not separately value wire rod scrap.

DOC Position

We agree with the petitioner. We verified that Changzhi reported a separate factor amount for wire rod scrap in the factors of production database. Therefore, for the final determination, we have valued this factor accordingly.

Shenyang/Laizhou/MAT

Comment 14: EP vs. CEP Sales Classification

Shenyang/Laizhou maintains that the Department incorrectly classified U.S. sales made prior to importation through its U.S. affiliate, MAT, as CEP transactions, and requests that the sales be reclassified as EP transactions.

The petitioner maintains that the Department should continue to treat these sales as CEP transactions.

DOC Position

We agree with the petitioner that these sales are properly treated as CEP sales. With respect to EP sales, section 772 (a) of the Act states that:

The term "export price" means the price at which the subject merchandise is first sold (or agreed to be sold) before the date of importation by the producer or exporter of the subject merchandise outside of the United States to an unaffiliated purchaser in the United States or to an unaffiliated purchaser for exportation to the United States

Based on Department practice, we examine several criteria for determining whether sales made prior to importation through an affiliated sales agent to an unaffiliated customer in the United States are EP sales, including: (1) Whether the merchandise was shipped directly from the manufacturer to the unaffiliated U.S. customer; (2) whether the sales follow customary commercial channels between the parties involved; and (3) whether the function of the U.S. selling agent is limited to that of a "processor of sales-related documentation" and a "communications link" with the unrelated U.S. buyer. Where all criteria are met, the Department has regarded the routine selling functions of the exporter as "merely having been relocated geographically from the country of exportation to the United States," and has determined the sales to be EP sales. Where all conditions are not met, the Department has classified the sales in question as CEP sales. See, e.g., *Final Determination of Sales at Less Than Fair Value: Large Newspaper Printing Presses and Components Thereof, Whether Assembled or Unassembled, from Germany* (LNPP from Germany), 61 FR 38166, 38174 (July 23, 1996).

In this case, the sales through MAT meet the first two criteria described above. However, with respect to the third criterion, the record evidence in this case indicates that MAT is not merely a processor of sales-related documentation nor a ministerial communication link between the factories and their unaffiliated customers. On the contrary, MAT is instrumental in determining the terms of sale. In the questionnaire responses and at verification, company officials repeatedly stated that the U.S.-based president of MAT and owner of the Shenyang and Laizhou factories is solely responsible for all production, distribution, and sales decisions. Indeed, the case brief submitted by Shenyang/Laizhou conceded that instructions regarding pricing are sent from MAT's office in the United States. See case brief at 20. We are not persuaded by the argument that the U.S.-based president of MAT directs sales activities in his role as owner of the factories rather than as president of MAT, nor by the argument that his U.S. sales activities are "simply the consequence of (the U.S.-based president of MAT) being a U.S. citizen and resident." *Id.* The fact is that the U.S.-based president of MAT operationally controls both the factories and MAT from his U.S. office, with the

result that MAT directs the factories, not the opposite. Therefore, the sales through MAT are properly classified as CEP sales.

Comment 15: Surrogate Value for Purchased Unfinished Castings

Shenyang/Laizhou argues that the Department should use Laizhou's casting-related factors of production to calculate a surrogate value for castings purchased by Shenyang from unaffiliated PRC suppliers because Laizhou's valued factors for castings are more reflective of Shenyang's costs for castings if it had produced the castings itself. Alternatively, the respondent argues that the Department should derive a casting value based on the financial statements of Indian casting producers Nagpur and Jayaswals. According to the respondent, these financial statements are the only sources on the record that provide data for purchases or consumption of unfinished gray cast iron castings by producers of brake rotors.

The petitioner maintains that the Department should not value castings using the Laizhou factors of production given that there is reliable public information on the record regarding the price of input castings in India. The petitioner requests that the Department continue to use the inventory value for castings in Shivaji's financial statements as it did in the preliminary determination.

DOC Position

We disagree with the respondent that the unfinished castings purchased by Shenyang should be valued using the casting-related factors of production reported by Laizhou because, in NME cases, we value a respondent's factors based on its actual production experience during the POI. In this case, Shenyang purchased its unfinished castings during the POI and did not produce them, and thus we have valued these factors accordingly (see Notice of Final Determination of Sales at Less Than Fair Value: Coumarin from the People's Republic of China (PRC), 59 FR 66895, (Comments 4 and 5) (December 28, 1994)). The Department values inputs purchased in an NME using surrogate values derived from publicly available information in a market economy of a similar stage of development. The record of this investigation includes financial statements of Indian producers of brake rotors which provide reliable surrogate values for the purchase price of input castings, and there is therefore no need to build up a casting purchase value using the factors of production reported by Laizhou.

In identifying appropriate Indian financial statements for valuation of castings, we have excluded the statements of producers which did not manufacture rotors during the POI, since castings for rotors may have significantly different prices from castings for other products. Also, we have sought data on purchases of castings from casting suppliers, since it is reasonable to assume that such castings are unfinished or at most semi-finished. We believe that purchased casting data are more reliable than casting inventoried values, which may reflect large quantities of finished castings, and also more reliable than casting consumption values, which may include large quantities of castings produced internally rather than purchased from outside suppliers. Given these criteria, the Jayaswals financial statements provide the only appropriate Indian surrogate value for unfinished castings on the record, and we have relied on that value. For a more extensive discussion of our valuation of unfinished castings, please refer to the final factors valuation memorandum.

Southwest/MMB

Comment 16: EP vs. CEP Sales Classification

The respondent maintains that sales made by its U.S. affiliate (MMB) should be considered EP and not CEP transactions because (1) the price of the merchandise is set by Southwest, not by MMB, prior to importation; (2) the customary commercial channel is to ship the merchandise directly to the customer; and (3) MMB maintains no inventory in the United States. Southwest cites to *The Final Determination of Sales at Less Than Fair Value: Certain Stainless Steel Rod from France*, 58 FR 68865 (December 29, 1993) (*Stainless Steel Rod*) in support of its argument.

The petitioner asserts that the Department should continue to treat these sales as CEP.

DOC Position

We disagree with Southwest. Our verification findings indicate that Southwest's sales through MMB were properly classified as CEP sales. When we requested at verification evidence that Southwest sets U.S. prices, rather than MMB, Southwest was only able to provide negotiation and sales correspondence for one customer purchase order (which covered an insufficient number of the total POI invoices of subject merchandise). Further, the only documentation Southwest provided at verification to

support its claim was documentation that it had been requested to prepare prior to verification. We find this failure to be significant, especially given that the respondent originally stated in its response that MMB is "not a mere conduit of sales by Southwest" and that MMB's salesman "negotiates the final prices with MMB's customers." (see Southwest's supplementary sales response, dated August 27, 1996, at A-2). With regard to Southwest's reference to Stainless Steel Rod, we note that unlike the U.S. affiliate in that case, MMB's sales of brake rotors do not involve a situation in which the U.S. affiliate had no flexibility to set the price (*i.e.*, price is set by the parent company). Therefore, we find no compelling evidence in Southwest's responses or in our verification findings to treat these sales as EP sales.

Comment 17: Treatment of Bartered Scrap

The petitioner argues that no adjustment for bartered steel scrap should be made because the respondent did not provide a surrogate value to the Department.

Yangtze, Southwest's supplier, claims that the Department should grant it a credit for the scrap (*i.e.*, turnings and shavings) sold or bartered by it and that a surrogate value for steel scrap is already on the record.

DOC Position

We agree with Yangtze. It is Department practice to subtract the sales revenue of by-products such as steel scrap from the production costs of the subject merchandise (see Notice of Final Determination of Sales at Less Than Fair Value: Sebacic Acid from the People's Republic of China, 59 FR 28053 (May 31, 1994)). Moreover, we have a surrogate value for steel scrap on the record. Therefore, we have granted Yangtze a credit for the turnings and shavings it sold or bartered during the POI.

Comment 18: Credit Expense

Southwest maintains that if credit expenses are deducted from CEP, then the Department should use the date of the U.S. affiliate's invoice and not the date when Southwest shipped the subject merchandise from the PRC.

The petitioner maintains that the Department should use the PRC date of shipment to calculate this expense.

DOC Position

We disagree with Southwest that the Department should use the date of the U.S. affiliate's invoice to calculate credit expenses. When merchandise produced

by the foreign-based exporter's affiliated factory (Yangtze) is shipped from the factory through the foreign-based exporter (Southwest) and then directly to an unaffiliated U.S. customer without entering the inventory of a U.S. affiliate (MMB), then it is the Department's standard practice to calculate credit expenses based on the date of shipment from the factory to the U.S. customer. Therefore, we have based credit expenses for this respondent on the number of days between the date of shipment to the U.S. customer and the date of payment. See Final Determination of Sales at Less Than Fair Value: Hot-Rolled Carbon Steel Flat Products from Italy, 58 FR 37152 (July 9, 1993).

Comment 19: Misreported Weights for Unfinished Castings

The petitioner maintains that Yangtze incorrectly reported the weights for all of its unfinished casting models listed in the sales and factors of production databases, and the factors for those unfinished castings.

The respondent maintains that it did not misreport the weights of its unfinished castings in the factors of production database. The respondent argues that the Department should use the reported standard weights for unfinished castings rather than the actual weights because the reported weights are reflected in its accounting records and those weights were used to allocate raw materials used in making all castings (*i.e.*, unfinished castings and finished castings). Respondent further maintains that using the actual weights rather than the standard weights would be distortive because they overstate the constructed value for each unfinished casting. Respondent cites To Notice of Final Determination of Sales at Less Than Fair Value: Minivans from Japan, 57 FR 21937 (1992) in support of its argument.

DOC Position

We disagree with the respondent. At verification, we found that the difference in weight of an unfinished casting compared to a finished casting for the same model is large in magnitude. We know that using the standard weights for allocating inputs for unfinished castings from Yangtze's accounting records distorts the actual production costs of the subject merchandise. Using the standard weights will also undervalue the factors used to produce unfinished castings and distort the actual production cost of the brake rotors, because the standard weights are lower than the actual weights. Therefore, the reasons for using

standard weights in the Minivans case do not apply in this case.

If we do not take into account the actual weight of the unfinished brake rotor, then we would not be considering that there is a yield loss between a finished and unfinished product. However, in actuality, the yield loss is not as high for an unfinished product as a finished product, and therefore, the cost allocations are inaccurate as reported. Yangtze has not offered any alternative allocation methodology to account for these distortions. Furthermore, Yangtze did not even realize that its reported weights for unfinished brake rotors were based on its standard accounting system until Department officials found that the weights for unfinished brake rotors were incorrectly reported at verification.

In sum, in light of the distortive effects which would result from using Yangtze's theoretical standard weights, which bear no resemblance to the actual weights of unfinished castings, we are using the actual weights as the basis for allocation for those castings.

Comment 20: Welfare Fund

The petitioner alleges that Southwest failed to establish an absence of *de facto* or *de jure* government control because verification demonstrated that Southwest places a portion of its profits in a fund called "the public welfare fund" and claims that this fund is set up for payment of profits to the PRC government. For these reasons, the petitioner urges the Department to resort to facts available and deny Southwest a separate rate.

Southwest maintains that the Department found at verification that "the public welfare fund" is an employee welfare fund retained by the respondent.

DOC Position

We disagree with the petitioner. Southwest, like all the other respondents, is required to maintain an accounting system based on current PRC accounting standards. Included in the standard chart of accounts is an account entitled "public welfare fund." We examined the activity in this account during the POI and found that no payments were made to the PRC government. In addition, Southwest has demonstrated both a *de jure* and *de facto* absence of government control. (See "Separate Rates" section, above). Therefore, the Department sees no reason to deny Southwest a separate rate.

Yantai

Comment 21: Misreported Factors

The petitioner maintains that Laizhou Magnetic Iron Powder (MIP) Factory incorrectly reported its usage of five packing material factors for all models in the factors of production database. As a result of these errors, the petitioner urges the Department to resort to facts available for these materials.

Respondent maintains that the petitioner's request for use of facts available for Laizhou MIP's packing costs is misplaced. According to the respondent, of the six types of packing materials used by Laizhou MIP, the factory consistently and conservatively over-reported usage for five of the materials. For the sixth material, plastic bags, Laizhou MIP maintains that the magnitude of its under-reporting was less than one gram per bag.

DOC Position

We disagree for the most part with the petitioner's request that the Department utilize facts available in determining Laizhou MIP's usage of packing materials. For five of the six materials in question—cartons, nails, steel strap, pallet wood, and tape—the usages reported were found to be significantly overstated by the respondent. With respect to one packing material, plastic bags, the samples examined at verification indicate that Laizhou MIP did underreport usage by a relatively minor amount. We have corrected all of these usages using the verification findings as non-adverse facts available.

Currency Conversion

We made currency conversions into U.S. dollars based on the official exchange rates in effect on the dates of the U.S. sales as certified by the Federal Reserve Bank.

Section 773A(a) of the Act directs the Department to convert foreign currencies based on the dollar exchange rate in effect on the date of sale of the subject merchandise, unless it is established that a currency transaction on forward markets is directly linked to an export sale. When a company demonstrates that a sale on forward markets is directly linked to a particular export sale, the Department will use the rate of exchange in the forward currency sale agreement.

Section 773A(a) also directs the Department to use a daily exchange rate in order to convert foreign currencies into U.S. dollars unless the daily rate involves a fluctuation. It is the Department's practice to find that a fluctuation exists when the daily exchange rate differs from the

benchmark rate by 2.25 percent. The benchmark is defined as the moving average of rates for the past 40 business days. When we determine a fluctuation to have existed, we substitute the benchmark rate for the daily rate, in accordance with established practice. Further, section 773A(b) directs the Department to allow a 60-day adjustment period when a currency has undergone a sustained movement. A sustained movement has occurred when the weekly average of actual daily rates exceeds the weekly average of benchmark rates by more than five percent for eight consecutive weeks. (For an explanation of this method, see Policy Bulletin 96-1: Currency Conversions, 61 FR 9434 (March 8, 1996).) Such an adjustment period is required only when a foreign currency is appreciating against the U.S. dollar. The use of an adjustment period was not warranted in this case because the Indian rupee did not undergo a sustained movement.

*Continuation, and Termination in Part, of Suspension of Liquidation**Brake Drums*

In accordance with section 735(c) of the Act, we are directing the Customs Service to continue to suspend liquidation of all entries of brake drums from the PRC, except for the exporter/producer combinations listed below, that are entered, or withdrawn from warehouse, for consumption on or after October 10, 1996, which is the date of publication of our notice of preliminary determination in the Federal Register:

Exporter(s)	Producer(s)
CMC	Xinchangyuan
Qingdao	Changzhi
Xinchangyuan	Xinchangyuan
Yantai	Longkou Bohai; Laizhou MIP.

With respect to the above companies, the suspension of liquidation ordered on or after October 10, 1996, will be terminated and any cash deposit or bonds will be released.

Under the Department's NME methodology, the zero rate for each exporter is based on a comparison of the exporter's U.S. price and NV based on the factors of production of a specific producer (which may be a different party). Therefore, the exclusion of the above-mentioned companies from an antidumping duty order (should one be issued) applies only to subject merchandise sold through the exporter/producer combinations noted above. Merchandise that is sold by an above-mentioned exporter but manufactured

by producers not noted above for that exporter will be subject to the order, if one is issued (see Notice of Final Determination of Sales At Less Than Fair Value: Cased Pencils from the People's Republic of China, 59 FR 55625 (November 8, 1994) and Drawer Slides). Entries of such merchandise will be subject to the "China-wide" rate.

For imports of brake drums that are sold by CAIEC/Laizhou CAPCO, Hebei Metals and Machinery Import & Export Corporation, Jiuyang Enterprise Corporation, Longjing Walking Tractor Works Foreign Trade Import & Export Corporation and Shanxi Machinery and Equipment Import & Export Corporation, we are directing the Customs Service to suspend liquidation at a rate indicated below.

As stated in the preliminary determination, it would be inappropriate to assign these fully cooperative respondents a rate based on "facts available" that would also apply to PRC exporters who refused to cooperate. However, for this final determination, all of the rates determined for the selected brake drum respondents were either zero or entirely based on facts available.

We note that the Act is silent with respect to a situation in an NME investigation in which all of the rates determined for the selected respondents are either zero, *de minimis* or based on facts available. However, section 735(c)(5)(B) of the Act, which deals with the analogous "all others" determination, allows us to "use any reasonable method to establish the estimated all-others rate for exporters and producers not individually investigated, including averaging the estimated weighted average dumping margins determined for the exporters and producers individually investigated." The SAA at 873 explicitly recognizes that if the latter approach "results in an average that would not be reasonably reflective of potential dumping margins for non-investigated exporters or producers, Commerce may use other reasonable methods." CNIGC, the only one of the five examined companies which did not receive a *de minimis* or zero rate, became subject to a rate based on facts available because it was found not to be entitled to a separate rate, rather than due to a failure to provide data on its sales practices. Furthermore, this company's volume of sales of brake drums to the U.S. market is one of the largest in the investigation. Given the unique circumstances of this case, we do not consider that a weighted-average which includes that company's adverse facts available rate is reasonably reflective of potential

dumping margins for cooperative non-investigated exporters or producers who submitted full questionnaire responses. Therefore, in order not to give undue weight to CNIGC in determining a rate for non-examined companies which is reasonably reflective of potential dumping margins, we have assigned to these companies a rate which is the *simple* average of the dumping margins determined for the exporters and producers individually investigated.

We are also directing the Customs Service to continue to suspend liquidation of entries sold by the PRC brake drum companies subject to the China-wide rate, that are entered, or withdrawn from warehouse, for consumption on or after October 10, 1996.

The Customs Service will require a cash deposit or posting of a bond equal to the estimated duty margins by which the normal value exceeds the USP, as shown below. These suspension of liquidation instructions will remain in effect until further notice.

The weighted-average dumping margins are as follows:

BRAKE DRUMS

Manufacturer/Producer/Exporter	Weighted-average margin percentage
CMC/Xinchangyuan ..	0.00 (Excluded).
Qingdao/Changzhi	0.00 (Excluded).
Xinchangyuan/ Xinchangyuan.	0.00 (Excluded).
Yantai/Longkou Botai Machinery Com- pany or Laizhou MIP.	0.00 (Excluded).
CAIEC/Laizhou CAPCO.	17.20.*
Hebei Metals and Machinery Import & Export Corporation.	17.20.*
Jiuyang Enterprise Corporation.	17.20.*
Longjing Walking Tractor Works For- eign Trade.	17.20.*
Import & Export Cor- poration Shanxi Machinery and Equipment Import & Export Corpora- tion.	17.20.*
China-Wide Rate	86.02.

* Rate is based on the simple average of rates determined for the selected respondents.

Brake Rotors

In accordance with section 735(c) of the Act, we are directing the Customs Service to continue to suspend liquidation of all entries of brake rotors from the PRC except for the exporter/producer combinations listed below, that are entered, or withdrawn from

warehouse, for consumption on or after October 10, 1996:

Exporter(s)	Producer(s)
CAIEC or Laizhou CAPCO.	Laizhou CAPCO.
Shenyang or Laizhou Xinjiang	Shenyang or Laizhou. Zibo Botai Manufac- turing Co., Ltd.

With respect to the above companies, the suspension of liquidation ordered on or after October 10, 1996, is to be terminated and any cash deposit or bonds are to be released. However, if any of the above-referenced companies sell subject merchandise which is not manufactured by the producers noted above for those companies, then those entries will be subject to the "China-wide" rate (for a full explanation, see the "Brake Drums" section above).

For imports of brake rotors that are sold by Hebei Metals and Machinery Import & Export Corporation, Jilin Provincial Machinery & Equipment Import & Export Corporation, Jiuyang Enterprise Corporation, Longjing Walking Tractor Works Foreign Trade Import & Export Corporation, Qingdao Metals, Minerals & Machinery Import & Export Corporation, Shanxi Machinery and Equipment Import & Export Corporation, Xianghe Zichen Casting Corporation and Yenhere Corporation, we have assigned these companies a weighted-average dumping margin based on the calculated margins of the selected brake rotors respondents, excluding margins which were zero, *de minimis* or based on facts available (see Preliminary Determinations).

Because we have determined that critical circumstances exist with respect to the PRC brake rotor companies which have received the China-wide rate, we are directing the Customs Service to continue to suspend liquidation of entries sold by these companies, that are entered, or withdrawn from warehouse, for consumption on or after July 12, 1996, which is 90 days prior to the date of publication of our notice of preliminary determination in the Federal Register.

The Customs Service will require a cash deposit or posting of a bond equal to the estimated duty margins by which the normal value exceeds the USP, as shown below. These suspension of liquidation instructions will remain in effect until further notice.

The weighted-average dumping margins are as follows:

BRAKE ROTORS

Manufacturer/pro- ducer/exporter	Weighted-average margin percentage
CAIEC and Laizhou CAPCO/Laizhou CAPCO.	0.00 (Excluded).
Shenyang and Laizhou/Shenyang or Laizhou.	0.00 (Excluded).
Xinjiang/Zibo Botai Manufacturing Co. Ltd.	0.00 (Excluded).
Yantai Import & Ex- port Corporation.	3.56.
Southwest Technical Import & Export Corporation, Yangtze Machinery Corporation, and MMB International, Inc.	16.35.
.....	
Hebei Metals and Machinery Import & Export Corporation.	8.63.*
Jilin Provincial Ma- chinery & Equip- ment Import & Ex- port Corp.	8.63.*
Jiuyang Enterprise Corporation.	8.63.*
Longjing Walking Tractor Works For- eign Trade Import & Export Corpora- tion.	8.63.*
Qingdao Metals, Min- erals & Machinery Import & Export Corp..	8.63.*
Shanxi Machinery and Equipment Im- port & Export Cor- poration.	8.63.*
Xianghe Zichen Cast- ing Corporation.	8.63.*
Yenhere Corporation China-Wide Rate	8.63.* 43.32.

* Rate is based on the weighted-average of calculated rates that are not zero or based on facts available.

China-Wide Rate

China-Wide Rates have been assigned to brake drums and brake rotors exporters based on the revised highest petition rates. The China-Wide rate applies to all entries of subject merchandise except for entries from exporters/factories that are identified individually above under each product type.

ITC Notification

In accordance with section 735(d) of the Act, we have notified the ITC of our determinations. As our final determinations are affirmative, the ITC will determine, within 45 days, whether these imports are causing material injury, or threat of material injury, to an

industry in the United States. If the ITC determines that material injury, or threat of material injury, does not exist, for one or both proceedings, that proceeding or both proceedings will be terminated and all securities posted will be refunded or canceled. If the ITC determines that such injury does exist in both proceedings, the Department will issue antidumping duty orders directing Customs officials to assess antidumping duties on all imports of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the effective date of the suspension of liquidation.

These determinations are published pursuant to section 735(d) of the Act.

Dated: February 24, 1997.

Robert S. LaRussa,
*Acting Assistant Secretary for Import
Administration.*

[FR Doc. 97-5029 Filed 2-27-97; 8:45 am]

BILLING CODE 3510-DS-P

**INTERNATIONAL TRADE
COMMISSION**

[Investigation No. 731-TA-744 (Final)]

**Certain Brake Drums and Rotors From
China**

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

ACTION: Scheduling of the final phase of an antidumping investigation.

SUMMARY: The Commission hereby gives notice of the scheduling of the final phase of antidumping investigation No. 731-TA-744 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act) to determine whether 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 less-than-fair-value imports from the People's Republic of China (China) of certain brake drums and rotors, provided for in subheading 8708.39.50 of the Harmonized Tariff Schedule of the United States.¹

¹ For purposes of this investigation, Commerce has defined the subject brake drums as being 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."

Commerce has defined the subject brake rotors as being 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."

For further information concerning the conduct of this phase of the investigation, hearing procedures, 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 C (19 CFR part 207), as amended by 61 FR 37818, July 22, 1996.

EFFECTIVE DATE: October 10, 1996.

FOR FURTHER INFORMATION CONTACT: Jim McClure (202-205-3191), Office of Investigations, U.S. International Trade Commission, 500 E Street SW, Washington, DC 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**

The final phase of this investigation is being scheduled as a result of an affirmative preliminary determination by the Department of Commerce that imports of certain brake drums and rotors from China are being sold in the United States at less than fair value within the meaning of section 733 of the Act (19 U.S.C. § 1673b). The investigation was requested in 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, including industrial users of the subject merchandise and, if the merchandise is sold at the retail level, representative consumer organizations, wishing to participate in the final phase of this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in section 201.11 of the Commission's rules, no later than 21 days prior to the hearing date specified in this notice. A party that filed a notice of appearance during the preliminary phase of the investigation need not file an additional notice of appearance during this final phase. The Secretary

will maintain a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

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 the final phase of this investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made no later than 21 days prior to the hearing date specified in this notice. Authorized applicants must represent interested parties, as defined by 19 U.S.C. § 1677(9), who are parties to the investigation. A party granted access to BPI in the preliminary phase of the investigation need not reapply for such access. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Staff Report

The prehearing staff report in the final phase of this investigation will be placed in the nonpublic record on February 13, 1997, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules.

Hearing

The Commission will hold a hearing in connection with the final phase of this investigation beginning at 9:30 a.m. on February 28, 1997, at the U.S. International Trade Commission Building. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before February 18, 1997. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the hearing. All parties and nonparties desiring to appear at the hearing and make oral presentations should attend a prehearing conference to be held at 9:30 a.m. on February 20, 1997, at the U.S. International Trade Commission Building. Oral testimony and written materials to be submitted at the public hearing are governed by sections 201.6(b)(2), 201.13(f), and 207.24 of the Commission's rules. Parties must submit any request to present a portion of their hearing testimony *in camera* no later than 7 days prior to the date of the hearing.

Written Submissions

Each party who is an interested party shall submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.23 of the Commission's rules; the deadline for filing is February 21, 1997. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.24 of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.25 of the Commission's rules. The deadline for filing posthearing briefs is March 6, 1997; witness testimony must be filed no later than three days before the hearing. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before March 6, 1997. On March 25, 1997, the Commission will make available to parties all information on which they have not had an opportunity to comment. Parties may submit final comments on this information on or before March 27, 1997, but such final comments must not contain new factual information and must otherwise comply with section 207.30 of the Commission's rules. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain BPI must also 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 Commission's 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 207.21 of the Commission's rules.

Issued: October 30, 1996.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 96-28535 Filed 11-5-96; 8:45 am]

BILLING CODE 7020-02-P

APPENDIX B

LIST OF WITNESSES APPEARING AT THE COMMISSION'S HEARING

CALENDAR OF HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Certain Brake Drums and Rotors from China
Inv. No. : 731-TA-744 (F)
Date and Time : February 28, 1997 - 9:30 a.m.

Sessions were held in connection with the investigation in the hearing room, 500 E Street, SW, Washington, DC.

Congressional appearances:

The Honorable Donald A. Manzullo, United States Congressman, 16th District, Illinois

The Honorable Phil English, United States Congressman, 21st District, Pennsylvania

In support of the imposition of antidumping duties:

Porter, Wright, Morris and Arthur
Washington, DC
on behalf of

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

Joseph LaVarra, Vice President, Brake Parts Inc., McHenry, IL
Pete Painter, Director of Marketing, Wagner Brake Corporation, St. Louis, MO
Barry Breslow, Vice President, Kinetic Parts Manufacturing Inc., Harbor City, CA
B.J. Lechner, Division Manager, Iroquois Tool Systems Inc., North East, PA
Gary Byrne, Owner, Quality Brake and Chassis Distributors Inc., Arlington, VA
Timothy A. Lee, Owner, Certified Automotive Warehouse Inc., Chicago, IL
Samuel Demrovsky, Owner, Overseas Auto Parts Inc., Livonia, MI
Mark Ihm, Product Engineering Manager, Kelsey Hayes Co., Livonia, MI

Kenneth R. Button, Economist, Economic Consulting Service

Leslie Alan Glick--OF COUNSEL

In opposition to the imposition of antidumping duties:

Williams, Mullen, Christian and Dobbins
Washington, DC
on behalf of

California Drum and Rotor

Merv York, CEO, California Drum and Rotor, Carson, CA
Jerry Korman, Vice President, Mamrok Associates, Boynton Beach, FL
Joseph Ende, President, Brake Headquarters USA, Long Island City, NY
Meilun Ma, President, MMB International, Inc., San Gabriel, CA
Jacque Wang, President, Utallent, Inc., Valley Stream, NY

William E. Perry—OF COUNSEL

White and Case
Washington, DC
on behalf of

China National Automotive Industry Import and Export Co.
Qingdao Metals, Minerals, and Machinery Import and Export Corp.
Yantai Import and Export Corp.
Southwest Technical Import and Export Corp.
Laizhou Sanli Machinery-Making Co.
Longkou Bohai Machinery Co.
Yenhere Corp.
Shandong Laizhou CAPCO Industry Co.
Beijing Xinchangyuan Automobile Fittings Corp.
Xianghe Zichen Group Co.
China National Machinery Import and Export Corp.
Hebei Metals and Machinery Import and Export Corp.
Shanxi Machinery and Equipment Import and Export Corp.
China North Industries Corp. (Guangzhou)
Jilin Provincial Machinery and Equipment Import and Export Corp.
China National Machinery and Equipment Import and Export (Xinjiang) Co.
China North Industries Corp. (Dalian)
Xu Zhou Yunhe (Canal) Machinery
Longjing Walking Tractor Works Foreign Trade Import and Export Corp.
Changzhi Auto Brake Works
Shandong Jiuyang Enterprise Corp.

Edmund W. Sim—OF COUNSEL

APPENDIX C
SUMMARY DATA

Table C-1

Aftermarket brake drums: Summary data concerning the U.S. market, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	1993	1994	1995	Jan.-Sept.		1993-95	1993-94	1994-95	Jan.-Sept. 1995-96
				1995	1996				
U.S. consumption quantity:									
Amount	3,464	4,388	5,370	4,170	4,501	55.0	26.7	22.4	7.9
Producers' share (1)	53.1	51.6	50.3	49.4	43.7	-2.7	-1.5	-1.2	-5.7
Importers' share (1):									
China (LTFV)	0.0	7.6	9.2	10.9	7.5	9.2	7.6	1.6	-3.4
China (non-LTFV)	10.9	7.7	7.0	6.8	11.3	-3.9	-3.2	-0.8	4.4
China (total)	10.9	15.3	16.2	17.8	18.8	5.3	4.4	0.8	1.0
Canada	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	46.9	48.4	49.7	50.6	56.3	2.7	1.5	1.2	5.7
U.S. consumption value:									
Amount	52,915	63,616	75,856	58,496	62,880	43.4	20.2	19.2	7.5
Producers' share (1)	66.3	65.1	62.5	62.1	56.7	-3.8	-1.2	-2.6	-5.4
Importers' share (1):									
China (LTFV)	0.0	5.3	6.3	7.6	4.6	6.3	5.3	1.0	-3.0
China (non-LTFV)	7.6	4.8	5.4	5.0	9.5	-2.2	-2.8	0.6	4.4
China (total)	7.6	10.1	11.8	12.6	14.1	4.2	2.5	1.7	1.5
Canada	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	33.7	34.9	37.5	37.9	43.3	3.8	1.2	2.6	5.4
U.S. imports from:									
China (LTFV):									
Quantity	0	333	494	456	339	(2)	(2)	48.3	-25.8
Value	0	3,361	4,804	4,443	2,898	(2)	(2)	42.9	-34.8
Unit value	(2)	\$10.09	\$9.73	\$9.73	\$8.56	(2)	(2)	-3.6	-12.1
Ending inventory quantity	134	301	364	322	404	171.6	124.6	20.9	25.5
China (non-LTFV):									
Quantity	378	339	374	286	507	-1.0	-10.3	10.4	77.7
Value	4,020	3,050	4,115	2,950	5,965	2.4	-24.1	34.9	102.2
Unit value	\$10.63	\$9.00	\$11.00	\$10.33	\$11.76	3.4	-15.4	22.2	13.8
Ending inventory quantity	0	1	1	2	0	(2)	(2)	0.0	-100.0
China (total):									
Quantity	378	672	868	742	846	129.6	77.8	29.2	14.0
Value	4,020	6,411	8,919	7,393	8,863	121.9	59.5	39.1	19.9
Unit value	\$10.63	\$9.54	\$10.28	\$9.96	\$10.48	-3.4	-10.3	7.7	5.1
Ending inventory quantity	134	302	365	324	404	172.4	125.4	20.9	24.7
Canada:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	1,626	2,126	2,667	2,112	2,534	64.0	30.8	25.5	20.0
Value	17,847	22,220	28,458	22,150	27,198	59.5	24.5	28.1	22.8
Unit value	\$10.98	\$10.45	\$10.67	\$10.49	\$10.74	-2.8	-4.8	2.1	2.3

Table continued on next page.

Table C-1--Continued

Aftermarket brake drums: Summary data concerning the U.S. market, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Quantity = 1,000 units, value = 1,000 dollars, unit values, unit labor costs, and unit expenses are per unit, period changes = percent, except where noted									
Item	Reported data					Period changes			
	1993	1994	1995	Jan.-Sept.		1993-95	1993-94	1994-95	Jan.-Sept. 1995-96
				1995	1996				
U.S. producers':									
Average capacity quantity	2,968	3,168	3,418	2,563	2,925	15.2	6.7	7.9	14.1
Production quantity	2,007	2,527	2,892	2,126	2,017	44.1	25.9	14.4	-5.1
Capacity utilization (1)	67.6	79.8	84.6	82.9	69.0	17.0	12.1	4.8	-14.0
U.S. shipments:									
Quantity	1,838	2,262	2,703	2,058	1,967	47.1	23.1	19.5	-4.4
Value	35,068	41,396	47,398	36,346	35,682	35.2	18.0	14.5	-1.8
Unit value	\$19.08	\$18.30	\$17.54	\$17.66	\$18.14	-8.1	-4.1	-4.2	2.7
Export shipments:									
Quantity	214	210	246	185	176	15.0	-1.9	17.1	-4.9
Value	3,901	3,345	3,635	2,727	2,862	-6.8	-14.3	8.7	5.0
Unit value	\$18.23	\$15.93	\$14.78	\$14.74	\$16.26	-18.9	-12.6	-7.2	10.3
Ending inventory quantity	467	465	603	600	563	29.1	-0.4	29.7	-6.2
Inventories/total shipments (1) .	22.8	18.8	20.4	20.1	19.7	-2.3	-3.9	1.6	-0.4
Production workers	164	174	209	209	183	27.4	6.1	20.1	-12.4
Hours worked (1,000s)	363	449	483	362	315	33.1	23.7	7.6	-13.0
Wages paid (\$1,000s)	5,227	6,450	7,151	5,367	4,474	36.8	23.4	10.9	-16.6
Hourly wages	\$14.40	\$14.37	\$14.81	\$14.83	\$14.20	2.8	-0.2	3.1	-4.2
Productivity (units per hour) . . .	5.5	5.6	6.0	5.9	6.4	8.3	1.8	6.4	9.0
Unit labor costs	\$2.60	\$2.55	\$2.47	\$2.52	\$2.22	-5.1	-2.0	-3.1	-12.1
Net sales:									
Quantity	2,392	2,781	2,908	2,023	2,046	21.6	16.3	4.6	1.1
Value	43,668	49,491	52,065	38,426	38,329	19.2	13.3	5.2	-0.3
Unit value	\$18.26	\$17.80	\$17.90	\$18.99	\$18.73	-1.9	-2.5	0.6	-1.4
Cost of goods sold (COGS)	28,741	34,628	35,221	26,517	24,869	22.5	20.5	1.7	-6.2
Gross profit or (loss)	14,927	14,863	16,844	11,909	13,460	12.8	-0.4	13.3	13.0
SG&A expenses	7,713	8,219	9,065	6,602	6,305	17.5	6.6	10.3	-4.5
Operating income or (loss)	7,214	6,644	7,779	5,307	7,155	7.8	-7.9	17.1	34.8
Capital expenditures	1,775	820	495	733	288	-72.1	-53.8	-39.6	-60.7
Unit COGS	\$12.02	\$12.45	\$12.11	\$13.11	\$12.15	0.8	3.6	-2.7	-7.3
Unit SG&A expenses	\$3.22	\$2.96	\$3.12	\$3.26	\$3.08	-3.3	-8.3	5.5	-5.6
Unit operating income or (loss) . .	\$3.02	\$2.39	\$2.68	\$2.62	\$3.50	-11.3	-20.8	12.0	33.3
COGS/sales (1)	65.8	70.0	67.6	69.0	64.9	1.8	4.2	-2.3	-4.1
Operating income or (loss)/ sales (1)	16.5	13.4	14.9	13.8	18.7	-1.6	-3.1	1.5	4.9

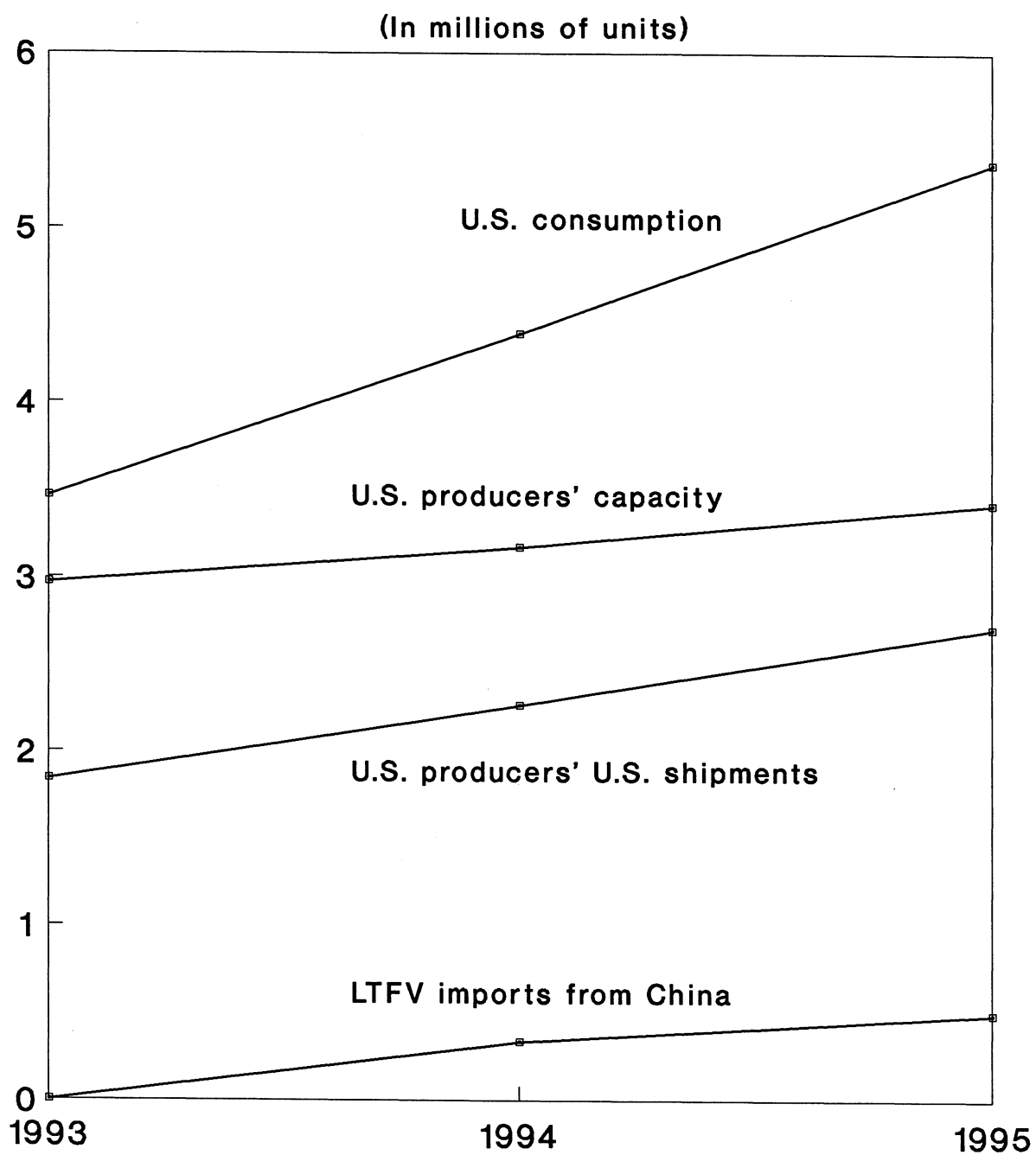
(1) "Reported data" are in percent and "period changes" are in percentage points.

(2) Not applicable.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis.

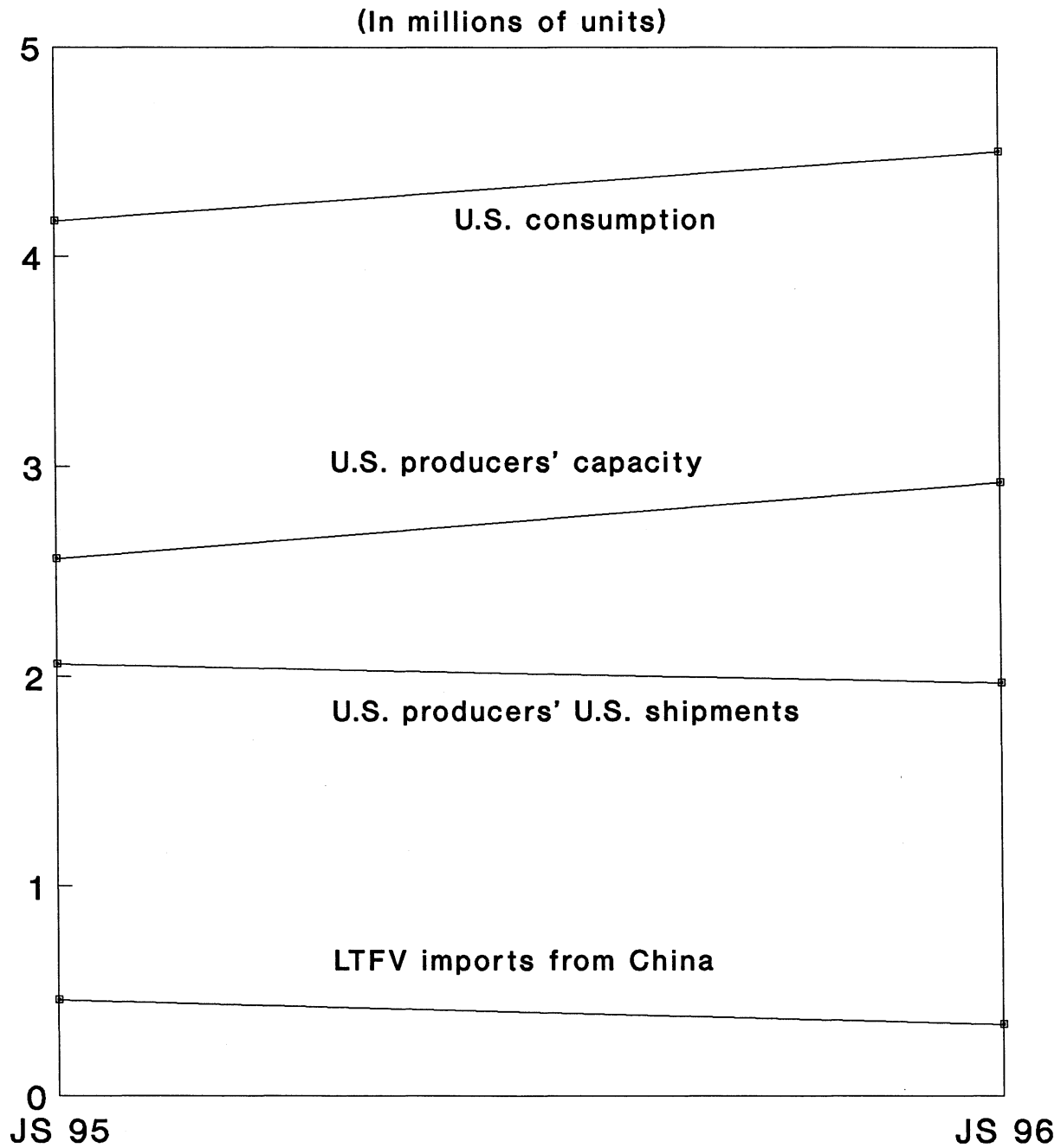
Source: Data for U.S. producers and imports from China and Canada compiled from data submitted in response to questionnaires of the USITC; (total imports from China reflect importer questionnaire totals; non-LTFV imports taken from foreign producer questionnaires; LTFV imports calculated as the difference between these figures; values for imports from China constructed using these quantities and average unit values as reported by LTFV and non-LTFV importers); all other imports estimated from official statistics of the U.S. Department of Commerce.

Figure C-1
Aftermarket brake drums: Summary data,
1993-95



Source: Table C-1.

Figure C-2
Aftermarket brake drums: Summary data,
Jan.-Sept. of 1995 and 1996



Source: Table C-2.

Table C-2

Aftermarket brake rotors: Summary data concerning the U.S. market, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	1993	1994	1995	Jan.-Sept. 1995	1996	1993-95	1993-94	1994-95	Jan.-Sept. 1995-96
U.S. consumption quantity:									
Amount	19,909	25,209	27,998	20,577	22,825	40.6	26.6	11.1	10.9
Producers' share (1)	40.5	37.1	35.0	36.7	36.6	-5.5	-3.4	-2.1	-0.2
Importers' share (1):									
China (LTFV)	8.0	16.0	18.3	16.4	17.3	10.3	8.0	2.3	0.9
China (non-LTFV)	3.2	4.4	4.6	4.0	7.1	1.4	1.2	0.2	3.1
China (total)	11.2	20.4	22.9	20.4	24.4	11.7	9.1	2.5	4.0
Canada	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	59.5	62.9	65.0	63.3	63.4	5.5	3.4	2.1	0.2
U.S. consumption value:									
Amount	268,286	317,973	336,166	253,499	292,872	25.3	18.5	5.7	15.5
Producers' share (1)	48.0	46.7	45.8	46.9	46.4	-2.2	-1.4	-0.9	-0.5
Importers' share (1):									
China (LTFV)	4.2	9.2	11.3	10.4	9.9	7.1	5.0	2.1	-0.5
China (non-LTFV)	1.6	2.3	2.8	2.5	4.4	1.3	0.8	0.5	2.0
China (total)	5.8	11.5	14.2	12.8	14.4	8.4	5.8	2.6	1.5
Canada	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	52.0	53.3	54.2	53.1	53.6	2.2	1.4	0.9	0.5
U.S. imports from:									
China (LTFV):									
Quantity	1,594	4,025	5,125	3,378	3,948	221.5	152.5	27.3	16.9
Value	11,277	29,232	38,057	26,330	29,094	237.5	159.2	30.2	10.5
Unit value	\$7.07	\$7.26	\$7.43	\$7.79	\$7.37	5.0	2.7	2.2	-5.5
Ending inventory quantity	739	1,159	1,366	1,147	1,515	84.8	56.8	17.9	32.1
China (non-LTFV):									
Quantity	641	1,107	1,282	817	1,610	100.0	72.7	15.8	97.1
Value	4,237	7,446	9,556	6,222	12,994	125.6	75.7	28.3	108.8
Unit value	\$6.61	\$6.73	\$7.45	\$7.62	\$8.07	12.8	1.8	10.8	6.0
Ending inventory quantity	51	125	51	52	46	0.0	145.1	-59.2	-11.5
China (total):									
Quantity	2,235	5,132	6,407	4,195	5,558	186.7	129.6	24.8	32.5
Value	15,513	36,677	47,613	32,553	42,089	206.9	136.4	29.8	29.3
Unit value	\$6.94	\$7.15	\$7.43	\$7.76	\$7.57	7.1	3.0	4.0	-2.4
Ending inventory quantity	790	1,284	1,417	1,199	1,561	79.4	62.5	10.4	30.2
Canada:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	11,843	15,851	18,198	13,018	14,479	53.7	33.8	14.8	11.2
Value	139,416	169,541	182,141	134,504	156,931	30.6	21.6	7.4	16.7
Unit value	\$11.77	\$10.70	\$10.01	\$10.33	\$10.84	-15.0	-9.1	-6.4	4.9

Table continued on next page.

Table C-2--Continued

Aftermarket brake rotors: Summary data concerning the U.S. market, 1993-95, Jan.-Sept. 1995, and Jan.-Sept. 1996

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

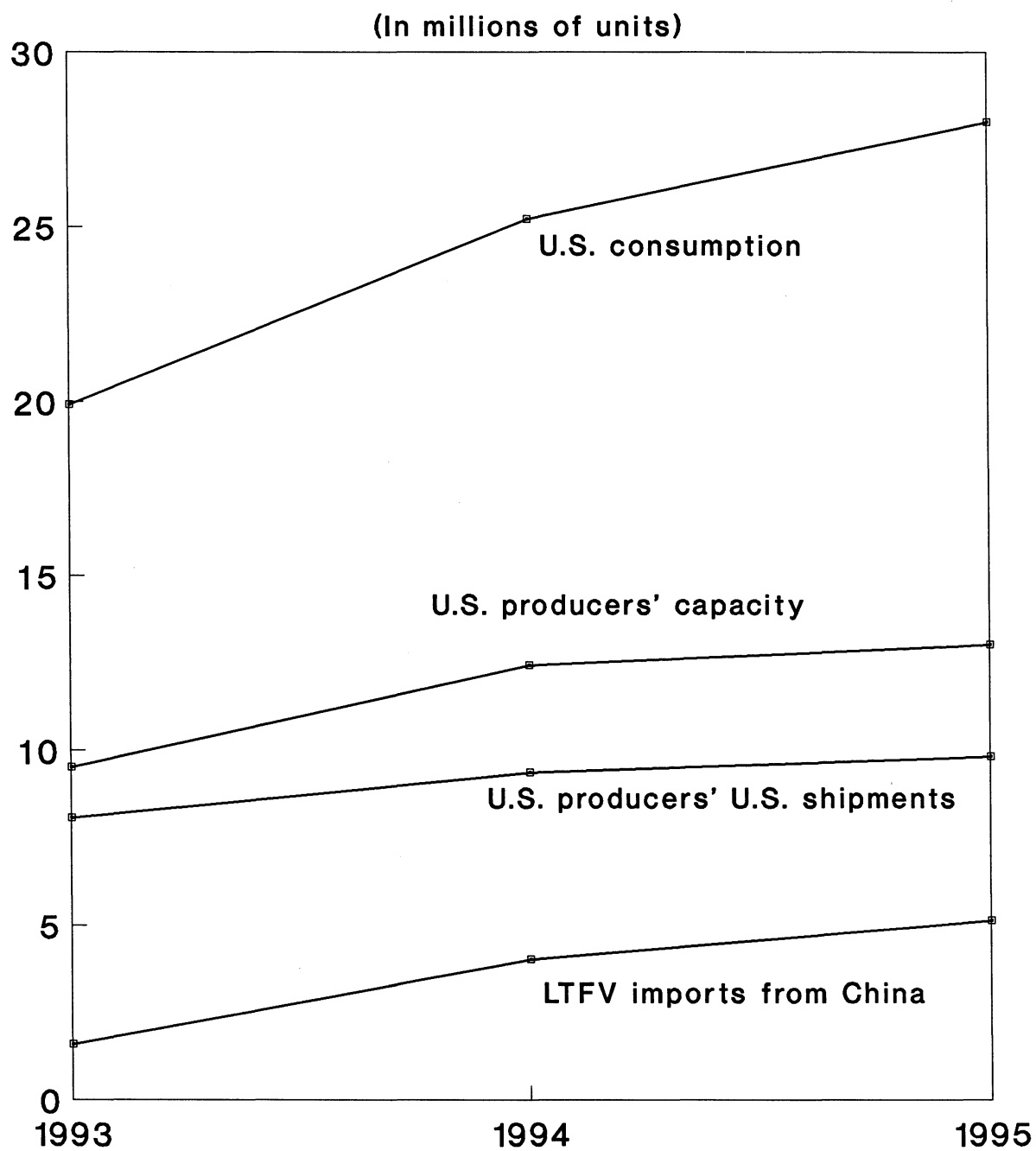
Item	Reported data					Period changes			
	1993	1994	1995	Jan.-Sept. 1995	1996	1993-95	1993-94	1994-95	Jan.-Sept. 1995-96
U.S. producers:									
Average capacity quantity	9,514	12,416	13,005	9,781	10,415	36.7	30.5	4.7	6.5
Production quantity	9,159	10,905	10,726	7,957	7,893	17.1	19.1	-1.6	-0.8
Capacity utilization (1)	96.3	87.8	82.5	81.4	75.8	-13.8	-8.4	-5.4	-5.6
U.S. shipments:									
Quantity	8,066	9,358	9,800	7,559	8,346	21.5	16.0	4.7	10.4
Value	128,870	148,432	154,025	118,995	135,941	19.5	15.2	3.8	14.2
Unit value	\$15.98	\$15.86	\$15.72	\$15.74	\$16.29	-1.6	-0.7	-0.9	3.5
Export shipments:									
Quantity	979	783	734	551	545	-25.0	-20.0	-6.3	-1.1
Value	15,858	11,692	10,890	8,167	9,064	-31.3	-26.3	-6.9	11.0
Unit value	\$16.20	\$14.93	\$14.84	\$14.82	\$16.63	-8.4	-7.8	-0.6	12.2
Ending inventory quantity	1,319	1,762	2,227	2,186	1,885	68.8	33.6	26.4	-13.8
Inventories/total shipments (1) .	14.6	17.4	21.1	20.2	15.9	6.6	2.8	3.8	-4.3
Production workers	814	934	931	926	884	14.4	14.7	-0.3	-4.5
Hours worked (1,000s)	1,728	1,976	1,938	1,449	1,376	12.2	14.4	-1.9	-5.0
Wages paid (\$1,000s)	24,081	26,812	26,775	19,983	18,839	11.2	11.3	-0.1	-5.7
Hourly wages	\$13.94	\$13.57	\$13.82	\$13.79	\$13.69	-0.9	-2.6	1.8	-0.7
Productivity (units per hour) . . .	5.3	5.5	5.5	5.5	5.7	4.4	4.1	0.3	4.5
Unit labor costs	\$2.63	\$2.46	\$2.50	\$2.51	\$2.39	-5.1	-6.5	1.5	-5.0
Net sales:									
Quantity	9,483	10,730	11,373	8,099	8,828	19.9	13.1	6.0	9.0
Value	152,459	169,965	182,086	128,668	147,159	19.4	11.5	7.1	14.4
Unit value	\$16.08	\$15.84	\$16.01	\$15.89	\$16.67	-0.4	-1.5	1.1	4.9
Cost of goods sold (COGS)	110,593	130,807	139,611	98,502	109,147	26.2	18.3	6.7	10.8
Gross profit or (loss)	41,866	39,158	42,475	30,166	38,012	1.5	-6.5	8.5	26.0
SG&A expenses	28,563	30,651	32,631	23,824	27,588	14.2	7.3	6.5	15.8
Operating income or (loss)	13,303	8,507	9,844	6,342	10,424	-26.0	-36.1	15.7	64.4
Capital expenditures	4,178	8,493	2,513	2,185	698	-39.9	103.3	-70.4	-68.1
Unit COGS	\$11.66	\$12.19	\$12.28	\$12.16	\$12.36	5.3	4.5	0.7	1.7
Unit SG&A expenses	\$3.01	\$2.86	\$2.87	\$2.94	\$3.13	-4.7	-5.2	0.4	6.2
Unit operating income or (loss) . .	\$1.40	\$0.79	\$0.87	\$0.78	\$1.18	-38.3	-43.5	9.2	50.8
COGS/sales (1)	72.5	77.0	76.7	76.6	74.2	4.1	4.4	-0.3	-2.4
Operating income or (loss)/ sales (1)	8.7	5.0	5.4	4.9	7.1	-3.3	-3.7	0.4	2.2

(1) "Reported data" are in percent and "period changes" are in percentage points.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis.

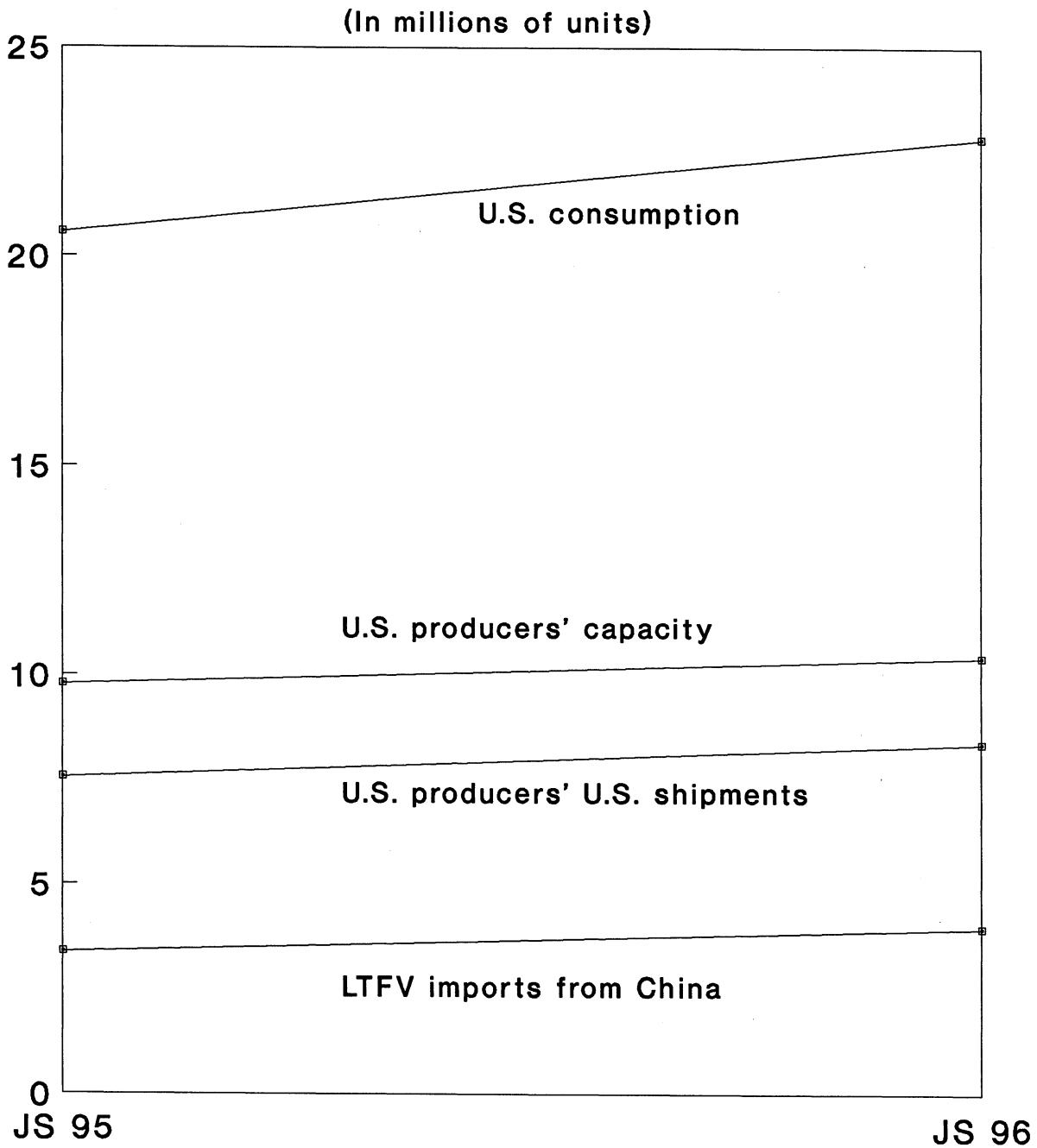
Source: Data for U.S. producers and imports from China and Canada compiled from data submitted in response to questionnaires of the USITC; (total imports from China reflect importer questionnaire totals; non-LTFV imports taken from foreign producer questionnaires; LTFV imports calculated as the difference between these figures; values for imports from China constructed using these quantities and average unit values as reported by LTFV and non-LTFV importers); all other imports estimated from official statistics of the U.S. Department of Commerce.

Figure C-3
Aftermarket brake rotors: Summary
data, 1993-95



Source: Table C-2.

Figure C-4
Aftermarket brake rotors: Summary data,
Jan.-Sept. of 1995 and 1996



Source: Table C-2.

APPENDIX D
COMPAS ANALYSIS

ASSUMPTIONS

The COMPAS model is a supply and demand model that assumes that domestic and imported products are less than perfect substitutes. Such models, also known as Armington models, are relatively standard in applied trade policy analysis and are used extensively for the analysis of trade policy changes both in partial and general equilibrium. Based on the discussion contained in Part II of this report, the staff selects a range of estimates that represent price-supply, price-demand, and product-substitution relationships (i.e., supply elasticity, demand elasticity, and substitution elasticity) in the U.S. brake drum and rotor aftermarket. The model uses these estimates with data on market shares, Commerce's estimated margin of dumping,¹ transportation costs, and current tariffs to analyze the likely effect of unfair pricing of subject imports on the U.S. like product industry.

FINDINGS

The estimated effects of LTFV pricing of imports on U.S. production of aftermarket brake drums and rotors (in percent) are as follows:

	<u>Price</u>	<u>Volume</u>	<u>Revenue</u>
Drums	0.3 to 1.6	1.7 to 5.4	2.3 to 6.3
Rotors	0.4 to 2.2	2.0 to 7.2	2.7 to 8.6

More detailed effects of the dumping and the modeling assumptions used for the range of scenarios are shown in tables D-1 to D-2.

¹ Commerce assigned China-wide LTFV margin rates for brake drums and rotors based on the revised highest petition rates. Company-specific rates were calculated on a weighted-average basis for rotors and a simple-average basis for drums. A weighted-average of the China-wide and company-specific rates was used in the COMPAS model.

Table D-1

The effects of LTFV pricing of subject imports from China for aftermarket brake drums

COMPAS ver. 1.4 (DUMPING) -- THE EFFECTS OF LTFV PRICING OF IMPORTS (6/1/93)
by Joseph Francois and Keith Hall, Office of Economics, USITC

INPUTS (in percentages)	03/27 CHINA-Drums	From:	To:
Margin:	56.08	Substitution Elast.	
Domestic Share:	62.5	Domestic/Unfair:	2 4
Unfair Import Share:	6.3	Domestic/Fair:	2 4
Ave. U.S. Tariff Rate:	3	Unfair/Fair:	2 4
Transportation Ratio:	12.9	Aggregate Demand Elast:	0.5 1
Domestic Content:	0	Domestic Supply Elast:	3 6
Dom. Capacity Util:	84.6	Fair Supply Elast:	10 inf

Estimated Impact of Dumping on U.S. Market (as percent of "fair" values)

SCENARIOS	#1	#2	#3	#4	#7	#8	But-for Imports:
Domestic Price:	-1.0%	-0.5%	-0.6%	-0.3%	-1.6%	-0.9%	-1.6%
Domestic Output:	-2.9%	-3.1%	-1.7%	-2.0%	-4.7%	-5.4%	-4.8%
Domestic Revenue:	-3.8%	-3.6%	-2.3%	-2.3%	-6.2%	-6.2%	-6.3%
"BUT-FOR" ESTIMATIONS							
Domestic Share:	63.7%	63.7%	63.7%	63.7%	64.8%	64.7%	66.7%
Unfair Import Share:	4.4%	4.3%	4.4%	4.3%	2.1%	2.1%	--
Fair Share:	32.0%	32.0%	31.9%	31.9%	33.1%	33.2%	33.3%
Capacity Utilization:	87.1%	87.3%	86.1%	86.3%	88.8%	89.4%	88.8%

Estimated Impact of Dumping on Imports (as a percentage of "fair" values)

Unfair Import Price:	-32.6%	-32.6%	-32.6%	-32.6%	-32.6%	-32.6%	--
Unfair Import Output:	109.8%	111.1%	113.8%	114.3%	333.4%	342.3%	--
Unfair Import Revenue:	41.4%	42.2%	44.1%	44.4%	192.1%	198.1%	--
Fair Import Price:	-0.4%	0.0%	-0.2%	0.0%	-0.8%	0.0%	-0.6%
Fair Import Output:	-3.9%	-4.1%	-2.4%	-2.7%	-7.7%	-8.8%	-5.7%
Fair Import Revenue:	-4.3%	-4.1%	-2.6%	-2.7%	-8.4%	-8.8%	-6.3%

INPUTS

SCENARIOS	#1	#2	#3	#4	#7	#8	But-for Imports:
ELASTICITIES OF SUBSTITUTION							
Dom/Unfair Imports:	2	2	2	2	4	4	--
Dom/Fair Imports:	2	2	2	2	4	4	--
Unfair/Fair Imports:	2	2	2	2	4	4	--
Domestic Supply Elast:	3	6	3	6	3	6	3
Fair Import Supply Elast	10	inf	10	inf	10	inf	10
Aggregate Demand Elas	-0.50	-0.50	-1.00	-1.00	-1.00	-1.00	--

Table D-2

The effects of LTFV pricing of subject imports from China for aftermarket brake rotors

COMPAS ver. 1.4 (DUMPING) – THE EFFECTS OF LTFV PRICING OF IMPORTS (6/1/93)

by Joseph Francois and Keith Hall, Office of Economics, USITC

INPUTS (in percentages)		03/27 China-Rotors	From:	To:
Margin:	35.00	Substitution Elast.		
Domestic Share:	45.8	Domestic/Unfair:	2	4
Unfair Import Share:	11.3	Domestic/Fair:	2	4
Ave. U.S. Tariff Rate:	3	Unfair/Fair:	2	4
Transportation Ratio:	12.9	Aggregate Demand Elast:	0.5	1
Domestic Content:	0	Domestic Supply Elast:	3	6
Dom. Capacity Util:	82.5	Fair Supply Elast:	10	inf

Estimated Impact of Dumping on U.S. Market (as percent of "fair" values)

SCENARIOS	#1	#2	#3	#4	#5	#6	#7	#8
Domestic Price:	-1.1%	-0.6%	-0.7%	-0.4%	-2.2%	-1.2%	-1.8%	-1.0%
Domestic Output:	-3.3%	-3.6%	-2.0%	-2.3%	-6.5%	-7.2%	-5.2%	-6.0%
Domestic Revenue:	-4.3%	-4.2%	-2.7%	-2.7%	-8.6%	-8.3%	-6.9%	-7.0%
"BUT-FOR" ESTIMATIONS								
Domestic Share:	46.9%	46.9%	46.9%	46.9%	47.9%	47.9%	48.1%	48.0%
Unfair Import Share:	9.0%	8.9%	9.0%	8.9%	5.7%	5.6%	5.7%	5.5%
Fair Share:	44.2%	44.2%	44.1%	44.1%	46.4%	46.6%	46.3%	46.4%
Capacity Utilization:	85.3%	85.6%	84.2%	84.5%	88.3%	88.9%	87.1%	87.8%

Estimated Impact of Dumping on Imports (as a percentage of "fair" values)

Unfair Import Price:	-23.2%	-23.2%	-23.2%	-23.2%	-23.2%	-23.2%	-23.2%	-23.2%
Unfair Import Output:	60.4%	61.4%	63.8%	64.2%	145.6%	153.8%	153.4%	159.1%
Unfair Import Revenue:	23.2%	24.0%	25.8%	26.1%	88.6%	94.9%	94.7%	99.0%
Fair Import Price:	-0.5%	0.0%	-0.3%	0.0%	-1.1%	0.0%	-0.9%	0.0%
Fair Import Output:	-4.5%	-4.8%	-2.8%	-3.1%	-10.6%	-11.7%	-8.6%	-9.9%
Fair Import Revenue:	-4.9%	-4.8%	-3.1%	-3.1%	-11.6%	-11.7%	-9.4%	-9.9%

INPUTS

SCENARIOS	#1	#2	#3	#4	#5	#6	#7	#8
ELASTICITIES OF SUBSTITUTION								
Dom/Unfair Imports:	2	2	2	2	4	4	4	4
Dom/Fair Imports:	2	2	2	2	4	4	4	4
Unfair/Fair Imports:	2	2	2	2	4	4	4	4
Domestic Supply Elast:	3	6	3	6	3	6	3	6
Fair Import Supply Elast:	10	inf	10	inf	10	inf	10	inf
Aggregate Demand Elast:	-0.50	-0.50	-1.00	-1.00	-0.50	-0.50	-1.00	-1.00

APPENDIX E

COMMENTS RECEIVED FROM U.S. PRODUCERS ON THE IMPACT OF IMPORTS OF AFTERMARKET 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 aftermarket 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 version 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 aftermarket brake drums and rotors from China?

Brake Parts:-- "****."

Iroquois:-- "****."

Kinetic:-- "****."

Overseas:-- "****."

Wagner:-- "****."

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

Brake Parts:-- "****."

Iroquois:-- "****."

Kinetic:-- "****."

Overseas:-- "****."

Wagner:-- "****."

