

UNITED STATES TARIFF COMMISSION

LARGE POWER TRANSFORMERS FROM FRANCE, ITALY,
JAPAN, SWITZERLAND, AND THE UNITED KINGDOM

Determinations of Injury
in Investigations Nos. AA1921-86/90
Under the Antidumping Act, 1921,
as Amended



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UNITED STATES TARIFF COMMISSION

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[AA1921-86/90]

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Determinations of Injury

The Assistant Secretary of the Treasury advised the Tariff Commission on January 20, 1972, that large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. In accordance with the requirements of section 201(a) of the Antidumping Act (19 U.S.C. 160(a)), the Tariff Commission instituted joint investigations Nos. AA1921-86/90 to determine whether an industry in the United States is being, or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States.

A public hearing was held March 7-10, 13, and 14, 1972. Notice of the joint investigations and hearing was published in the Federal Register of January 29, 1972 (37 F.R. 1509).

In arriving at its determinations, the Commission gave due consideration to all written submissions from interested parties, evidence adduced at the hearing, and all factual information obtained by the Commission's staff from questionnaires, personal interviews, and other sources.

On the basis of its investigations, the Commission has unanimously determined ^{1/} that an industry in the United States is being injured by reason of the importation of large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Statement of Reasons of Chairman Bedell
and Commissioner Moore ^{2/}

In our opinion, an industry in the United States is being injured by reason of the importation of large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom that are being sold at less than fair value (LTFV) within the meaning of the Antidumping Act, 1921, as amended.

The imported product

The term "large power transformers" as used in this determination includes all transformers rated 10,000 KVA or above, by whatever name designated, used in the generation, transmission, distribution, and utilization of electrical power, including but not limited to shunt reactors, autotransformers, rectifier transformers, and power rectifier transformers.

The industry

In making these determinations, we have considered the injured industry to consist of the facilities of the United States used in

^{1/} Commissioners Sutton and Leonard did not participate in the investigations.

^{2/} Vice Chairman Parker and Commissioner Young concur in the result.

producing large power transformers of the type described above.

Conditions of competition

Large power transformers are custom-made articles, not "off the shelf" articles. The purchasers of such articles plan their needs several years in advance of delivery and then solicit bids on units made according to their specifications. Orders are placed about 1 to 2 years in advance of delivery except in emergencies arising from a failure in the system. It takes from 1 to 2 years to build the largest units. Prices are generally established at the time an order is accepted. Thus, price competition occurs at the time an order is placed, not at the time of delivery; consequently, the level of pricing in effect in a given year will significantly affect the earnings of a producer 1 or 2 years later.

Most purchasers of large power transformers, when considering offers, compare prices on the basis of an "evaluated bid price" rather than the "raw bid price." That is, they compare the total cost of each transformer in terms of its delivered cost plus the estimated expenses of installation and operation during its anticipated life (including power losses).

Ten firms produce large power transformers in the United States. In the last 6 years, U.S. producers' shipments of such transformers have doubled, measured in terms of megavolt amperes (MVA) or dollars. To keep pace with the increase in demand during the period, the industry has made large increases in its capacity to produce large power transformers.

Margins of dumping and underselling

The Treasury Department compared the purchase price of 38 transformers (imported from the five countries named in its determination) with the foreign market price of similar transformers and found that 28 were sold at LTFV. Efforts by Treasury to obtain pricing information on other transactions were frustrated by a lack of response on the part of some foreign producers. The dumping margins (percent of price discrimination, i.e., percent by which foreign market price was reduced with respect to export sales) were as high as 46 percent, with the weighted country averages ranging from 9.8 to 33.0 percent.

Of the 28 instances of specific sales of LTFV transformers, the Commission was able to obtain information on the competitive bids involved in the sales of 20 such transformers. In every one of them the foreign producer undersold the lowest U.S. bidder by a margin in the range of 2.8 to 33.7 percent, based on evaluated bids. In every one the margin of dumping constituted a substantial part of the margin of underselling, and in most of them it completely underwrote the amount of underselling.

By analyzing the repeat purchases of virtually identical transformers by specific systems, it was determined that in nine out of fourteen analyses the producers of LTFV exports were the price leaders in the U.S. market. The underselling (price leadership) by the producers of LTFV exports was concentrated in the medium-to-large capacity transformers.

Consequences of underselling

As a direct result of the underselling, contract awards to LTFV suppliers have taken an appreciable share of the domestic market for large power transformers, based on the aggregate MVA and the value of such awards. The market penetration represented by awards to LTFV suppliers, on a cumulative basis (almost 7 percent in 1967-69) is more than adequate to warrant an injury determination, i.e., it is more than de minimis.

The primary injury resulting from the prices of the LTFV transformers in this case is due, not to the loss of individual transformer orders, but to the depressant effect those prices had on the price level of the total U.S. market for large power transformers. Prices for large power transformers increased during the years 1965-68; however, despite increasing production costs and a continuing large backlog of orders, prices underwent a significant decline in 1969. This decline in the overall level of pricing was attributable in large part to LTFV sales to investor-owned utilities, which constitute 85 percent of the total U.S. market for large power transformers. Foreign purchases by investor-owned utilities had been minimal prior to 1967, when one large company placed significant contracts with a foreign supplier. In 1968 and 1969, other large investor-owned utilities began purchasing foreign-made transformers from LTFV suppliers, and price deterioration commenced.

Prior to the large market penetration by LTFV imports, the industry was receiving a modest return on its sales. After sales of LTFV imports reached their peak, the annual industry returns became

nominal, and then the industry began to experience a net loss on sales. During the years 1965-69, the industry was profitable; in 1970, earnings from large-power-transformer operations declined to just above the break-even point; and in 1971, the industry experienced a 4.5-percent loss on its net sales. Price depression that occurred in 1969 and thereafter affected profit levels in 1970 and 1971.

An analysis of the bid-pricing practices of the producers in each of the five countries named by the Treasury Department in its determination showed that each country had producers that undersold U.S. producers by appreciable margins. Following a well-established precedent of this Commission, we perceive no reason for separating any country from this affirmative determination. Each country made a substantial contribution to the injuries incurred by the LTFV imports.

Conclusion

In summary, the LTFV imports of large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom have had a substantial disruptive effect on the domestic market for such transformers. The dumping margins have undergirded substantial margins of underselling in the United States, with a resulting loss of a significant share of the market and a resulting suppression or depression of market prices to the point where the national industry is no longer

able to operate at a profitable level. If these dumping practices are allowed to continue, there is adequate capacity among these nations to threaten the continued existence of the large-power-transformer industry.

