Bicycles from China

Investigation No. 731-TA-731 (Final)

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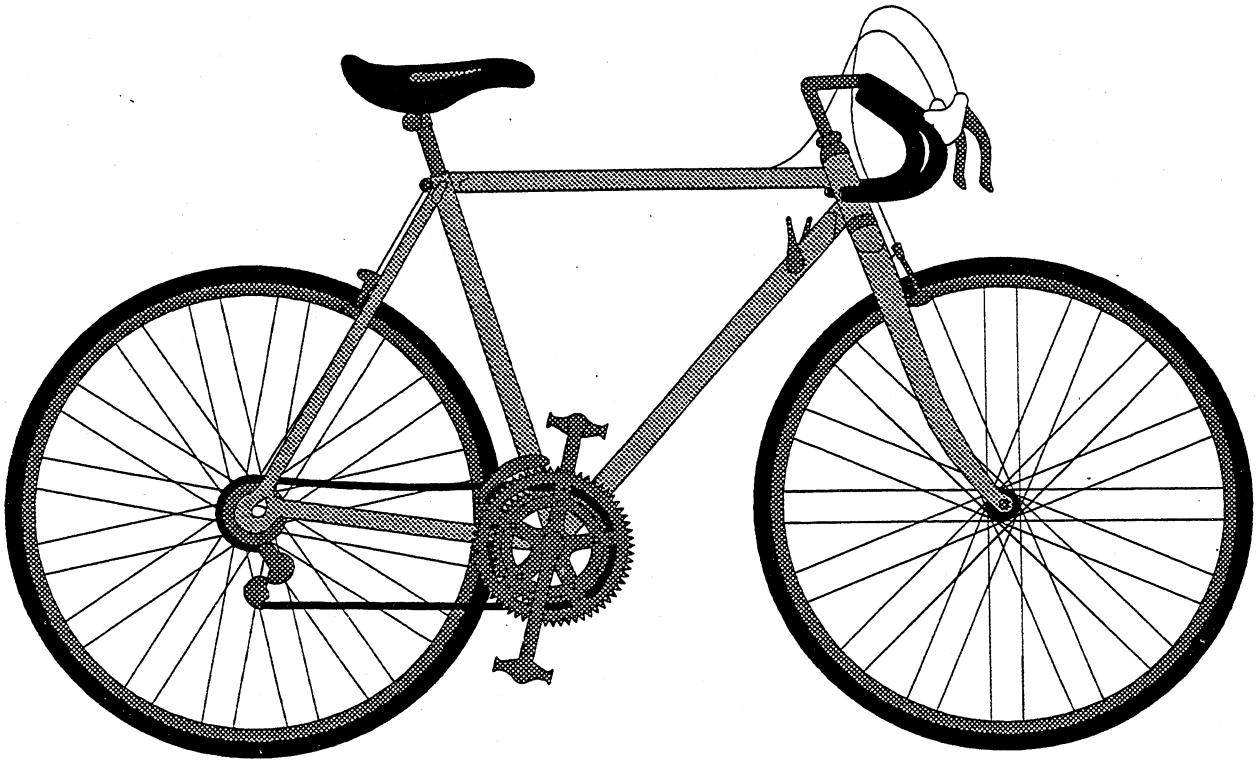
U.S. International Trade Commission



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Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

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GLOSSARY

ATB	All-terrain bicycle
BMX	Motocross bicycle
Bo An	Bo An Bike Co., Ltd.
Cannondale	Cannondale Corp.
CATIC	CATIC Bicycle Co., Ltd.
CBC	Shenzhen China Bicycles Co., Ltd.
Chitech	Chitech Industries, Ltd.
Chromoly	Chrome-molybdenum
Coalition	Coalition for Fair Bicycle Trade
CODA	Cannondale Original Design Application
Commerce	U.S. Department of Commerce
Commission	U.S. International Trade Commission
Diversified	Diversified Investments Corp.
Dynacraft	Dynacraft Industries, Inc.
Five Rams	Guangzhou Five Rams Industrial Corp.
Giant	Giant China Co., Ltd.
GT	GT Bicycles, Inc.
HTS	Harmonized Tariff Schedule of the United States
Hua Chin	Hua Chin Bicycle Co., Ltd.
Huffy	Huffy Bicycle Co.
IBD	Independent bicycle dealer
Kent	Kent International, Inc.
Liyang	Liyang Industrial Co., Ltd.
LTFV	Less than fair value
Merida	Merida Industry Co., Ltd.
MIG welding	Metallic inert gas welding
Murray	Murray Ohio Manufacturing Co.
MTB	Mountain bicycle
OPP	Opening price point
Overlord	Shenzhen Overlord Bicycle Co., Ltd.
Pinnacle	Pinnacle Somerset Corp.
PRW	Production and related worker
Raleigh	Derby Cycle Corp.
Rand	Rand International, Inc.
Roadmaster	Roadmaster Corp.
Royce Union	Royce Union Bicycle Co.
Schwinn	Schwinn Cycling & Fitness, Inc.
Shanghai Forever	Shanghai Forever Bicycle Co., Ltd.
Shanghai Pheonix	Shanghai Pheonix Bicycle Co., Ltd.
Shun Lu	Shun Lu Bicycle Co.
SKD	Semi-knocked down
South China	South China Bicycle Co., Ltd.
Specialized	Specialized Bicycle Components
Target	Target Stores
TIG welding	Tungsten inert gas welding
Trek	Trek Bicycle Corp.
Universal	Universal Cycle Corp.
Western States	Western States Import Co., Inc.

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-731 (Final)

BICYCLES FROM CHINA

Determination

On the basis of the record[1] developed in the subject investigation, the Commission determines,[2] 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 bicycles,[3] provided for in subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48 of the Harmonized Tariff Schedule of the United States, that have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

Background

The Commission instituted this investigation effective November 9, 1995, following a preliminary determination by the Department of Commerce that imports of bicycles 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 institution 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 December 20, 1995 (60 F.R. 65667). The hearing was held in Washington, DC, on April 24, 1996, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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

[2] Commissioner Bragg dissenting and Commissioner Newquist dissenting with respect to bicycles shipped to the mass merchandiser and "other retailer" channels.

[3] The scope of the investigation is defined in the Department of Commerce's Notice of Final Determination of Sales at Less Than Fair Value (61 F.R. 19026, April 30, 1996), as amended.

VIEWS OF THE COMMISSION

Based on the record in this investigation, we find that an industry in the United States is neither materially injured nor threatened with material injury by reason of imports of bicycles from the People's Republic of China ("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] [2]

I. DOMESTIC LIKE PRODUCT AND DOMESTIC INDUSTRY

A. In General

In determining 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 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 upon the facts of a particular investigation.[7] The Commission looks for "clear dividing lines among possible like products" and disregards minor variations.[8]

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[1] This investigation is subject to the Uruguay Round Agreements Act ("URAA") amendments to the Tariff Act of 1930 ("the Act"). P.L. 103-465, approved Dec. 8, 1994, 108 Stat. 4809, amending section 701 et seq. of the Trade Act of 1930, 19 U.S.C. § 1671 et seq. Whether an industry in the United States is materially retarded is not an issue in this investigation.

[2] Commissioner Newquist finds that the industry producing bicycles sold through mass merchandisers, wholesale clubs, and sporting goods stores is materially injured by reason of the LTFV imports. He concurs, however, that the industry producing bicycles sold through independent bicycle dealers ("IBDs") is neither materially injured nor threatened with material injury. See Additional and Dissenting Views of Commissioner Newquist. Commissioner Bragg finds that the industry producing bicycles is materially injured by reason of the LTFV imports. See Separate and Dissenting Views of Commissioner Bragg. She joins Sections I-III of the Commission's Views, except where noted.

[3] The URAA changes the terminology in the domestic industry provision by referring to "producers" instead of "domestic producers" and by changing the term "like product" to "domestic like product." 19 U.S.C. § 1677(4)(A).

[4] 19 U.S.C. § 1677(4)(A).

[5] 19 U.S.C. § 1677(10).

[6] See e.g., Nippon Steel Corp. v. United States, 19 CIT__, Slip Op. 95-55 at 11 (Apr. 3, 1995). The Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) common manufacturing facilities, production processes, and production employees; (5) customer or producer perceptions; and, where appropriate, (6) price. Timken Co. v. United States, Slip Op. 96-8 at 9 (Ct. Int'l Trade, Jan. 3, 1996).

[7] 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.

(continued...)

Commerce has defined the imported product subject to investigation in its final determination as "bicycles of all types, whether assembled or unassembled, complete or incomplete, finished or unfinished, including industrial bicycles, tandems, recumbents, and folding bicycles."[9] For the purposes of this investigation, Commerce defines an "incomplete bicycle" as "a frame, finished or unfinished, whether or not assembled together with or without seat post and seat pin."[10] Thus, a frame without any components does not fall within the scope of the investigation. Nor is the scope of the investigation intended to cover bicycle parts except to the extent they are attached to or in the same shipment as an unassembled complete bicycle or an incomplete bicycle.[11]

B. Analysis of Domestic Like Product

In the preliminary investigation, the Commission found one like product, encompassing all bicycles.[12] In this final investigation, there is one like product issue presented -- whether bicycles sold in the independent bicycle dealer ("IBD") channel and bicycles sold in the mass merchant channel constitute two domestic like products. In general, there are two channels of distribution for bicycles in the U.S. market: (1) mass merchandisers who typically sell large quantities of low-priced adult and juvenile bicycles; and (2) IBDs, who traditionally sell higher quality, more sophisticated bicycles and have offered considerably more service than the mass merchandisers.[13] Several large retailers purchase the majority of bicycles in the mass merchandiser channel, while the IBD channel consists of about 6,500 small retail establishments that specialize in bicycles.[14]

Respondent Coalition for Fair Bicycle Trade (the "Coalition")[15] asserts that the Commission should find two separate domestic like products based on differing channels of distribution, while petitioner as well as the other respondents argue that the Commission should find one like product. For the reasons discussed below, we again find one like product in this final investigation, consisting of all bicycles, regardless of the channels of distribution through which they are sold.

We find a significant overlap in the physical characteristics and uses of bicycles sold in the two channels of distribution. The Coalition lists five features that distinguish any IBD bicycle from other bicycles.[16] While the Coalition is able to demonstrate that less sophisticated and/or lower cost components

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(...continued)
1991).

[9] Notice of Final Determination of Sales at Less than Fair Value; Bicycles from the People's Republic of China, 61 Fed. Reg. 19026, 19027 (April 30, 1996).

[10] Id.

[11] Id.

[12] Bicycles from China, Inv. No. 731-TA-731 (Preliminary) USITC Pub. 2893 at I-9 (May 1995).

[13] Confidential Staff Report (CR) at I-4; Public Staff Report (PR) at I-3.

[14] CR at I-5-7; PR at I-4-6. The dominant mass merchandisers include Wal-Mart, Toys "R" Us, Target Stores, Sears and K-Mart.

[15] The Coalition, which opposes the petition, is an ad hoc group comprised of importers of bicycles sold in the IBD channel and of the National Bicycle Dealers Association (NBDA), a trade association representing the IBDs. See Coalition's Prehearing Brief at n.1.

[16] Coalition's Prehearing Brief at 43-44. These features are: (1) weight of less than 33 pounds; (2) frame material of 1020 Grade high-tensile steel or better; (3) alloy rims; (4) for 26-inch-wheel or larger bicycles, models must have a minimum of four frame sizes; and (5) tungsten inert gas ("TIG") or better welding.

are generally used in mass merchandise bicycles, this does not distract from the basic similarities in physical characteristics between the two types of bicycles. Bicycles sold into each distribution channel share many of the same basic features: a fork, rear and front wheels, rear and front derailleurs, brakes, brake levers and/or shifters, crankset, handlebar, stem, chain, pedals, and seat.

Moreover, while weight, composition, quality of componentry, and welding may affect the performance of the bicycle, they do not alter the basic end use of the bicycle. Regardless of quality or channel of distribution, most bicycles are used for recreation and transportation on sidewalks, bike paths, roads, and trails. Accordingly, the channel of distribution does not generally affect the interchangeability of these bicycles.[17]

Although the available evidence indicates that U.S. producers are dedicated to production of either mass merchandise or IBD bicycles, similar production equipment, processes, and employees are used to manufacture bicycles sold to both channels.[18] [19]

There are, however, differing market strategies between the channels. Mass merchandisers typically negotiate prices on a sale-specific basis, while price lists are usually adhered to in the IBD channel.[20]

Notwithstanding these distinctions at the wholesale level, retailers in the different channels of distribution compete for sales.[21] For example, mass merchandiser Toys "R" Us has adopted a strategy to compete directly with IBDs by stocking bicycles that are advertised as having "bike shop qualities."[22] The bicycle purchaser for Toys "R" Us indicated that the retailer has successfully offered high-end juvenile products because it is "able to offer the consumers who want that little more expensive bike at a discount to the IBD's."[23]

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[17] The absence of complete interchangeability between all bicycles does not require the finding of separate domestic like products. See Nippon Steel Corp. v. United States, Slip Op. 95-57 at 16-17.

[18] CR at I-11, PR at I-8. The TIG welding usually used in IBD bicycles requires the use of a skilled welder. CR at I-12, PR at I-8. The Commission has declined to find that the use of some additional equipment or labor outweighs commonality in basic manufacturing processes. See, e.g., Sweaters Wholly or in Chief Weight of Manmade Fibers from Hong Kong, the Republic of Korea, and Taiwan, Inv. Nos. 731-TA-448-450 (Final) (Remand), USITC Pub. 2577 at 8-9, 11 (Nov. 1992).

[19] Chairman Watson and Commissioner Crawford agree that individual firms in the domestic industry produce only for the mass merchandise or the IBD markets but not for both. The similarity of production processes, equipment, and employees should not, in their view, be considered in the abstract, but instead should be examined in terms of whether the firms employing them are similarly affected by the subject imports. The practical inability of domestic mass merchandise producers to become IBD producers and the practical inability of domestic IBD producers to become mass merchandise producers would therefore ordinarily lead them to the conclusion that IBD and mass merchandise producers would not be similarly affected, and so should be considered two different industries.

However, even though there is no practical overlap in production, there is in demand. The record indicates that a reasonable fraction of the consumers at the high end of the mass merchandise segment also shop at the low end of the IBD market, see n.24, infra, the existence of a "third channel" of bike sellers reflects this overlap, see CR at I-9, PR at I-7. It is these consumers, and the choices they make, that would transmit the effects of even dumping isolated in the mass merchandise segment right up the line to IBD manufacturers.

Chairman Watson and Commissioner Crawford also note that the petitioners themselves strongly urged the Commission to adopt the like product definition it does today.

[20] CR at V-4-5, PR at V-3.

[21] Petitioners' Prehearing Brief at 4 and Postconference Brief at I-9, 14-15; Toys "R" Us Prehearing Brief, Ex. 2.

[22] Petitioners' Prehearing Brief at 4 and Postconference Brief at I-9, 14-15.

[23] Transcript of Conference (April 26, 1995) ("Conference Tr.") at 141.

Although serious bicycle enthusiasts are more likely to purchase from IBD retailers, the record indicates that a significant number of final consumers perceive bicycles sold in either channel as capable of meeting their recreational needs. For example, a market research study conducted by Toys "R" Us showed that, of the customers surveyed, *** percent shopped at a specialty bike shop and *** percent shopped at a sporting goods chain before making a bicycle purchase from Toys "R" Us."[24]

Further, the distinction between channels is obscured by the presence of "other channels" consisting of sporting goods stores and discount warehouse clubs.[25] In the preliminary determination, the Commission indicated that it intended to look more closely at the extent to which sales to retailers in these other channels blur the distinction between bicycles sold to mass merchandisers and those sold to the IBDs.[26] The information obtained in the final investigation confirms that there are significant volumes of both IBD and mass merchandise-type bicycles sold in "other" channels.[27]

Notwithstanding that IBD bicycles usually sell for higher prices than mass merchandise bicycles, there is a significant overlap in the prices commanded for the lower-end IBD bicycles and the upper-end mass merchandise bicycles.[28] For the lower-priced adult and children's bicycles, which are the largest volume products for mass merchandisers, there is a good deal of overlap from the IBD and other channels.[29]

In sum, while there are differences in traditional marketing and customer perceptions between bicycles sold in the two channels of distribution, we do not believe these differences create a clear dividing line warranting a finding of separate domestic like products based on these two channels. This is especially true in light of the shared characteristics and uses of the two types of bicycles, the similar production processes, the 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 types of bicycles.

We therefore find one domestic like product, encompassing all bicycles. However, we consider the degree to which bicycles are sold in different channels of distribution to be a relevant condition of competition for the bicycle industry.

C. Domestic Industry

In making its determination, the Commission is directed to consider the effect of the imports on the domestic industry, defined as "the producers as a [w]hole of a domestic like product. . ." 19 U.S.C. § 1677(4)(A). One issue arises in this final investigation with respect to the definition of the domestic industry: whether any of the producers of the domestic like product are related within the meaning of the statute and if so, whether circumstances exist that warrant their exclusion from the domestic industry. As in our preliminary determination,[30] we find that it is not appropriate to exclude any of the domestic producers as related parties.

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[24] Toys "R" Us Prehearing Brief at Ex. 2.

[25] CR at I-6-7, PR at I-5-6.

[26] USITC Pub. 2893 at I-8, n.27.

[27] See CR at I-15-I-16, PR at I-10 and Figure I-1, CR at I-6, PR at I-5.

[28] CR at I-15-16, PR at I-10.

[29] Id.

[30] USITC Pub. 2893 at I-10-11.

The related parties provision, 19 U.S.C. § 1677(4)(B), as amended by the URAA, authorizes the exclusion of certain producers from the domestic industry.[31] If the Commission determines that a domestic producer meets the definition of a related party, the Commission may exclude such a producer from the domestic industry if "appropriate circumstances" exist.[32] The Commission finds such appropriate circumstances when a domestic producer's interest lies less in domestic production than in importation. Exclusion of a related party is within the Commission's discretion based upon the facts presented in each case.[33]

Three domestic bicycle producers -- Huffy, GT and Raleigh -- imported LTFV bicycles from China during the period of investigation,[34] and, thus, are related parties within the statutory definition. Appropriate circumstances are not present, however, to warrant their exclusion from the domestic industry. GT and Raleigh accounted for small percentages of total domestic production and total subject imports.[35] ***[36] both have a commitment to and interest in domestic production.[37]

Huffy is the largest producer of bicycles in the United States, and imported only limited types of subject imports.[38] The ratio of Huffy's 1995 shipments of imported LTFV bicycles to its total 1995 U.S. shipments of bicycles was quite small,[39] making it clear that Huffy's interests lie in domestic production rather than in importation.

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[31] 19 U.S.C. § 1677(4)(B) contains the definition of related parties.

[32] 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).

[33] See Torrington Co. v. United States, 790 F. Supp. at 1168.

[34] CR at IV-1, PR at IV-1.

[35] In 1995, GT accounted for *** percent of domestic production, CR at III-6, PR at III-4, and its imports of Chinese bicycles accounted for *** percent of total subject imports. CR at IV-1, PR at IV-1. In 1995, Raleigh accounted for *** percent of domestic production. CR at III-7, PR at III-4, and its imports of LTFV bicycles from China accounted for *** percent of total subject imports. CR at IV-1, PR at IV-1.

[36] The ratio of GT's 1995 shipments of imported Chinese bicycles to its total 1995 U.S. shipments of bicycles was *** percent. CR at III-6, n.14. The ratio of Raleigh's 1995 shipments of imported LTFV bicycles to its total 1995 U.S. shipments of bicycles was *** percent. CR at III-8, n.17.

[37] Both companies ***. Tables VI-2 and -11, CR at VI-5-6 and -21, PR at VI-3 and VI-11.

[38] ***. CR at III-3, PR at III-1.

[39] This ratio was *** percent. CR at III-3, n.4, PR at III-1, n.4.

Therefore, we do not exclude any producer as a related party, and determine that the domestic industry consists of all U.S. producers of bicycles.

III. CONDITION OF THE DOMESTIC INDUSTRY

In assessing whether the 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.[40] 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."[41]

1. *Conditions of Competition Considered by Chairman Watson, Commissioner Crawford, and Commissioner Bragg*

We note certain conditions of competition pertinent to our analysis of the domestic bicycle industry. First, there are two distinct segments in the bicycles market, the mass merchandise segment and the IBD segment, which differ in important ways. The IBD market segment is marked by smaller quantities of sales of higher-priced specialty bicycles. Buyers in this market segment rarely have much leverage over prices.[42] In contrast, the mass merchandise market segment consists of sales of large quantities of lower-priced standard bicycles.[43]

Second, there is evidence of concentration of buying power in the mass merchandise segment. Five mass merchandisers are responsible for two-thirds of the bicycles sold in the United States.[44] These retailers purchase large volumes of bicycles, often in single sales, from qualified sellers that are able to meet their price and volume requirements.[45] These retailers negotiate prices from their suppliers, whether U.S. or foreign. Retailers with "Buy-American" policies or preferences strongly urge their U.S. suppliers to lower their prices to compete with Chinese bicycles.[46]

Third, substitutability between U.S.- produced bicycles and imported Chinese bicycles is moderate-to-good overall, but is lower in the IBD sector than in the mass merchandise sector.[47]

Fourth, there is evidence of greater price sensitivity in the mass merchandise market segment, relative to the IBD segment. Domestic IBD producers and most Chinese importers alleged that non-price factors are important in the IBD market sector, while U.S. producers of bicycles for the mass merchandise sector maintain that non-price differences between domestic bicycles and bicycles imported from China are not

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[40] 19 U.S.C. § 1677(7)(C)(iii).

[41] 19 U.S.C. § 1677(7)(C)(iii).

[42] CR at II-3, PR at II-2.

[43] CR at II-2, PR at II-1.

[44] CR at I-5 and II-2, PR at I-4 and II-1.

[45] CR at II-2 and V-4, PR at II-1 and V-3.

[46] CR at II-2 & n.6, PR at II-1-2 & n.6. Bicycles are, for most consumers, discretionary purchases. CR at II-6, PR at II-4. Bicycling is only one of many recreational activities. Id. U.S. producers cited competition from inline skates in particular. Id. This suggests that sales of bicycles may fluctuate in response to changes in the price of other sports equipment.

[47] CR at II-6 and II-15-16, PR at II-4 and II-7-8.

significant factors in their sales.[48] As such, price differences between bicycles from different sources matter more in the mass merchandise sector than in the IBD sector. In addition to price competition with imports in this segment of the market, there is also evidence of price competition among the three domestic producers of mass merchandise bicycles.[49] [50]

2. *Conditions of Competition Considered by Vice Chairman Nuzum and Commissioner Rohr*

Vice Chairman Nuzum and Commissioner Rohr highlight several conditions of competition distinctive to the domestic bicycle industry. First, more than 92 percent of domestically produced bicycles sold in 1995 went to mass merchandisers. Hence, this is the predominant market for the domestic industry. Purchases by mass merchandisers typically consist of large quantity transactions of lower-priced, standard feature bicycles. Purchases by IBDs, on the other hand, consist of smaller quantities, higher-priced bicycles, and higher value content. Price has a much greater role in the purchasing decisions of mass merchandisers than the purchasing decisions of IBDs. Small differences in the prices of competing products can have a significant impact on who wins an order from a mass merchandiser.[51] Because of the large quantities purchased by any single mass merchandiser, and the fact that five national retail chains account for approximately two-thirds of mass merchandiser bicycle purchases, the condition of the domestic bicycle industry is intimately linked to the buying behavior of these mass merchandisers. Consequently, we focussed our attention more heavily on this segment of the market.

3. *Indicators of Domestic Industry Performance*

From 1992 to 1993, apparent U.S. consumption of bicycles increased 9.1 percent, from 15.4 million bicycles to 16.8 million bicycles.[52] Then, apparent consumption decreased to 16.7 million bicycles in 1994 and to 16.2 million bicycles in 1995.[53] The value of apparent U.S. consumption increased from $1.3 billion in 1992 to $1.4 billion in 1993 and 1994, and to $1.5 billion in 1995, for an overall increase of 16.3 percent.[54] [55]

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[48] CR at II-6-7, PR at II-4-5.

[49] See CR at V-29, V-33, PR at V-10-11, V-13; Transcript of Hearing (April 24, 1996) ("Tr.") at 189-195, 201-203, 207-208.

[50] Commissioner Crawford notes that there is also competition from non-subject imports in this market sector, including bicycles produced by non-subject Chinese producers who can shift production from IBD to mass merchandise bicycles, using the same or similar equipment. CR at I-13, PR at I-9.

[51] We note that this is true even with respect to retail chains, such as Wal-Mart, who have "Buy American" policies but exert pressure on domestic suppliers to lower their prices in the face of competing import prices. CR at II-2, n.6, PR at II-2, n.6 (citing Wal-Mart letter to the Commission dated April 6, 1995.)

[52] Table IV-5, CR at IV-14, PR at IV-12 and Table C-1, CR at C-3, PR at C-3.

[53] Id.

[54] Id.

[55] For the reasons discussed in her Separate and Dissenting Views, Commissioner Bragg places less weight on the 1995 data in this investigation.

The quantity of domestic producers' U.S. shipments increased from 9.1 million bicycles in 1992 to 9.7 million bicycles in 1993.[56] Shipments remained fairly constant in 1994, and then decreased to 9.0 million bicycles in 1995.[57] By value, domestic producers' U.S. shipments increased by 8.0 percent over the period of investigation, rising from $758 million in 1992 to $821 million in 1993 and to $837 million in 1994, and then declining to $819 million in 1995.[58]

Domestic producers' share of the bicycles market, by both quantity and value, decreased somewhat during the period of investigation, with most of the decline occurring between 1994 and 1995.[59] By quantity, domestic producers' market share dropped from 59.1 percent in 1992 to 57.8 percent in 1993, rose to 58.0 percent in 1994, and then dropped to 55.7 percent in 1995.[60] By value, their market share dropped from 58.3 percent in 1992 to 57.1 percent in 1993, rose to 57.9 percent in 1994, and dropped to 54.1 percent in 1995.[61]

Domestic bicycle production increased from 9.3 million bicycles in 1992 to 10.6 million bicycles in 1993, before decreasing to 9.7 million bicycles in 1994 and 9.3 million bicycles in 1995.[62] Bicycle production capacity rose steadily from 10.3 million bicycles in 1992 to 12.0 million bicycles in 1993, to 12.9 million bicycles in 1994, and to 13.8 million bicycles in 1995.[63] [64] Since capacity increased faster than production, capacity utilization declined from 90.7 percent in 1992 to 67.1 percent in 1995.[65] Domestic producers' increase in production from 1992-1993 outpaced their increase in shipments and the increase in apparent consumption, thereby resulting in the doubling of inventories from 533,000 bicycles in 1992 to 1.0 million bicycles in 1993.[66] The ratio of inventories to shipments increased from 5.7 percent in 1992 to 10.0 percent in 1993.[67] The ratio of inventories to shipments rose to 7.1 percent in 1994 and remained relatively unchanged at 7.2 percent in 1995.[68]

The number of production and related workers increased overall, rising from 5,076 in 1992 to 6,313 in 1994 before decreasing to 5,887 in 1995.[69] Hours worked rose from 10.3 million in 1992 to 12.2 million in 1993, to 12.3 million in 1994, and to 12.4 million in 1995.[70] Wages paid increased overall, but

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[56] Table III-2, CR at III-11, PR at III-6.

[57] Id.

[58] Id. and Table C-1, CR at C-3, PR at C-3.

[59] Table IV-5, CR at IV-14, PR at IV-12.

[60] Id.

[61] Id.

[62] Table III-2, CR at III-11, PR at III-6.

[63] Id. This increase in capacity was primarily a result of the addition of two factories by mass merchandise producers Huffy and Roadmaster, CR at III-10, although the IBD producers also increased their capacity. Table III-4, CR at III-14, PR at III-9.

[64] Commissioner Bragg notes that ***. CR at VI-12.

[65] Table III-2, CR at III-11, PR at III-6.

[66] Table III-2, CR at III-11, PR at III-6 and CR at III-15-16, PR at III-7.

[67] This increase in inventories ***. CR at III-16, PR at III-7.

[68] Id.

[69] Table III-2, CR at III-11, PR at III-6.

[70] Id.

irregularly, from $109.5 million in 1992 to $117.6 million in 1995.[71] Hourly wages and productivity declined each year of the investigation.[72]

In 1992, the U.S. industry reported sales of 9.1 million bicycles valued at $798.6 million, with gross profits of $126.3 million.[73] Increased sales volume of 10.3 million bicycles at a higher average unit value in 1993 resulted in higher net sales revenue of $902.7 million.[74] Gross profits also increased to $156.6 million. In 1994, net sales value increased to $913.8 million, notwithstanding a slight decrease in sales volume to 10.0 million bicycles. The small increase in net sales value coupled with a 4.8 percent increase in cost of goods sold translated into a decrease in gross profits to $131.6 million in 1994.[75] Gross profit margins increased from 15.8 percent in 1992 to 17.3 percent in 1993, and then fell to 14.4 percent in 1994 and 12.7 percent in 1995.[76] The domestic industry's operating income rose from $40.7 million in 1992 to $65.1 million in 1993, and then fell to $31.4 million in 1994 and $13.4 million in 1995. The operating income margin increased from 5.1 percent in 1992 to 7.2 percent in 1993 and then fell to 3.4 percent in 1994 and 1.5 percent in 1995.[77]

Capital expenditures by the domestic industry increased from $23.0 million in 1992 to $37.0 million in 1994, and then declined to $25.0 million in 1995.[78] Research and development spending by the domestic industry also increased from 1992 to 1994, growing from $5.3 million in 1992 to $6.9 million in 1994, and then fell to $6.1 million in 1995.[79] [80] [81]

IV. NO MATERIAL INJURY BY REASON OF LTFV IMPORTS OF BICYCLES FROM CHINA

In antidumping investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.[82] 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

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[71] Id.

[72] Id.

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

[74] Id.

[75] Id. Cost of goods sold increased each year, from $672.3 million in 1992 to $797.8 million in 1995.

[76] Id.

[77] Id.

[78] Table VI-11, CR at VI-21. These expenditures mostly reflect ***. CR at VI-21.

[79] Table VI-12, CR at VI-22.

[80] Based on the foregoing, Commissioner Rohr finds that the domestic industry producing bicycles is suffering present material injury. He finds, however, that this injury is not "by reason of" the LTFV imports.

[81] Commissioner Bragg does not join the remainder of the Commission's opinion.

[82] 19 U.S.C. § 1673d(b). The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." 19 U.S.C. § 1677(7)(A).

operations.[83] [84] Although the Commission may consider causes of injury to the industry other than the allegedly LTFV imports,[85] it is not to weigh causes.[86] [87] [88] [89]

For the reasons discussed below, we find that the domestic bicycle industry is not materially injured by reason of the LTFV imports from China.

A. Volume of LTFV Imports

The quantity of subject imports increased from 1992 until 1994, and then decreased in 1995. From 1992 to 1994, LTFV imports increased from 1.9 million bicycles to 2.6 million bicycles, before decreasing to

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[83] 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).

[84] As part of its consideration of the impact of imports, the statute as amended by the URAA now also 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). The Statement of Administrative Action, H.R. Doc. 316, Vol. 1, 103rd Cong., 2nd Sess. (1994) (SAA) indicates that the amendment "does not alter the requirement in current law that none of the factors which the Commission considers is necessarily dispositive in the Commission's material injury analysis." SAA at 180.

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

[87] For Chairman Watson's interpretation of the statutory requirement regarding causation, see Certain Calcium Aluminate Cement Clinker from France, Inv. No. 731-TA-645 (Final), USITC Pub. 2772 at I-14 n.68 (May 1994).

[88] Commissioner Rohr 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 cause of material injury is sufficient. See, e.g., Metallverken Nederland B.V. v. United States, 728 F. Supp. 730, 741 (Ct. Int'l Trade 1989); Citrosuco Paulista, 704 F. Supp. at 1101.

[89] Commissioner Crawford notes that the statute requires that the Commission determine whether a domestic industry is "materially injured by reason of" the allegedly LTFV imports. She finds that the clear meaning of the statute is to require a determination of whether the domestic industry is materially injured by reason of 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).

1.7 million bicycles in 1995.[90] Similarly, the market share, by quantity, of subject imports increased from 12.0 percent in 1992 to 15.8 percent in 1994, and then decreased to 10.8 percent in 1995.[91] [92] Subject imports gained substantial market share from 1992 to 1994. Domestic producers' market share was relatively stable during that period, with only a slight decline.[93] The record indicates that, from 1992 to 1994, the increase in subject imports was offset by a decrease in imports from Taiwan.[94] In 1995, both LTFV imports and domestic bicycles experienced their largest declines in market share, while fairly traded imports, particularly those from China, increased significantly.[95]

The value of subject imports was greater in 1995 than it was in 1992, in both absolute terms and relative to apparent U.S. consumption.[96] However, by both measures LTFV import value declined between 1994 and 1995. Domestic producers experienced their largest loss in the value of their market share between 1994 and 1995.[97]

The higher market share of LTFV imports, by value relative to quantity, reflects the high percentage of LTFV imports composed of IBD bicycles, which are more expensive than mass merchandise bicycles.[98] However, IBD imports received low LTFV margins of less than 3 percent.[99] [100]

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[90] Table IV-3, CR at IV-8, PR at IV-6. The LTFV totals include subject imports from China and Hong Kong. It is undisputed that there are no known bicycle producers in Hong Kong and that all of the bicycles shipped through Hong Kong are of Chinese origin. CR at IV-4, PR at IV-4. In any event, the volume of imports from Hong Kong is relatively small. Table IV-2, CR at IV-5, PR at IV-3.

[91] Table IV-5, CR at IV-14, PR at IV-12.

[92] As noted above, the Commission is now required to consider the magnitude of the margin of dumping. 19 U.S.C. § 1677(7)(C)(iii)(V). The amended final dumping margins found by Commerce are 2.27 and 2.95 for the two LTFV exporters of bicycles primarily shipped to the IBD market, 2.02 for the LTFV exporter of bicycles primarily shipped to "others" (i.e. discount warehouses), and 61.67 for the LTFV exporters to the mass merchandiser market. CR at V-2, PR at V-1-2 and Table VII-3, CR at VII-5, PR at VII-4. The LTFV imports subject to the 61.67 percent margin represent approximately 60 percent of total LTFV imports. Id.

[93] Id. Domestic bicycle producers held between 57.8 and 59.1 percent of the quantity of U.S. apparent consumption from 1992 to 1994.

[94] Id.

[95] Id. Fairly traded imports from China increased their market share from 7.9 percent in 1994 to 13.1 percent in 1995.

[96] Table IV-3, CR at IV-8, PR at IV-6 and Table IV-5, CR at IV-14, PR at IV-12. In 1992, the value of subject imports was $83.2 million and they held a 6.4 percent share of apparent U.S. consumption. Their value rose to $135.1 million in 1993 and to $136.4 million in 1994, before falling to $116.2 million in 1995, accounting for 7.7 percent of the value of U.S. apparent consumption.

[97] Id.

[98] See Table VII-3, CR at VII-5, PR at VII-4 and CR at II-1, PR at II-1. While only 7.2 percent of U.S. producers' 1995 shipments were to the IBD channel, CR at I-4, PR at I-3, 38.1 percent of the LTFV imports were shipped to the IBD channel. Id.

[99] Table VII-3, CR at VII-5, PR at VII-4.

[100] Although petitioners argued that the decline in subject import volume can be attributed to the pendency of this investigation, the data do not support this assertion. With respect to the total volume of imports from China that were included in the petition and that were subject to Commerce's preliminary affirmative determination, the import levels were fairly stable in 1995 as compared to 1994. Since the Chinese exporters could not have known which, if any, of them would be excluded from Commerce's final determination, it does not appear from this perspective that the importers reacted to the antidumping petition by significantly reducing imports subject to the investigation. The substantial decline of 891,000 bicycles from 1994 to 1995 cannot be fully explained by the pendency of this

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Accordingly, Vice Chairman Nuzum and Commissioner Rohr find that the volume of LTFV bicycles relative to domestic production is significant, but that this significance is diminished by the fact that LTFV import volumes declined substantially during the last year examined. Chairman Watson and Commissioner Crawford find the volume of LTFV bicycles not significant in light of the absence of significant price effects and impact on the domestic industry from subject imports, as discussed below.

B. Price Effects of LTFV Imports[101]

1. *Analysis of Chairman Watson and Commissioner Crawford*

We find that the subject imports have not had significant adverse effects on prices for the domestic like product. Chairman Watson and Commissioner Crawford consider all the statutory factors, but focus on the factors of the magnitude of dumping, the elasticity of demand, substitutability, and the elasticity of supply, to estimate whether the dumping is materially injuring the domestic bicycle industry.[102] [103] [104]

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[100] (...continued)
investigation.

[101] Respondents alleged that petitioners in their questionnaire responses had provided pricing data for bicycles with "stepped-up"specifications that artificially increased the prices for the domestic bicycles for price comparison purposes. Commission staff examined the pricing data presented in the prehearing report, and provided both producer and importer questionnaire respondents with the opportunity to explain or correct deficient responses. CR at Appendix F, PR at Appendix F. See 19 U.S.C. § 1677m(d). As explained in the final Commission Report, staff corrected pricing data to insure that it was using comparable models of imports and domestic bicycles. CR at Appendix F, PR at Appendix F.

[102] The Commission is of course now required by law to consider the margins of dumping. See n.84, supra. As the Court of International Trade noted very recently,

> [T]he practice concentrates the inquiry on injury by reason of the dumping itself as opposed to injury "by reason of imports" which are dumped. . . . In Hyundai Pipe Co. v. United States, the court approved consideration of the margin of dumping as a discretionary factor in the material injury analysis and it has not wavered from this view. This approach is now codified in 19 U.S.C. § 1677(7)(C)(iii) (1994).

Floral Trade Council v. United States, No. 95-04-00382 (May 17, 1996), slip op. 96-78 at 19 n.4.

[103] Chairman Watson does not find significant underselling by the LTFV imports. In the aggregate, the pricing comparisons showed mixed overselling and underselling by the imports. The price comparisons between U.S.-produced bicycles and LTFV bicycles showed underselling by the Chinese product in 43 of 97 instances. For bicycles sold in the mass merchandise channel, the comparisons showed overselling by the Chinese product in 49 of 65 instances. Tables V-1-V-6, CR at V-8-13 and CR at V-26, PR at V-9. In 27 of 32 quarterly f.o.b. price comparisons between U.S.-produced and LTFV Chinese bicycles sold to IBDs, the Chinese product was priced lower than the comparable domestic product. Tables V-11-V-12, CR at V-22-23 and CR at V-26, PR at V-10.

Chairman Watson notes, however, that he has given limited weight to the pricing comparisons, particularly those for mass merchandise bicycles. For the mass merchandise sales, these data represent comparisons between U.S. producers who sell in large quantities with importers who sell in smaller quantities. As such, the prices may in some instances reflect quantity discounts for which the LTFV importers were not eligible. See CR at V-4, PR at V-3 and CR at V-26 & n.18.

[104] Commissioner Crawford rarely gives much weight to evidence of underselling since it usually reflects some combination of differences in quality, quantities sold, other nonprice factors, or fluctuations in the market during the
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In 1995, subject imports from China had a market share of 10.8 percent by quantity. However, of this 10.8 share, 3.9 percentage points were primarily IBD bicycles with margins of less than three percent. The remaining 6.9 percentage points were mostly mass merchandise LTFV bicycles with high margins. Thus, the largest effects would have been concentrated in the mass merchandise market segment.[105]

Examining demand conditions helps us understand whether purchasers are unwilling to pay higher prices for the domestic product, or buy less of it, because subject imports are being dumped. An analysis of demand conditions indicates that demand in the bicycles market is moderately elastic;[106] that is, purchasers will reduce the quantity of their purchases only somewhat if the price of the product increases. Therefore, absent large changes in overall market prices, it is unlikely that overall demand would change very much if subject imports were not dumped. Demand elasticity appears to be relatively higher in the more price sensitive mass market segment than in the IBD market segment.

While demand elasticity reflects the response of purchasers to a change in overall market prices, the elasticity of substitution reflects changes in the composition of demand, by source of supply, in response to changes in relative prices. If bicycles from different sources are substitutable, then a relative increase in the price of bicycles from one source (i.e., subject imports) is more likely to drive purchasers to shift their demand towards other sources (i.e., domestic products and non-subject imports). The magnitude of this shift in demand is determined by the degree of substitutability among products from these sources. In this investigation, the breadth of the product line in the bicycle market -- from inexpensive, mass-produced children's bikes to very expensive, specialty mountain bikes -- indicates that overall substitutability between LTFV imports and the domestic like product is moderate-to-good. Domestic bikes compete with LTFV bikes of every sort; but there are domestically produced high end bikes in the IBD market that do not. The majority of LTFV bikes are sold at the low end of the market to mass merchandisers, while most of the remaining LTFV imports are sold in the IBD market segment (though typically at the low end of that segment).[107] As discussed supra, substitutability within the mass merchandise market segment is higher than within the IBD market segment.

The substitutability between non-subject imports and LTFV imports is probably a bit higher than that between LTFV imports and domestic bicycles. Many of the Chinese firms that were originally subject to investigation were found to be selling at a fair price, leading to at least one situation where two different factories may produce bicycles with the same brand name for the same importer, but with only one selling at an unfair price under our trade laws.[108] Non-subject imports from Taiwan are also available. As discussed

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[104] (...continued)
period in which price comparisons were sought.

[105] In this investigation, Chairman Watson analyzes the price and volume effects of the dumping as manifested in the price and volume effects of the subject imports. Commissioner Crawford examines those effects by comparing them with the best record evidence of what they would have been, had subject imports been fairly priced. She specifically finds that most of the subject imports for the IBD market would continue to have been sold in the U.S. market with little change while most of the subject imports of mass merchandise bicycles would have been priced out of the market. See Additional Views of Commissioner Carol T. Crawford in Polyvinyl Alcohol from China, Japan, and Taiwan, Inv. Nos. 731-TA-726, 727, and 729, USITC Pub. 2960 (May 6, 1996) for a full description of her analytical framework.

[106] See Conditions of Competition, supra, and CR at II-6, PR at II-4 for a discussion of the concentration of buying power, Buy American policies, consumer preferences, competition from substitute products and other demand considerations.

[107] The sales of LTFV Chinese imports by channel of distribution were as follows: 56.8 percent to mass merchandisers, 38.1 percent to IBDs, and 5.1 percent to all others. CR at II-7, n.10, PR at II-5, n.10.

[108] Table VII-3, CR at Table VII-3, PR at VII-4.

above, the complete range of fairly traded imports is substitutable for LTFV imports and the domestic like product.[109]

Examining supply conditions helps us understand whether competition among suppliers is preventing price increases for the domestic product, because subject imports are being dumped. In this investigation, the elasticity of domestic bicycle supply seems quite high. The domestic mass market producers have substantial unused capacity, and there is evidence of significant price competition in this market segment, as discussed above. Indeed, the domestic producers engage in intensive price competition with each other, in part due to the increased domestic capacity to produce bicycles.[110] Domestic IBD producers export a substantial portion of their production that could be diverted to the domestic market. Moreover, non-subject Chinese producers of mass merchandise bicycles had sufficient capacity and exports to non-U.S. markets to replace most if not all of the high margin subject imports for the mass merchandise market segment.[111]

Given the demand conditions, the substitutability of subject imports, non-subject imports and the domestic like product, and the level of competition in the domestic bicycles market, it is exceptionally unlikely that the LTFV imports are having any impact on domestic prices. Any increase in the price of subject imports relative to the domestic price would only have caused, at most, an increase in the volume of domestic shipments as unused capacity was put on line, or export shipments were redirected to the U.S. market.

Of course, even if LTFV imports do not affect the price of the domestic like product, they may still be materially injuring the domestic industry if their effect on volume is substantial. We do not think it is.

2. *Analysis of Vice Chairman Nuzum and Commissioner Rohr*

Vice Chairman Nuzum and Commissioner Rohr find the evidence on pricing does not establish that subject imports are having a significant adverse effect on U.S. prices. After considering views of the parties about the appropriate bicycle models for purposes of pricing comparisons, adjustments to our pricing data were made to rely more heavily on basic opening-price point models.[112] In light of the greater importance of price in the mass merchandiser market segment, Vice Chairman Nuzum and Commissioner Rohr focussed more intently on, and gave greater consideration to, the price comparisons for bicycles sold to mass merchandisers. Quarterly price comparisons for these bicycles revealed underselling in only 25 percent of the 65 comparisons, and overselling in 75 percent.[113] Moreover, underselling margins averaged

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[109] The Taiwanese supply some bikes for the mass merchandiser market sector, but the vast majority of Taiwanese imports are for the IBD market. Taiwan had an 18.6 percent market share in 1995, down from 24.2 percent in 1992. Nearly all responding U.S. producers and importers of Chinese bicycles reported that imported Taiwanese bicycles are used interchangeably with both U.S.-produced and imported Chinese bicycles. All major importers of Chinese IBDs also reported significant imports of bicycles from Taiwanese suppliers. CR at II-6, II-13-14, IV-3, PR at II-4, II-6-7, IV-1 and Table C-1 at Appendix C.

[110] See Tr. at 189-195, 201-203, 207-208 and Table III-4, CR at III-14, PR at III-9.

[111] The evidence, including availability of capacity, suggests a high elasticity of supply for non-subject Chinese imports. Total non-subject Chinese market share was 13.1 percent, by quantity, in 1995. Tables VII-1, VII-2, and VII-3, CR at VII-3-5, PR at VII-2-4; questionnaires; Tr. at 230-231.

[112] See, CR and PR at Appendix F.

[113] We note that prices negotiated with mass merchandisers may be influenced by the volumes associated with a particular sale. For this reason, we placed less emphasis on price comparisons than we otherwise would. CR at V-26, n.18.

6.2 percent, while overselling margins averaged twice this amount (12.7 percent).[114] In addition, we note that all evidence of underselling in sales to mass merchandisers was associated with juvenile bicycles, which many purchasers indicated was heavily influenced by non-price factors such as promotional features. The underselling was also more frequent during 1992 and 1993, when domestic producers' financial condition was positive and improving.

Although the evidence of underselling was much stronger in sales to IBDs,[115] prices play a less important role in this market segment. Furthermore, the financial condition of domestic producers shipping to IBDs improved during the period examined, notwithstanding substantial underselling by subject imports.[116]

Consequently, Vice Chairman Nuzum and Commissioner Rohr do not find significant underselling by the subject imports. The evidence in the record pertaining to possible price suppression or price depression by the subject imports is more difficult to judge. Available data on price trends were either spotty or incomplete (e.g., sales of juvenile bicycles to IBDs, sales of adult bicycles to mass merchandisers) or did not reveal strong or consistent correlations between subject import prices and domestic prices (e.g., sales of juvenile bicycles to mass merchandisers). Information obtained concerning lost sales and lost revenues allegations was mixed.[117] A significant number of purchasers indicated that price was not the overriding factor in their purchases, particularly with respect to juvenile bicycles (the product which showed the most underselling in our price comparisons). In those cases where price was a primary factor, subject imports did not always account for the lower price.[118] On balance, the evidence fails to establish significant adverse effects by the subject imports on domestic prices.

C. Impact of LTFV Imports on the Domestic Industry

1. *Analysis of Chairman Watson and Commissioner Crawford*

To assess the impact of subject imports on the domestic industry, Chairman Watson and Commissioner Crawford consider all the factors listed in 19 U.S.C. § Section 1677(7)(C)(iii): output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, and impact on research and development.[119] These factors together either encompass or reflect the volume and price effects of the dumped imports, and allow them to gauge the impact of the dumping through those effects. In their analysis of the impact of the dumping on the domestic

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[114] The only instance of underselling in excess of 20 percent occurred during the last quarter of 1995, when imports dropped off in volume. Table V-3, CR at V-10.

[115] Quarterly price comparisons for bicycles sold to IBDs revealed underselling in almost 85 percent of the 32 comparisons, by an average of 26.6 percent. The other 5 comparisons revealed overselling by an average of 10.3 percent. Tables V-10, V-11 and V-12, CR at 21-23.

[116] Cost of goods sold as a percent of net sales for domestic producers shipping to IBDs improved from 79.7 percent in 1992 to 75.3 percent in 1995. Operating income as a percent of sales improved from 0.1 percent in 1992 to 8.3 percent in 1995. Unit operating income mushroomed from $0.31 in 1992 to $30.34 in 1995. Table C-3, CR at C-6, PR at C-6.

[117] We further note that information on lost sales and lost revenues contains both LTFV sales and some non-LTFV sales, which made the information of limited usefulness in this investigation.

[118] See, e.g., information obtained from *** ("domestic suppliers were often reported to have better prices than importers on 'promotional' products"), and ***. CR at V-31 and V-33, PR at V-11-12 and V-13.

[119] Commissioner Crawford also considers other relevant factors, when appropriate.

industry, Chairman Watson and Commissioner Crawford both also rely on the same market factors discussed in their price analysis.

As discussed above, the subject imports are not the obstacle to the domestic industry's attempts to increase its prices. Therefore, if the dumped imports are materially injuring the domestic industry, it would have to be by depressing the domestic industry's output and sales. We do not find any such impact.

First, the ready availability of non-subject imports that are good substitutes for those subject Chinese bikes with high margins means that much of any harm caused by the subject imports would have fallen on them rather than the domestic industry. The moderate-to-good degree of substitutability between all subject Chinese bicycles (including those with very small margins) and domestic bicycles indicates that the dumping of those Chinese bicycles is causing, at most, only an immaterial loss of sales to the domestic industry. As a result, the domestic industry's total output and sales, and therefore its revenues, reflects no material injury by reason of the dumped imports. We therefore find that the impact on the domestic industry is not significant.

We find neither significant price effects nor significant impact on the domestic industry from dumped imports. Consequently, we find that the domestic industry producing bicycles is not materially injured by reason of LTFV bicycles from China.

2. *Analysis of Vice Chairman Nuzum and Commissioner Rohr*

Vice Chairman Nuzum and Commissioner Rohr find the impact of the LTFV imports on the domestic industry to be minimal. Although U.S. producers' market share declined during the period examined, so did LTFV market share.[120] In particular, U.S. market share dropped by more than 2 percentage points from 1994 to 1995 alone, while LTFV market share dropped even more, by a full 5 percentage points. The loss of domestic market share during a period of increasing domestic capacity, decreasing production and net sales, and rising costs translated into declining profitability for the domestic industry from 1993 to 1995. During this period, however, the volume of subject imports declined by one-third. Conversely, when subject imports increased the most -- from 1992 to 1993[121] -- domestic production, shipments, net sales, and profitability all strengthened. The evidence thus suggests that LTFV imports did not have a significant adverse impact on domestic producers.[122]

We wish to emphasize that our negative determination in this investigation is a direct result of the Department of Commerce's decisions on company-specific dumping margins and the implications for injury analysis which flow from those decisions. In this case, subsequent to issuing its final determination, the Commerce Department made corrections to its margins determinations which had the effect of excluding more companies' product from the scope of this investigation. Consistent with our legal mandate to focus our analysis on the effects of LTFV sales -- not all sales of Chinese bicycles -- the Commission's data were adjusted, to the extent possible given the existing time constraints, to account for the corrected Commerce

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[120] Subject import market share increase significantly from 12.0 percent in 1992 to 15.6 percent in 1993 and 15.8 percent in 1994. In 1995, however, subject import market share dropped to 10.8 percent -- a share lower than that it enjoyed in the beginning of the period examined. Table IV-5, CR at IV-14, PR at IV-12.

[121] LTFV imports increased by quantity 43.1 percent and in market share by an additional 3.5 percentage points. Table C-1, CR at C-3, PR at C-3.

[122] During this same period, we note that non-LTFV imports from China surged from 393,000 units in 1992 to 964,000 units in 1993, to 1,323,000 units in 1994, and to 2,113,000 units in 1995. Table IV-2, CR at IV-5, PR at IV-3. On a market share basis, non-LTFV imports from China also captured ever-increasing market share, from 2.6 percent in 1992, to 5.7 percent in 1993, to 7.9 percent in 1994, to 13.1 percent in 1995. This suggests that, to the extent domestic producers were adversely affected by competition from Chinese bicycles, it related to non-LTFV imports rather than LTFV imports.

Department margins decisions.[123] Product from companies which received zero margins or de minimis margins were deducted from the volume indicators where such product could be identified. Unfortunately, due to the short notice of the Commerce corrections (which occurred approximately three weeks prior to our final injury determination), not all data in our record could be segregated prior to the statutory deadline for our injury determination.

The Commission's information on lost sales and lost revenues, for example, include purchases of imported bicycles from both LTFV sources and non-LTFV sources. Even our analysis of volume effects was complicated by the last-minute changes of the Commerce Department. Although adjustments could, and were, made by our staff to segregate the annual import shipments and market share data, monthly import shipments data for 1995, the most recent year examined, were not able to be segregated into LTFV shipments and non-LTFV shipments. This hampered our ability to examine the volume trends of LTFV imports during the portion of 1995 prior to Commerce's preliminary determination.[124]

To the extent that our data were adjusted after the Commerce corrections, the changes overall weakened petitioners' case and strengthened respondents' case. Given the tenuous financial condition of the domestic bicycle industry, we regret that timing constraints imposed by the statute precluded us from collecting additional information that might have provided greater clarity to some of the issues before us. Based on the evidence currently in this record, as a consequence of the specific margins determinations now legally in effect, we do not find substantial evidence supporting an affirmative determination.

V. NO THREAT OF MATERIAL INJURY BY REASON OF LTFV IMPORTS

Section 771(7)(F) of the Act directs the Commission to consider whether "further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued. . . ."[125] The Commission may not make such a determination "on the basis of mere conjecture or supposition,"[126] and considers the threat factors "as a whole." In making our determination, we have

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[123] Data collected by the USITC included information on U.S. imports of Chinese bicycles from a range of Chinese producers and exporters. The law, however, requires an affirmative determination by the Commission to be based on substantial evidence of material injury by reason of LTFV sales of the imported merchandise, not all sales of Chinese bicycles.

[124] See, Official Import Statistics, Department of Commerce.

[125] 19 U.S.C. §§ 1673d(b) and 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 184.

[126] 19 U.S.C. § 1677(7)(F)(ii). An affirmative threat determination must be based upon "positive evidence tending to show an intention to increase the levels of importation." Metallverken Nederland B.V. v. United States, 744 F. Supp. 281, 287 (Ct. Int'l Trade 1990), citing American Spring Wire, 8 CIT at 28, 590 F.Supp. at 1280.

considered, in addition to other relevant economic factors,[127] all statutory factors[128] that are relevant to this investigation.[129]

The record indicates that production capacity for Chinese producers of LTFV bicycles to produce export quality bicycles has basically stabilized, after a substantial increase between 1992 and 1994.[130] As capacity expanded, production increased, although not at the same pace. Although capacity utilization declined from 93.3 percent in 1992 to 88.9 percent in 1995, it is significant nonetheless, and is projected to increase in 1996 and 1997 to supply the Chinese home market and non-U.S. export markets.

Furthermore, both the Chinese home market and other export markets are significant. The LTFV Chinese producers' shipments to the Chinese home market and to export markets other than the United States have increased and are projected to increase further in 1996 and 1997. Between 1993 and 1995, the share of these producers' total shipments exported to the United States decreased from 16.1 percent to 13.5 percent, while the share of their shipments exported to other countries increased from 20.6 percent to 25.7 percent.[131]

As discussed above, subject import volumes have not significantly increased, and have in fact decreased from 1994 to 1995. Similarly, subject imports' market penetration declined by nearly a third from 1994 to 1995.[132] We thus do not find evidence of a likelihood of substantially increased imports of the subject merchandise into the United States.[133]

As also discussed above, we have found that the LTFV imports have not had significant adverse price effects. There is no indication that the LTFV imports are entering the United States at prices that are

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[127] Suramerica de Aleaciones Laminadas, C.A. v. United States, 44 F.3d 978 (Fed. Cir. 1994). The Federal Circuit held that 19 U.S.C. § 1677(7)(F)(i) requires the Commission to consider "all relevant factors" that might tend to make the existence of a threat of material injury more probable or less probable. The Commission cannot limit its analysis to the enumerated statutory criteria when there is other pertinent information in the record. Moreover, the court appears to require consideration of the present condition of the industry as among the "relevant economic factors." Id. at 984.

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

[129] 19 U.S.C. § 1677(7)(F)(i). In addition, the Commission must consider whether dumping in markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other WTO member markets against the same class or merchandise manufactured or exported by the same party as under investigation) suggest a threat of material injury to the domestic industry. 19 U.S.C. § 1677(7)(F)(iii)(I).

Two statutory threat factors have no relevance to this investigation and need not be discussed. Because there are no subsidy allegations, factor I is not applicable. Factor VII regarding raw and processed agriculture products is also inapplicable to the product at issue.

[130] Table VII-1, CR at VII-3, PR at VII-2.

[131] Id.

[132] Table IV-5, CR at IV-14, PR at IV-12.

[133] Petitioners cite to antidumping remedies issued by Canada in 1992, by the European Union (EU) in 1993, and by Mexico in 1994, to show the unavailability of other export markets to absorb any additional exports. Petitioners' Prehearing Brief at 43-44. The data show, however, that the imposition of these third country orders has not significantly hindered the ability of the LTFV Chinese exporters to export to markets other than the United States, including Canada and the EU. (The exporters found to be selling LTFV bicycles did not cite Mexico as one of their major markets, even before the imposition of its 1994 antidumping order.) Despite the imposition of these orders, the Chinese manufacturers have continued to export increasing volumes of bicycles to other third country markets.

Petitioners also argued that exports from China to the EU are likely to decline further in light of a possible EU circumvention investigation. This argument, however, is purely speculative.

likely to have significant suppressing effects on domestic prices or are likely to increase demand for further LTFV imports.

End-of-period inventories of LTFV bicycles both in the United States and in China were not significant.[134] In general, U.S. importers order from Chinese producers according to the expected needs of their buyers and do not import large quantities for inventory.[135]

The record does not demonstrate a realistic potential for product shifting.[136] We investigated whether Chinese production of single-speed "black" bicycles could be shifted to production of export quality bicycles. The information belies the likelihood of such shifting of production. ***.[137]

We do not find actual or potential negative effects on existing development and production efforts, given the domestic industry's large investments in research and development and continuing high levels of capital expenditures.

In sum, we find no significant evidence to suggest either an imminent surge in subject imports or a likelihood of imminent changes in market conditions that would lead to significant price effects or adverse impact of subject imports on the domestic industry.

CONCLUSION

For the foregoing reasons, we determine that the domestic bicycle industry is neither materially injured nor threatened with material injury by reason of LTFV imports from China.

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[134] See Tables VII-1 and VII-4, CR at VII-3 and VII-9, PR at VII-2 and VII-7.

[135] CR at VII-9, PR at VII-6.

[136] Vice Chairman Nuzum does not join this discussion of product shifting.

[137] CR at VII-1-2, PR at VII-1.

ADDITIONAL AND DISSENTING VIEWS OF COMMISSIONER NEWQUIST

For the reasons discussed below, in this investigation, I determine that the domestic industry producing bicycles sold through mass merchandisers, wholesale clubs, and sporting goods stores, is materially injured by reason of imports of bicycles from China which the Department of Commerce has determined are sold in the United States at less-than-fair-value. I further find that the domestic industry producing bicycles sold through independent bike dealers is not materially injured, nor threatened with material injury, by reason of the same less-than-fair-value imports from China.

In my view, the majority's negative determination in this investigation bodes particularly ill for the domestic producers of bicycles sold through mass merchandisers. In fact, as a result of the majority's negative determination, I would not be surprised should any of the three Petitioners now determine that it is "less unprofitable" to completely abandon domestic bicycle manufacturing. At a minimum, there will likely be substantial industry downsizing -- jeopardizing the livelihoods of an untold number of the more than 5,800 production and related workers employed by the three Petitioners.

I suspect that the Department of Commerce's relatively low margins of dumping may have played an important role in some of my colleague's negative determinations. This final investigation is just the second conducted by the Commission since enactment of the Uruguay Round Agreements Act, which requires, among other things, that the Commission "evaluate . . . the magnitude of the margin of dumping." In my view, the result obtained here clearly demonstrates that undue emphasis on margins cannot substitute for a practical and common-sensical assessment of the impact of unfair imports on the relevant domestic industry.

Where evaluation of the margin obfuscates the fact that sales of unfair imports garnered some $588 million between 1993 and 1995, such evaluation is misplaced. Where evaluation of the margin ignores that the domestic industry reported approximately $100 million in lost sales and revenues to imports from China during the period of investigation, such evaluation is counterfactual. And, where evaluation of the margin disregards the fact that the bicycle industry in China, by virtue of unused capacity and shipments which may be diverted from the home market, could supply all domestic consumption of bikes sold through mass merchandisers, such evaluation is at odds with marketplace realities.

As noted above, the majority's determination in this investigation specifically bodes ill for domestic producers of bicycles sold through mass merchandisers. Unfortunately, it may, as well, be a signal of things to come for future petitioners.

I. LIKE PRODUCT/DOMESTIC INDUSTRY

Based on the record in this investigation, I determine that there are two products "like" the subject imports: the first consisting of bicycles sold through mass merchandisers, wholesale clubs, and sporting goods stores; and the second consisting of bicycles sold through independent bike dealers ("IBDs").[1] Specifically, as proposed by the Coalition for Fair Bicycle Trade, I define the IBD like product as: (1) weight of 33 pounds or less; (2) frame material of 1020 Grade high-tensile steel or better; (3) alloy rims; (4) for 26-inch-wheel or larger bicycles, models must have a minimum of four frame sizes; (5) TIG or better welding; (6) a certificate of destination to an IBD dealer; and (7) a label indicating that the bike should not be assembled by consumers.[2]

A. Physical Characteristics And Uses

Although bicycles sold through mass merchandisers and IBDs generally serve the same uses (e.g., transportation, exercise, leisure) and share basic rudimentary physical characteristics (i.e., two wheels, a frame, handlebars and a seat), many important physical characteristics of the two bikes are

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[1] The Commission typically considers the following factors in determining the appropriate like product: (i) physical characteristics and uses; (ii) interchangeability; (iii) channels of distribution; (iv) customer and producer perceptions; (v) common manufacturing facilities and production employees; and (vi) price.

[2] Coalition for Fair Bicycle Trade ("Coalition") prehearing brief at 43-44.

more distinct than similar. IBD bikes produced in the U.S. are of a lighter weight and superior frame composition than mass merchandise bikes.[3] IBD bikes are typically offered in numerous frame sizes, permitting a more "customized fit"; mass merchandise bikes are not.[4] IBD bikes are hand-welded by tungsten inert gas ("TIG"); mass merchandise bikes are robot-welded by metallic inert gas ("MIG").[5] TIG welding is considered stronger and more aesthetically pleasing than MIG welding.[6] In addition, the components for IBD bikes are recognized as more durable, less prone to failure, and more "precise" than componentry for mass merchandise bicycles.[7]

B. Interchangeability

As both mass merchandise and IBD bikes do serve the same basic uses, they are "interchangeable." In this limited respect, by analogy, so too is a Yugo interchangeable with a Cadillac or a Lexus -- they provide transportation. Beyond such lowest common denominator measure, however, the differences between a Yugo and a Cadillac are, quite obviously, rather remarkable. Similarly, a forty-some-odd pound, high-tensile steel bicycle available in only one frame size is remarkably distinct from a 22 pound, carbon fiber bike which may be purchased in frame size increments of two inches or less.

C. Channels Of Distribution

There is no significant dispute that the primary channels of distribution for bicycles are distinct -- as evidenced by the fact that throughout the investigation, all parties have generally referred to the "mass merchandise" channel and the "IBD channel"[8] -- the only dispute concerns whether such a distinction is an appropriate basis for finding separate like products.

The mass merchandiser channel is characterized by five dominant retailers which exert significant price pressure on bicycle manufacturers[9]; in contrast, the IBD channel is comprised of 6,500 or so individual stores which, standing alone, have virtually no ability to negotiate prices with manufacturers.[10] IBDs typically provide more "service" than mass merchandisers, including assembly, free 30-day "tune-up," and repair service, irrespective of place of purchase.[11]

D. Common Manufacturing Facilities And Production Workers

Although producers of mass merchandiser bikes and IBD bikes employ similar manufacturing processes, their techniques differ, often appreciably.[12] More significantly, although an individual domestic facility theoretically could, with certain retooling, produce the differing bikes to be sold in both channels of distribution, simply, none does.[13]

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[3] Confidential Report ("CR") at I-10; Public Report ("PR") at I-7-8. Tables, charts, etc., common to both the CR and the PR will be cited as, for example, "Report at Table ____."

[4] CR at I-9-10; PR at I-7.

[5] CR at I-11-12; PR at I-8.

[6] Coalition prehearing brief at 21.

[7] See, e.g., Coalition's prehearing brief at Exhibit H (Consumer Reports article comparing "light duty mountain bikes"); Report at Appendix E (demonstrating that components on bicycles sold through IBDs are generally more expensive than components on bicycles sold through mass merchandisers).

[8] See, e.g., Petitioner's prehearing brief at 18 ("capacity to produce bicycles in the mass merchant and IBD markets"); "Dynacraft" prehearing brief at 5 ("[]U.S. mass merchant producers, and [] U.S. IBD producers").

[9] CR at I-4-8; PR at I-4.

[10] Id.

[11] CR at I-7; PR at I-4-5.

[12] CR at I-11; PR at I-8.

[13] CR at I-13; PR at I-9.

E. Customer And Producer Perceptions

The record is rather sparse concerning whether customers in particular perceive bikes sold through mass merchandisers and those sold through IBDs as more similar or distinct.[14] In part, however, this may be attributable to the very existence of the two distinct segments. Clearly, if consumers perceived bikes sold through the mass merchandiser segment as "like" those sold through the IBD segment, and vice-versa, both segments would sell both types of bikes. They do not.

The limited record information generally confirms that because of different physical characteristics and price (see infra), consumers perceive bikes sold through the two channels to be distinct.[15]

F. Price

Like channels of distribution above, there is little dispute among the parties that bicycles sold through mass merchandisers are priced substantially lower than bicycles sold through IBDs. In fact, in 1995, the average unit value of bicycles sold through IBDs was 5 times greater than the average unit value of those sold through mass merchandisers.[16]

G. Conclusion

Based on the foregoing, I find that there are two like products: bicycles sold through mass merchandisers and bicycles sold through IBDs, as delineated by the Coalition. I note that by virtue of the Coalition's delineation, bicycles sold through other channels, e.g., warehouse clubs and sporting goods stores, are included within the mass merchandiser like product.

Having found two separate like products, I find two corresponding domestic industries. The first consists of the three Petitioners: Huffy, Roadmaster, and Murray; the second consists of Trek, Cannondale, GT and Raleigh.

I find that all respective producers are "domestic producers" within the meaning of the statute,[17] and that none need be excluded as a related party.[18]

II. CONDITION OF THE DOMESTIC INDUSTRIES

As described below, I find that the domestic industry producing bikes for sale through mass merchandisers is currently experiencing material injury. In contrast, the domestic industry producing bicycles for sale through IBDs is not experiencing material injury, nor is it in a vulnerable condition.

A. Mass Merchandiser Industry

Total apparent domestic consumption of bikes sold through mass merchandisers increased irregularly during the period, from 10.36 million units in 1992 to 11.53 million in 1995.[19] U.S. producers' shipments of domestic bikes sold through mass merchandisers declined irregularly during

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[14] I regret that, as a general statement, the Commission did not obtain, nor did parties otherwise provide, more information on this like product factor. Often, Commission investigations involve products whose characteristics and quality the ultimate end user or consumer cannot readily assess. For example, a car purchaser does not likely have much opinion of the corrosion-resistant steel therein, to say nothing of the lockwashers used in the manufacture of the engine. Here, the investigation involved a product for which purchasers' perceptions were discernible and most likely informative. Unfortunately, on the whole, the parties failed to proffer this information.

[15] Coalition's prehearing brief at 26-29, and Exhibit H (Consumer Reports article concluding that a mass merchandise distributed mountain bike is substantially different from one sold through an IBD).

[16] Report at Tables C-2 and C-3.

[17] 19 U.S.C. § 1677(4)(A).

[18] 19 U.S.C. § 1677(4)(B).

[19] Report at Table IV-6.

the period, from 8.80 million in 1992 to 8.36 million in 1995.[20] Domestic producers' share of apparent consumption thus declined irregularly from 76.9% in 1992 to 68.7% in 1995.[21] Domestic production followed a similar irregularly decreasing trend, from 8.89 million in 1992 to 8.45 million in 1995.[22] Capacity utilization declined consistently during the period, from 91.9% in 1992 to 65.4% in 1995.[23] Domestic unit value declined irregularly from $71.96 in 1992 to $70.11 in 1995.[24]

The average number of production and related workers and wages paid to such workers increased irregularly during the period, though both fell off substantially between 1994 and 1995.[25]

The three Petitioners reported increasing operating income between 1992 and 1993, $40.6 million to $58.1 million, then consistent and significant declines thereafter, culminating in a more than $10 million operating loss in 1995.[26] Similarly, operating margins increased between 1992 and 1993, and plummeted to a loss of 1.7% in 1995.[27] On a per unit basis, the Petitioners lost almost $1.20 on every bike they sold in 1995.[28]

Domestic producers reported increasing capital expenditures and research and development expenses between 1992 and 1994, but both declined significantly in 1995.[29]

Commission staff gathered pricing data for six models of bicycles sold through mass merchandisers. These data evidence irregular, but on the whole significant, price declines for five of the six models during the period of investigation.[30] In addition, as noted above, Petitioners alleged lost sales and revenue of approximately $100 million during the period of investigation.[31] Commission staff verified approximately $35 million in lost monies.[32]

Based on the foregoing, I find that the domestic industry producing bicycles sold through mass merchandisers is presently experiencing material injury.

B. IBD Industry

Total apparent domestic consumption of bikes sold through IBDs increased irregularly throughout the period, from 3.71 million units in 1992 to 3.75 million in 1995.[33] Shipments of domestic bikes sold through IBDs increased dramatically during the period, from 291,000 in 1992 to 648,000 in 1995, roughly a 125% increase.[34] Domestic producers' share of apparent consumption thus increased substantially from 7.9% in 1992 to 17.3% in 1995.[35] Domestic production followed a similar significantly increasing trend, from 447,000 in 1992 to 830,000 in 1995.[36] Capacity

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[20] Report at Table III-3.

[21] Report at Table IV-6.

[22] Report at Table III-3.

[23] Id.

[24] Id.

[25] Id.

[26] Report at Table VI-4.

[27] Id.

[28] Id.

[29] Report at Tables VI-11 and VI-12.

[30] Report at Tables V-1 through V-6.

[31] Report at Tables V-13 and V-14. Because Petitioners do not necessarily know to which Chinese producer any specific sale or revenue was lost, the allegations are for all Chinese producers. Nonetheless, during the period of investigation, imports found to be unfairly traded accounted for approximately two-thirds of all imports from China. Report at Table IV-2. A similar ratio assumedly applies to the lost sales and revenues.

[32] CR at V-27-35; PR at V-11.

[33] Report at Table IV-7.

[34] Report at Table III-4.

[35] Report at Table IV-7.

[36] Report at Table III-4.

utilization increased irregularly, but substantially, during the period, from 72.9% in 1992 to 90.4% in 1995.[37] Domestic unit value declined from $427.52 in 1992 to $358.59 in 1995.[38]

The average number of production and related workers and wages paid to such workers increased consistently during the period, particularly between 1994 and 1995.[39]

Domestic producers of bicycles sold through IBDs reported skyrocketing operating income during the period, from a mere $129,000 in 1992 to more than $24 million in 1995.[40] Similarly, operating margins jumped from 0.1% in 1992 to 8.3% in 1995.[41] On a per unit basis, producers' income, which was just 31 cents in 1992, climbed to more than $30 in 1995.[42]

Domestic producers reported irregularly decreasing capital expenditures and irregularly increasing research and development expenses during the period.[43]

Commission staff gathered pricing data for three models of domestic bicycles sold through IBDs. Prices for these three models generally fluctuated from quarter to quarter, sometimes rather significantly.[44] In any event, the domestic prices did not exhibit a discernible trend.[45] Significantly, domestic producers of bicycles sold through IBDs did not allege a single lost sale or lost revenue during the period.[46]

Based on the foregoing, I find that the domestic industry producing bicycles sold through IBDs is not injured, nor is it vulnerable to the continuing adverse effects of unfair imports. Accordingly, with regard to bicycles sold through IBDs, I consider only whether the industry is threatened with material injury by reason of unfair imports from China.

III. MATERIAL INJURY TO THE DOMESTIC INDUSTRY SELLING BICYCLES THROUGH MASS MERCHANDISERS BY REASON OF DUMPED IMPORTS FROM CHINA

In determining whether the domestic industry is materially injured by reason of the subject imports, the statute requires that I consider:

> (I) the volume of imports of the subject merchandise;
>
> (II) the effect of imports of that merchandise on prices in the United States for domestic like products; and
>
> (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States.[47]

In making this determination, the statute permits me to consider "such other economic factors as are relevant to the determination . . . ," including those within the conditions of competition that are distinctive to the affected industry.[48] I am not required to determine that LTFV imports are "the

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[37] Id.

[38] Id.

[39] Id.

[40] Report at Table VI-7.

[41] Id.

[42] Id.

[43] Report at Tables VI-11 and VI-12.

[44] Report at Tables V-10 thru V-12.

[45] Id.

[46] CR at V-27; PR at V-10.

[47] 19 U.S.C. § 1677(7)(B)(i).

[48] 19 U.S.C. §§ 1677(7)(B)(ii), 1677(7)(C)(iii).

principal, a substantial, or a significant cause of material injury."[49] Rather, a finding that LTFV imports are a cause of material injury is sufficient.[50]

In this regard, as a preliminary matter, I note that although the Department of Commerce determined that several Chinese producers of bicycles had zero or otherwise de minimis margins, the presence of such "fair" imports in the marketplace is nonetheless a relevant condition of competition or trade. As demonstrated by the lost sales allegations, Petitioners were keenly aware that, as a general statement, they were losing significant sales to imports from China. Whether specific sales were lost to unfair imports, imports with de minimis margins, or imports with zero margins, is less significant than the broad impact of these unfair imports on the domestic industry's pricing behavior: the dumped imports led domestic prices downward.

In addition, I note that of all imports from China during the period, both dumped and fair, approximately 72% were sold through mass merchandisers and other "non-IBD" retailers, such as sporting goods chains and discount warehouse clubs.[51] Thus the cumulative adverse effects of the Chinese imports were directed largely at domestic producers of bicycles sold through mass merchandisers.

As a final preliminary matter, I note that, in my analytical framework, "evaluat[ion] 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 injury is by reason of the subject imports.

Imports of less-than-fair-value bicycles from China increased from 1.75 million units in 1992 to 2.55 million in 1994, then declined to 1.65 million in 1995.[52] By value, dumped imports increased from $74.7 million in 1992 to $130 in 1994, then declined to $109 million in 1995.[53] The unfair imports accounted for a significant share of domestic consumption of bicycles sold through mass merchandisers throughout the period, reaching 12.7% in 1994 before declining to 8.6% in 1995.[54]

Significantly, the statute, as amended in 1994, directs the Commission to consider whether any change in the volume of imports is related to the pendency of the investigation; if such relationship is found, the Commission may reduce the weight accorded such volume data.[55] Here, there has been no evidence demonstrating that the decline in the volume of subject imports in 1995 was not related to the filing of the petition and the imposition of provisional duties. Accordingly, I attribute the 1995 decline, at least in part, to the pendency of the investigation, and place less reliance on the 1995 volume data.[56]

Between 1992 and 1995, approximately 5.24 million dumped Chinese bicycles were sold through mass merchandisers and other "non-IBD" retailers.[57] The value of these unfair imports sold through mass merchandisers totalled approximately $250 million.[58] Thus, whether the 1995 data are "discounted" or not, the volume and value of less-than-fair-value imports sold through mass merchandisers are significant.

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[49] S. Rep. No. 249, 96th Cong., 1st Sess. 57 and 74 (1979).

[50] See, e.g., Metallverken Nederland, B.V. v. United States, 728 F. Supp. 730, 741 (Ct. Int'l Trade 1989); Citrosuco Paulista S.A. v. United States, 704 F. Supp. 1075, 1101 (Ct. Int'l Trade 1988).

[51] Derived from Report at Figure I-1.

[52] Report at Table IV-2.

[53] Id.

[54] Report at Table IV-6.

[55] 19 U.S.C. § 1677(7)(I).

[56] See Uruguay Round Agreements Act, Statement of Administrative Action ("SAA") at 184, reprinted in H. Doc. 103-316, Vol. 1, 103d Cong, 2d Sess. at 854 (1994).

[57] Derived from Report at Tables IV-6 and IV-8.

[58] Report at Tables IV-2 and IV-6.

The unit value of the dumped imports increased modestly between 1992 and 1994, from $44.93 to $51.73, and then increased to $66.53 in 1995.[59] Significantly, even the "mixed" (i.e., including IBD bikes) unit value of the subject imports was at all times throughout the period of investigation lower than unit value of domestic bicycles sold through mass merchandisers.[60]

Although the pricing data gathered by staff demonstrates mixed under- and over-selling by the subject imports sold through mass merchandisers, such data do not adequately reflect the considerable buying leverage of the mass merchandisers nor the "spec creep" alleged by Petitioners.[61]

A single sale to a mass merchandiser may involve 100,000 units or more.[62] Thus, mass merchandisers retain significant ability to obtain and receive favorable prices. Wal-Mart, in fact, which maintains a rigid "Buy American" policy, requested that its domestic suppliers, i.e., the Petitioners, lower their prices to enable the store chain to compete with Chinese imports sold by its competitors, particularly Target and Toys-R-Us.[63] Sears and K-Mart, which round out the five largest retailers, advertise a similar "Buy America" preference.[64]

Not only have Petitioners been forced to lower prices to their largest customers, they have also been forced to either add higher cost components to the bikes, with little or no increase in prices, or sell lesser equipped bicycles at prices competitive with the subject imports, i.e., "spec creep."

The effect of demands by large retailers for price reductions in order to compete with the subject imports, as well as "spec creep," is evidenced by the Petitioners' lost sales and revenues allegations. During the period of investigation, Petitioners claim to have lost sales or foregone revenues totalling almost $100 million; Commission staff verified roughly $35 million in such lost monies.[65] Clearly, the subject imports have depressed and suppressed prices to a significant degree.

Thus, as a result of the volume and depressing and suppressing price effects of the dumped imports, Petitioners' production was lower in 1995 than in 1992,[66] their share of domestic consumption of bicycles sold through mass merchandisers declined substantially,[67] and their net sales and operating income fell precipitously.[68]

In short, and based on the foregoing, the domestic industry producing bicycles sold through mass merchandisers has been materially injured by reason of dumped bicycles from China.

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[59] Report at Table IV-2. Importantly, these unit values are not just for unfair imports sold through mass merchandisers -- they include the unit value of the relatively more expensive dumped imports sold through IBDs. As such, the unit value for less-than-fair-value bicycles sold through mass merchandisers would be substantially lower.

[60] Report at Tables III-3 and IV-2.

[61] Generally, the "spec" in "spec creep" refers to the specifications or componentry of the bicycles, e.g., type of shifting, type of brakes, and inclusion of accessories such as water bottles. As alleged by Petitioners, "spec creep" in particular operates in two manners: either the subject imports are higher "spec'd" but priced competitively with lower "spec'd" domestic product, or the domestic producers increase their "spec" to match the subject imports, but are undersold. Petitioners' prehearing brief at 35-36; Hearing Transcript at 84-87.

The phenomenon of "spec creep" additionally suggests that the pricing data obtained by staff may not always yield an "apples-to-apples" comparison, particularly as the prices requested were for models "[l]ikely to include (but not limited to) the following specifications." See CR at V-5-6; PR at V-3.

[62] CR at I-5; PR at I-4.

[63] See letter from Wal-Mart, April 6, 1995.

[64] CR at II-2.

[65] Report at Tables V-13 and V-14; CR at V-27-35; PR at V-11.

[66] Report at Table III-3.

[67] Report at Table IV-6.

[68] Report at Table VI-4.

IV. NO THREAT OF MATERIAL INJURY TO THE DOMESTIC INDUSTRY PRODUCING BICYCLES SOLD THROUGH IBDs BY REASON OF THE SUBJECT IMPORTS FROM CHINA

In my analytical framework, whether a domestic industry is threatened with material injury by reason of subject imports is a function of, among other things, the relative health of the industry at issue.[69] Here, as discussed above, the domestic industry producing bicycles for sale through IBDs is performing rather robustly. Thus, in my view, the "threat" posed by the subject imports, measured in terms of volume, pricing, unused capacity, shipments which may be diverted from the home or other export markets, etc., typically needs to be relatively greater than where the industry is already in a vulnerable condition. Although the absolute volume, market share, and pricing data for dumped bicycles sold through IBDs are somewhat comparable to those same data for dumped bikes sold through mass merchandisers, the relative data are nonetheless not injurious, particularly in view of the industry's health. Therefore, I find that these data are not indicative of threat of material injury.

In determining whether the domestic industry is threatened with material injury, the statute directs that I consider several factors, none of which are necessarily dispositive.[70] In addition, the statute directs that an affirmative threat determination "not be made on the basis of mere conjecture or supposition."[71] I discuss each below each relevant statutory factor.

Shipments of unfair bicycles sold through IBDs increased from roughly 860,000 in 1992 to 1.04 million in 1994, then declined to approximately 665,000 in 1995.[72] Thus, between 1992 and 1994, imports of dumped bikes sold through IBDs increased at only one-third of the rate as those sold through mass merchandisers, and declined by a larger percentage between 1994 and 1995.[73] The dumped imports accounted for 17.7% of domestic consumption of bicycles sold through IBDs in 1995 compared with 28.3% in 1993.[74] Domestic producers, in contrast, gained market share throughout the period.[75] Based on the foregoing, I do not find that the volume increase in less-than-fair-value imports sold through IBDs is significant, nor is there evidence to suggest the likelihood of such significant increase.

While the pricing data obtained by staff for bicycles sold through IBDs shows more under- than over-selling by the dumped imports, the data do not demonstrate an adverse effect on domestic prices to a significant degree.[76] Domestic producers' operating income per unit increased exponentially during the period, from $0.31 in 1992 to $30.34 in 1995.[77] Clearly, the subject imports did not negatively impact domestic prices, nor is there evidence to suggest the likelihood of such price suppression or depression.

U.S. importers' inventories of dumped bicycles for sale through IBDs appear fairly insignificant.[78]

The data obtained by the Commission on the industry in China do not distinguish between bicycles for sale through mass merchandisers and those for sale through IBDs.[79] Irrespective of the

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[69] See, e.g., Additional and Dissenting Views of Chairman Newquist in Flat-Rolled Carbon Steel Products, USITC Pub. No. 2664 (August 1993).

[70] See 19 U.S.C. § 1677(7)(F)(i). The Commission must further consider whether dumping findings or antidumping remedies in markets of foreign countries against the same class or kind of merchandise suggest a threat of material injury to the domestic industry. See 19 U.S.C. § 1677(7)(F)(iii).

[71] 19 U.S.C § 1677(7)(F)(ii).

[72] Derived from Report at Table IV-7.

[73] Derived from Report at Tables IV-6 and IV-7.

[74] Report at Table IV-7.

[75] Id.

[76] Report at Tables V-7 thru V-12.

[77] Report at Table VI-7.

[78] Derived from Tables IV-6 and IV-7 compared with Table VII-4.

[79] Report at Tables V-1 thru V-3.

relative production, those producers found by the Department of Commerce to be dumping operated at an aggregate average capacity utilization level of roughly 90%.[80] Although these producers do ship a substantial amount of their production to the home market, and thus arguably could divert it to the United States, there is no evidence in the record of imminent plans to do so with regard to bicycles for sale through IBDs.

Chinese bicycles are subject to antidumping orders in Canada, the European Union and Mexico.[81] The relative mass merchandise/IBD volumes subject to these orders is not clear. The European order, however, applies only to "finished" bicycles; it does not appear to have appreciably affected the volume of imports into the European Union.[82] In any event, the record does not indicate that the U.S. will become the dumping ground for bicycles sold through IBDs as a result of these orders.

There is similarly no evidence that the domestic industry producing bicycles for sale through IBDs has been precluded from developing advanced versions of such bicycles by reason of dumped imports from China, nor are there other demonstrable adverse trends indicating the probability of such injury.

Thus, based on the foregoing, I find that the domestic industry producing bicycles for sale through IBDs is not threatened with material injury by reason of less-than-fair-value imports from China.

V. CONCLUSION

For the reasons discussed above, I determine that the domestic industry producing bicycles sold through mass merchandisers, wholesale clubs, and sporting goods stores, is materially injured by reason of imports of bicycles from China which the Department of Commerce has determined are sold in the United States at less-than-fair-value. I further find that the domestic industry producing bicycles sold through independent bike dealers are not materially injured, nor threatened with material injury, by reason of less-than-fair-value imports from China.

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[80] Report at Table VII-1.

[81] CR at VII-7-8; PR at VII-5.

[82] Report at Table VII-1.

SEPARATE AND DISSENTING VIEWS OF COMMISSIONER LYNN M. BRAGG

MATERIAL INJURY BY REASON OF LTFV IMPORTS OF BICYCLES FROM THE PEOPLE'S REPUBLIC OF CHINA

In final antidumping investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.[1] 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.[2] Although the Commission may consider causes of injury to the industry other than the LTFV imports,[3] it is not to weigh causes.[4]

I join the majority in the sections of this opinion involving the domestic like product, the domestic industry, and the condition of the domestic industry except as noted in those sections. However, for the reasons discussed below, I find that the domestic industry producing bicycles is experiencing material injury by reason of imports of bicycles from the People's Republic of China that have been found by the Department of Commerce to be sold in the United States at less than fair value.

Volume:

The volume of LTFV imports of bicycles from China increased by a substantial amount between 1992 and 1994.[5] Measured by quantity, subject imports increased by 42.4 percent over this period. This includes a 41.1 percent increase from 1.85 million units in 1992 to 2.61 million units in 1993, and an additional 0.9 percent increase to 2.64 million units in 1994. The value of LTFV imports from China increased by an even larger 64.0 percent between 1992 and 1994. This includes a 62.3 percent increase from

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[1] 19 U.S.C. § 1673d(b). The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." 19 U.S.C. § 1677(7)(A).

[2] 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).

[3] 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).

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

[5] In conducting my analysis in this section, I have given less weight to subject import volumes in the year 1995. See 19 U.S.C. § 1677(7)(I). Evidence on the record demonstrates that LTFV import volumes were affected by the filing of the petition in April 1995, and the imposition of provisional antidumping duties by Commerce in November 1995. See The Uruguay Round Agreements Act, Statement of Administrative Action (SAA) at 183-84, reprinted in H. Doc. No. 316, Vol. 1, 103d Cong., 2d Sess., at 853-54 (the Commission may reduce the weight to be accorded to data affected by the pendency of the investigation). In particular, the quantity of LTFV imports decreased by 891,000 units, or 33.8 percent, and the value of subject imports decreased by $20.3 million or 14.9 percent between 1994 and 1995. I find these decreases in imports to be significant and therefore I rely more heavily on import numbers for the years 1992 through 1994.

$83.21 million in 1992 to $135.08 million in 1993, and an additional 1.0 percent increase to $136.42 million in 1994.[6]

The market penetration of subject imports also increased from 1992 to 1994. Measured by quantity, market penetration increased from 12.0 percent of U.S. consumption in 1992, to 15.6 percent in 1993, and to 15.8 percent in 1994. Measured by value, subject import market penetration increased from 6.4 percent of U.S. consumption in 1992, to 9.4 percent in 1993 and 1994.[7]

Based on the rapid increase in subject imports and the increase in subject import market penetration between 1992 and 1994, I find the volume of subject imports to be significant.

Price:

The record evidence in this final investigation demonstrates that imports of LTFV bicycles significantly depressed and suppressed prices for the domestic products over the period of investigation.[8]

Supporting the conclusion that LTFV Chinese imports depressed prices for the domestic products is the fact that in the mass merchandiser market, prices for five of the six domestic products for which data were collected declined between 1992 and the first quarter of 1995.[9] Prices for these domestic products declined in a range between 4.0 percent and 19.9 percent; at the same time, prices for three of the four Chinese products sold into the mass merchandiser market (only four Chinese products were reported with sufficient data) declined in a range between 5.2 percent and 20.7 percent. Despite the observed instances of overselling by the Chinese products in the mass merchandiser market, I find that the generally declining price trends for these products were highly correlated with price trends for the domestic products and had a depressing effect on domestic prices.

At the IBD level, underselling was observed in all 13 observations between 1992 and the first quarter of 1995 on one of the two products for which sufficient data were available. Margins of underselling ranged from 13.8 percent to 57.7 percent. The Chinese product undersold the domestic product in 7 of 11 observations on the other product, with margins of underselling in a range between 0.6 percent and 29.2 percent. Price trends were somewhat more variable in the IBD market, with one of the two domestic products declining in price by 8.0 percent and the other increasing by 11.9 percent between the beginning of 1992 and the first quarter of 1995. Prices for the two Chinese products declined by 16.7 percent and 17.3 percent, respectively over the same period.

Information on the record further supports the conclusion that domestic producers, especially producers in the mass merchandiser market who account for the bulk of domestic production, were not able to

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[6] Table IV-2, CR at IV-5, PR at IV-3. LTFV import and market penetration statistics include imports from Hong Kong. CR at IV-4, PR at IV-4.

[7] Increases in subject import penetration and reductions in domestic producers' shipment volumes may have been considerably more severe if not for the fact that petitioners, in order to maintain market share, produced products with added specifications at sharply reduced wholesale prices over the investigation period. TR at 39.

[8] The data collected by the Commission may not fully capture price effects of subject imports because coverage is limited to "no features" models in the opening price point categories, that may not accurately convey all of the pricing dynamics in the market. The degree of underselling by the subject imports also appears to be understated because sales volumes associated with the reported prices were substantially larger in most cases for the domestic products than for the Chinese products, which likely affects the ultimate price per bicycle at which the transactions were completed. See CR at V-26, n. 18.

[9] As noted previously, I have given less weight to 1995 import data due to the pendency of the investigation initiated in April 1995, and the imposition of provisional antidumping duties on imports of bicycles from China in November 1995. I have placed less emphasis on the pricing data beyond the first quarter of 1995 for the same reason.

increase prices sufficiently to cover their costs of production, which increased significantly over the investigation period.[10] As noted above, data collected on prices for domestic bicycles show a general decline between 1992 and the first quarter of 1995. At the same time, unit values on sales did not increase sufficiently to cover increases in unit COGS and unit SG&A expenses.[11] This cost-price squeeze was particularly evident in the mass merchandiser segment of the market where unit sales values increased by 1.5 percent between 1992 and 1994, while unit COGS increased by 4.9 percent and unit SG&A increased by 4.8 percent over the same period. Thus, I find that the presence of LTFV Chinese imports in the U.S. market with generally declining prices had a suppressing effect on prices for the domestic products.

Producers in the mass merchandiser segment of the market also reported that purchasers, primarily the large retailers, have required them to lower their prices over the period of investigation to meet the lower price quotes from Chinese suppliers.[12] This assertion was generally corroborated by ***.[13]

A further indicator of adverse price effects from the subject imports is the phenomenon identified by petitioners as "spec creep," in which the Chinese bicycles in the mass merchandiser market, including LTFV bicycles, are equipped with added features such as water bottle cages, more colorful paint, and indexed shifting, than domestic bicycles at the same price point. Domestic producers have had to match these higher specifications of the Chinese bicycles while keeping their prices to the major retailers constant in order to be competitive with the subject imports. By doing so, they have increased their operating costs and cut further into their operating profits.[14]

For all of the foregoing reasons, I conclude that the LTFV imports from China significantly depressed prices for the domestic products and prevented price increases that otherwise would have occurred.

Impact on the Affected Domestic Industry:

The substantially increased volume of LTFV imports from China between 1992 and 1994, combined with the suppressing and depressing effects that these imports had on prices for the domestic products resulted in a significant adverse impact on the domestic industry. This impact is manifested most profoundly in the operating income for the entire industry which declined by 22.9 percent between 1992 and 1994. The adverse impact from the subject imports was even more severe in the mass merchandiser segment of the market, where price competition is more acute and where a majority of domestic bicycles are sold.[15] As noted, relatively modest increases in unit sales values in this segment of the market were not able to offset the substantial increases in COGS and SG&A, and domestic producers in this segment experienced an 11.6 percent decrease in gross profits and a 42.3 percent reduction in operating income between 1992 and 1994. As a result, I find that the domestic industry is suffering significant adverse impact by reason of subject bicycle imports from China.

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[10] Much of the increase in unit COGS for the domestic mass merchandiser producers between 1992 and 1994 can be attributed to factors related to efforts undertaken by several producers to remain competitive in the U.S. market: ***. TR at 52-53, CR at VI-11-12, PR at VI-3.

[11] The fact that unit sales values increased at all in the mass merchandiser market is due to the fact that ***. CR at VI-10-11, PR at VI-3.

[12] TR at 39.

[13] CR at V-34, PR at V-12.

[14] TR at 84-87.

[15] Figure I-1, CR at I-6, PR at I-5.

As directed by the statute, I have considered the margin of dumping in this investigation.[16] While several Chinese producers received relatively low final margins of dumping from Commerce, the China-wide rate is a relatively large 61.67 percent. Nonetheless, I do not view the size of the margin of dumping as necessarily determinative in a particular investigation, because the margin typically does little to illuminate either the nature of competition in the U.S. market between subject imports and the domestic like product, or the extent of any injury caused to domestic producers by such imports. Since these are the fundamental questions the Commission must examine, my initial approach is to accord significant weight to the magnitude of the margin of dumping only where it has a bearing on these issues. More typically, the magnitude of the dumping margin speaks to differences in conditions in the home or surrogate market as compared to the U.S. market, or in the variables used to construct a subject producer's normal value and export price. Thus, such differences are not usually directly relevant to the issue of whether the U.S. industry, as defined, is materially injured or threatened with material injury by reason of sales of LTFV merchandise in the United States.[17]

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[16] As part of its consideration of the impact of imports, the statute as amended by the URAA specifies that the Commission is to consider "the magnitude of the margin of dumping." 19 U.S.C. § 1677(7)(C)(iii)(V). The SAA indicates that the amendment "does not alter the requirement in current law that none of the factors which the Commission considers is necessarily dispositive in the Commission's material injury analysis." SAA at 180, reprinted in H. Doc. No. 316, Vol. 1, 103d Cong., 2d Sess., at 850. New section 771(35)(C)(ii) of the Tariff Act of 1930, as amended , 19 U.S.C. § 1677(35)(C)(ii), defines the "margin of dumping" to be used by the Commission in a final determination as the margin or margins most recently published by Commerce prior to the closing of the Commission's administrative record. Three Chinese producers whose sales were examined by Commerce received the following LTFV margins: CATIC Bicycle Co., Ltd., 2.02 percent; Shenzhen China Bicycles Co., Ltd., 2.95 percent; and Universal Cycle Corp., 2.27 percent. The China-wide rate is 61.67 percent.

[17] It is true that very large margins of dumping , which suggest a substantial degree of below-cost sales or artificially elevated prices in a closed home market, can have some relevance to the findings that the Commission must make. For example, large margins of dumping may indicate a likelihood of increased imports, which in turn can have a bearing on the issue of whether subject imports are threatening to cause material injury to U.S. producers. The converse is not necessarily true, however. The statute clearly requires the Commission to examine the impact of subject imports on U.S. producers of the domestic like product. Depending on market conditions, unfairly traded imports can have a significant adverse impact on a domestic industry, notwithstanding small dumping margins.

PART I: INTRODUCTION

BACKGROUND

This investigation results from a petition filed by Huffy Bicycle Co. (Huffy), Dayton, OH; Murray, Inc. (Murray), Brentwood, TN; and Roadmaster Corp. (Roadmaster), Olney, IL, on April 5, 1995, alleging that an industry in the United States is materially injured and threatened with material injury by reason of less-than-fair-value (LTFV) imports of bicycles[1] from China. Information relating to the background of the investigation is provided below.[2]

Date	*Action*
April 5, 1995	Petition filed with Commerce and the Commission; institution of Commission preliminary investigation
May 1, 1995	Commerce's notice of initiation
May 22, 1995	Commission's preliminary affirmative determination
November 9, 1995 ...	Commerce's preliminary determination; institution of Commission final investigation (60 F.R. 65667, December 20, 1995)
December 13, 1995 ..	Commerce's amendment to preliminary determination
April 22, 1996	Commerce's final determination (61 F.R. 19026, April 30, 1996)
April 24, 1996	Commission's hearing[3]
May 10, 1996	Commerce's amendment to final determination[4]
June 4, 1996	Commission's vote
June 12, 1996	Commission determination transmitted to Commerce

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[1] Bicycles are provided for in subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48 of the Harmonized Tariff Schedule of the United States (HTS) with most-favored-nation tariff rates of 11 percent *ad valorem* for bicycles with both wheels not exceeding 63.5 cm (25 inches) (most sidewalk, BMX, and some mountain bicycles); 5.5 percent *ad valorem* for bicycles with both wheels exceeding 63.5 cm, weighing less than 16.3 kg, and designed for tires not exceeding 4.13 cm (1.63 inches) in cross-sectional diameter (most lightweight road bicycles); 11 percent *ad valorem* for bicycles with both wheels exceeding 63.5 cm but weighing 16.3 kg or more without accessories and made for tire diameters of 4.13 cm or more (most mountain bicycles); and 5.5 and 13.4 percent *ad valorem* for bicycles with different-sized front and rear tires (only a small share of bicycles entering the United States).

[2] *Federal Register* notices cited in the tabulation are presented in app. A.

[3] A list of participants at the hearing is presented in app. B.

[4] Commerce made a negative determination (zero or *de minimis* margins) with respect to six Chinese producers (Bo An Bike Co., Ltd. (Bo An); Chitech Industries, Ltd. (Chitech); Giant China Co., Ltd. (Giant); Hua Chin Bicycle Co., Ltd. (Hua Chin); Merida Industry Co., Ltd. (Merida); and Shenzhen Overlord Bicycle Co., Ltd. (Overlord)). The other three producers whose sales were examined received the following LTFV margins: CATIC Bicycle Co., Ltd. (CATIC), 2.02 percent; Shenzhen China Bicycles Co., Ltd. (CBC), 2.95 percent; and Universal Cycle Corp. (Universal), 2.27 percent. The China-wide rate is 61.67 percent.

SUMMARY DATA

A summary of data collected in the investigation is presented in appendix C. Data concerning all bicycles, bicycles shipped to the mass merchandiser market, and bicycles shipped to the independent bicycle dealer (IBD) market are presented in tables C-1, C-2, and C-3, respectively. Except as noted, U.S. industry data are based on questionnaire responses of seven firms that accounted for virtually all known domestic production of bicycles during 1995. U.S. import data are based on official U.S. import statistics and 42 U.S. importer questionnaire responses.

THE PRODUCT

The imported products subject to this investigation are bicycles of all types, whether assembled or unassembled, complete or incomplete, finished or unfinished, including industrial bicycles, tandems, recumbents, and folding bicycles. For purposes of this investigation, the term "unassembled" means fully or partially unassembled or disassembled; the term "incomplete" means lacking one or more parts or components with which the complete bicycle is intended to be equipped; and the term "unfinished" means wholly or partially unpainted or lacking decals or other essentially aesthetic material. Specifically, this investigation is intended to cover: (1) any assembled complete bicycle, whether finished or unfinished; (2) any unassembled complete bicycle, if shipped in a single shipment, regardless of how it is packed and whether it is finished or unfinished; and (3) any incomplete bicycle, defined for purposes of this investigation as a frame finished or unfinished, whether or not assembled together with a fork, and imported in the same shipment with any two of the following components, whether or not assembled together with the frame and/or fork: (a) rear wheel; (b) front wheel; (c) rear derailleur; (d) front derailleur; (e) any one caliper or cantilever brake; (f) an integrated brake lever and shifter, or separate brake lever and click stick lever; (g) crankset; (h) handlebars, with or without a stem; (i) chain; (j) pedals; or (k) seat (saddle), with or without seat post and seat pin. The scope of this investigation is not intended to cover separately imported bicycle parts but covers those parts that are attached to or in the same shipment as an unassembled complete bicycle or an incomplete bicycle, as defined above. This section presents information on both imported and domestically produced bicycles, as well as information related to the Commission's "domestic like product" determination.[5]

Petitioners, respondents for Dynacraft Industries, Inc. (Dynacraft) and Shun Lu Bicycle Co. (Shun Lu), respondents for Toys "R" Us, and respondents for Target Stores (Target) argued that the relevant bicycle industry is composed of all U.S. producers of bicycles, regardless of type or the channel of distribution through which they are sold.[6] Respondents for the Coalition for Fair Bicycle Trade (the Coalition) asserted that the Commission should find separate domestic like products for bicycles sold through the mass merchandiser and IBD channels of distribution.[7] The Coalition respondents argued that bicycles sold in the IBD channel were distinct from bicycles sold in other channels because of differences in physical characteristics, customer perceptions, pricing, and channels of distribution.[8] They specifically defined IBD

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[5] 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.

[6] Petitioners' prehearing brief, p. 10; Dynacraft and Shun Lu's posthearing brief, att. 1; Toys "R" Us' posthearing brief, pp. 5-11; and Target's prehearing brief, pp. 1-2.

[7] The Coalition's prehearing brief, p. 1.

[8] The Coalition's prehearing brief, p. 2.

bicycles by the following physical and labeling criteria: (1) weight (33 pounds or less); (2) frame material for all three major frame tubes (1020 grade high-tensile steel or better, including chrome-molybdenum (chromoly), non-ferrous materials such as aluminum or titanium, or composite materials such as carbon fiber); (3) rim material (aluminum alloy); (4) welding technique (tungsten inert gas (TIG) welding or better); (5) frame size (the availability of at least four different frame sizes for bicycle models with wheels 26 inches or larger); (6) certificate of destination to an IBD retailer; and (7) and labeling provisions that bicycles should not be assembled by consumers.[9] Noting that these provisions are in accordance with past Commission and Commerce precedent, they argued that Customs could easily enforce a separate like product determination based on the seven criteria.[10] Petitioners argued in general that there was one domestic like product, but more specifically they noted that the proposed seven criteria did not represent any meaningful distinctions in bicycles. Noting that important distinctions such as type of componentry and price were absent from the Coalition's proposal, they argued that some of the criteria were very technical product distinctions that were not influenced by consumer demand or perception. They argued that the Coalition's proposal would create tremendous administrative difficulties for Customs, and that while the distinctive appearance of alloy rims might make it fairly obvious to import specialists, the remaining physical criteria would demand an intolerable degree of inspection by Customs.[11]

Channels of Distribution

The U.S. bicycle market has two primary channels of retail distribution: the mass merchandiser channel and the IBD channel.[12] Other channels include sporting goods chains and discount warehouse clubs. The following tabulation and figure I-1 show U.S. shipments to mass merchandisers, IBDs, and other retailers by U.S. producers and U.S. importers of Chinese bicycles. Accounting for 87.9 percent of the quantity of U.S. producers' shipments and 77.8 percent of U.S. importers' shipments of Chinese bicycles during 1995,[13] the mass merchandisers offer relatively low-priced, standard-sized juvenile and adult bicycles, with prices ranging from $50 to $250 suggested retail. In contrast to mass merchandisers, IBDs typically carry a broad range of relatively high-priced, high-quality bicycles, with retail prices generally ranging from $200 to over $3,000.[14] In terms of quantity, U.S. producers' shipments to IBDs accounted for 7.2 percent of all producer shipments during 1995, compared to only 3.2 percent in 1992. U.S. imports of Chinese bicycles shipped to the IBD market accounted for 20.0 percent of all reported shipments of Chinese bicycles during 1995, compared to 38.8 percent in 1992.[15]

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[9] ***.

[10] The Coalition's prehearing brief, pp. 42-43.

[11] Petitioners' posthearing brief, pp. 30-36; hearing transcript, pp. 58-59.

[12] Apparent consumption data by channels of distribution are presented in chapter IV in tables IV-5, 6, and 7.

[13] The mass merchandisers accounted for 56.8 percent of the reported LTFV shipments from China during 1995.

[14] The average retail selling price for a bicycle sold in an IBD during 1995 was about $317 (the Coalition's prehearing brief, p. 8).

[15] The IBDs accounted for 38.1 percent of the reported LTFV shipments from China during 1995.

	1992	1995
	---(*in units*)---	
Shipments to mass merchandisers:		
U.S. producers	7,971,018	7,923,960
U.S. importers of Chinese bicycles:		
LTFV	508,248	808,216
Fair value	248,909	1,942,596
Total shipments from China	757,157	2,750,812
Shipments to IBDs:		
U.S. producers	294,867	648,475
U.S. importers of Chinese bicycles:		
LTFV	508,737	542,011
Fair value	47,799	166,631
Total shipments from China	556,536	708,642
Shipments to all other retailers:		
U.S. producers	833,939	439,133
U.S. importers of Chinese bicycles:		
LTFV	75,241	72,355
Fair value	46,853	4,628
Total shipments from China	122,094	76,983

Within the mass merchandiser channel, it is estimated that five national retailers, Toys "R" Us,[16] Wal-Mart, K-Mart, Target, and Sears account for over two-thirds of all bicycles sold in the United States.[17] With this high degree of concentration, purchasers have considerable buying leverage in price negotiations and often request suppliers to alter model features to meet their specific requirements. A single sale to the mass merchandiser channel can involve more than 100,000 units. The petitioning U.S. producers reported sales to all five mass merchandisers during the period for which data were collected. Since Wal-Mart has adhered to a strict Buy-America policy for bicycles during the period examined in this investigation and K-Mart and Sears have strong Buy-America preferences, Toys "R" Us and Target were the primary mass merchandisers selling Chinese bicycles; their sales accounted for *** percent of Chinese bicycles sold in the mass merchandiser channel during 1995.

The IBD market is more fragmented, consisting of about 6,500 small individual bicycle retailers.[18] These retailers sell higher-priced bicycles in a variety of frame sizes and component options. The IBDs offer more service than the mass merchandisers; they generally assemble all the bicycles they sell, offer a free 30-day bicycle tune-up, and service all bicycles regardless of where they are purchased. This extra service requires IBDs to employ a staff of qualified assemblers and mechanics and to maintain a substantial inventory of replacement parts to properly service all makes and models of bicycles. Revenues from services traditionally account for about 25 percent of total IBD revenues. IBDs also stock a full line of accessories and are a source of information about community cycling activities. Unlike the suppliers to the mass merchant market, IBD manufacturers do not alter model features at the request of customers, but they do

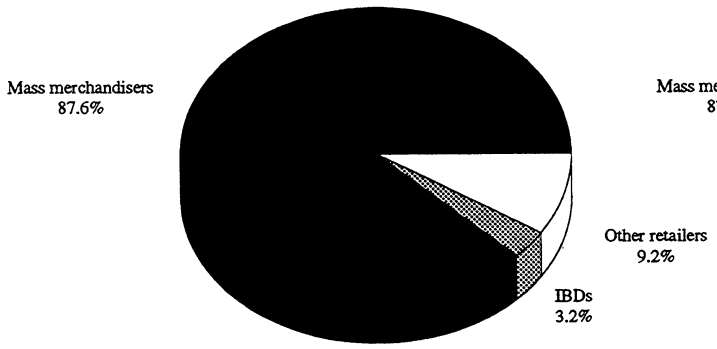
[16] Toys "R" Us is the largest retailer of bicycles in the United States, accounting for more than one out of four bikes sold in the mass merchandiser channel (the Coalition's postconference brief, p. 7; hearing transcript, p. 188).

[17] Petitioners' postconference brief, p. 19; Toys "R" Us' postconference brief , p. 27; and conference transcript, p. 33.

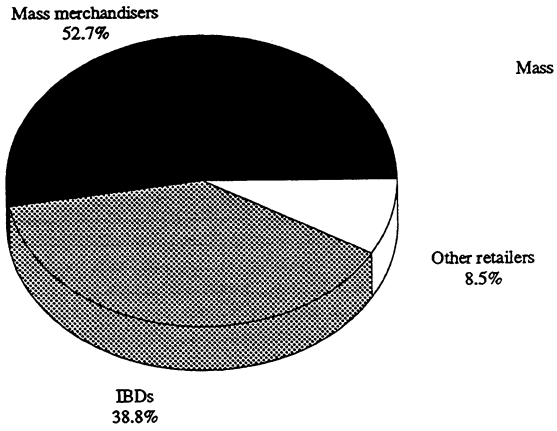
[18] For purposes of this investigation, independent bicycle dealers are defined as retail stores that earn at least 50 percent of gross revenue from sales of bicycles and bicycle-related accessories and services.

Figure I-1
Shares of U.S. producers' and U.S. importers' U.S. shipments of bicycles, by channels of distribution, 1992 and 1995

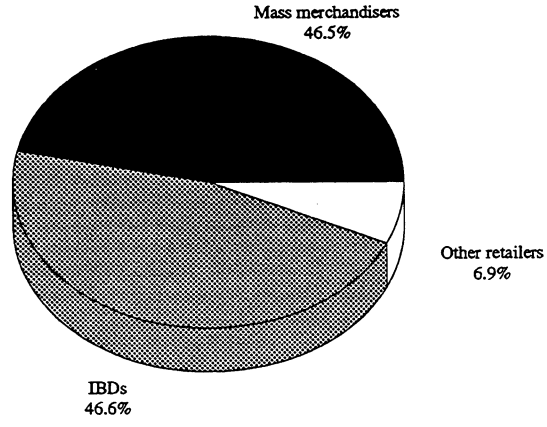
1992:



U.S. Producers' U.S. Shipments

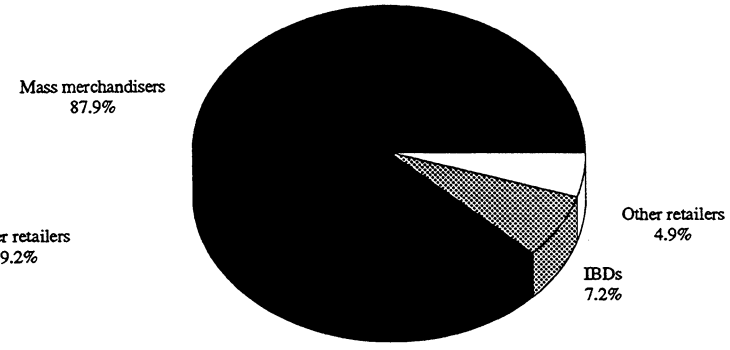


U.S. Shipments from China

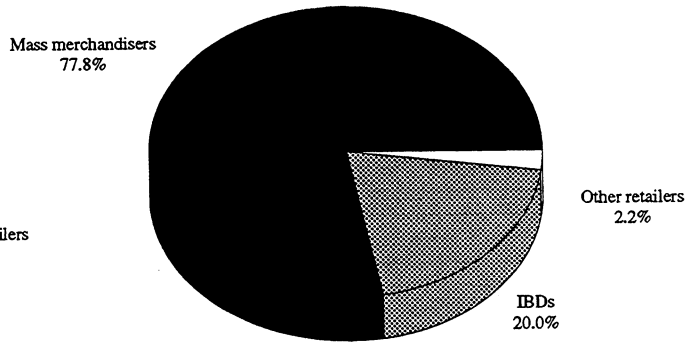


U.S. Shipments from China (LTFV)

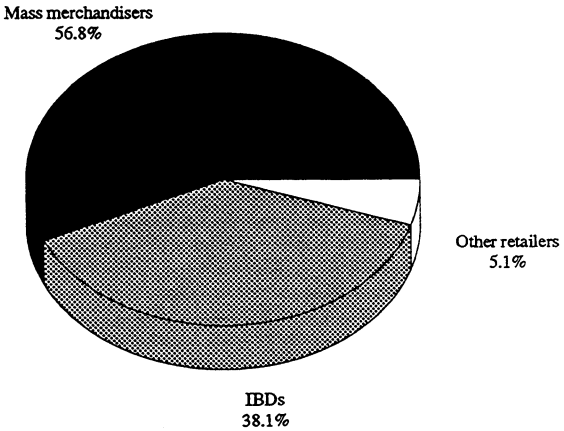
1995:



U.S. Producers' U.S. Shipments



U.S. Shipments from China



U.S. Shipments from China (LTFV)

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

introduce new bicycle models annually. About 82 percent of all IBD bicycles are sourced from imports; the vast majority of imports from Taiwan and sources other than China are sold in the IBD market.

U.S. producers currently serve either the mass merchandiser or IBD channel exclusively. Most importers also reported serving either one or the other channel. Three importers reported sales to both the mass merchandiser and IBD markets. ***. The three mass merchandiser producers, one IBD producer, and seven importers, including importers to the mass merchandiser and IBD channels, reported sales to sporting goods chains, discount warehouse clubs, and other retailers.

Petitioners recognized that there were two distinct channels of distribution in the bicycle industry, but argued that any differences between channels were outweighed by the common characteristics and uses, producer and consumer perceptions, and manufacturing facilities and processes shared by bicycles sold in each channel. Petitioners contended that there was significant competition between these channels of distribution and that any differences between these channels did not create clear dividing lines warranting a finding of two domestic like products.[19] They further noted that the distinction between the channels of distribution was blurred by the emergence of sporting goods chains and discount warehouse clubs and that brands that previously were sold exclusively in different channels were increasingly being sold side-by-side in these new retailers.[20] The Coalition respondents argued that shipments to these new retailers represented a small and declining share of total shipments during the period for which data were collected. They also noted that this "other retailer" category was comprised of retailers that were distinguishable from IBDs and that the shipments to this category would not be covered by the Coalition's criteria used to define IBD bicycles.[21]

Physical Characteristics and Uses

The bicycle market in the United States can be classified into six basic categories: sidewalk bicycles; juvenile bicycles, such as motocross (BMX) or hi-rise bicycles; mountain bicycles (MTB) (sometimes referred to as all-terrain bicycles (ATB)); lightweight road bicycles; hybrid or cross bicycles; and middleweight or cruiser bicycles.[22] The first two categories are children's bicycles, with wheel sizes generally ranging from 12 to 20 inches in diameter. The sidewalk bicycle lacks the safety features necessary for street use and is usually equipped with wheels 12 or 16 inches in diameter. The BMX and hi-rise bicycles are made for the street and are commonly equipped with coaster brakes, a single speed, and wheels 16 or 20 inches in diameter.

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[19] Petitioners' prehearing brief, pp. 2-3. Respondents for Dynacraft, Target, and Toys "R" Us concur with petitioners' like product argument (Dynacraft and Shun Lu's posthearing brief, att. 1; Toys "R" Us' posthearing brief, pp. 5-11; and Target's prehearing brief, pp. 1-2).

[20] Petitioners noted that sporting goods chains, which have traditionally carried mass merchandiser bicycles such as Huffy, Murray, Roadmaster, and Royce Union, are beginning to offer brands typically sold through IBDs, such as Fuji, Haro, Iron Horse, and Scott. They also pointed to new brands, such as the "Full Force" bicycle line, which was designed by Specialized, a long-time supplier of the IBD channel, specially for the sporting goods chains and mass merchandisers (petitioners' prehearing brief, pp. 7-8; hearing transcript, p. 55).

[21] The Coalition respondents noted that the volume of shipments of IBD bicycles, such as Fuji, Haro, Iron Horse, and Scott, to the "other retailer" category was extremely small (the Coalition's posthearing brief, pp. 11-12).

[22] In addition to these six categories, there are a number of small-volume categories, such as industrial bicycles (for use on factory floors), tandems (bicycles built for two), recumbents (in which the rider is seated low to the ground and pedals with the legs projecting forward, rather than downward), and folding bicycles (which have collapsible frames for easy storage).

The adult categories are generally equipped with wheels of 24 inches in diameter or greater, with the 26-inch diameter being the most common. Accounting for 94.0 percent of the 26-inch and over bicycle market in 1995, MTBs were the most popular category of bicycles sold in the United States. MTBs have wide tires, straight handlebars, and are designed to handle off-road conditions. Some MTBs are equipped with a shock absorbing suspension feature in either the frame or fork, or both. Lightweight road bicycles, by contrast, have lightweight frames, narrow tires, drop (curved) handlebars, multiple speeds, and caliper brakes. Prior to the development of the MTB, lightweight road bicycles were the dominant category for adults, but in 1995 this category accounted for only 0.5 percent of the 26-inch and over bicycle market. Hybrid or cross bicycles combine the features of MTBs and lightweight road bicycles. They generally have straight handlebars and the more upright riding position of MTBs, but use thinner tires, making them suited for on- and off-road use. This category accounted for 3.4 percent of the 26-inch and over market during 1995. Middleweights or cruiser bicycles are recreational bicycles designed more for appearance than for performance. They have relatively heavy frames, are generally single speed, and are equipped with a coaster brake. A small but growing market in the United States, this category accounted for 1.8 percent of the 26-inch and over bicycle market during 1995.

In the mass merchandiser and IBD channels, both U.S. and Chinese producers offer all of the abovementioned bicycle types and wheel sizes. In general, each bicycle model with 26-inch or larger wheel sizes is offered in multiple frame sizes in the IBD market, while only one frame size is offered in the mass merchandiser market.[23] ***. Bicycles with wheel sizes below 26 inches, which accounted for about 57 percent of the total bicycles sold during 1995, were not offered in multiple frame sizes in either channel of distribution.

IBD bicycles produced in the United States may be distinguished from mass merchandiser bicycles in terms of weight and frame composition. The mass merchandiser producers manufactured virtually all of their bicycles from high-tensile steel.[24] The majority of IBD bicycle frames were produced from more expensive materials such as chromoly steel,[25] aluminum, or carbon fiber.[26] ***, which accounted for *** percent of IBD production during 1995, was the only IBD producer to report any production of bicycles with high-tensile steel frames. All of Cannondale Corp.'s (Cannondale) bicycle frames were produced from aluminum, while GT and Trek reported production of bicycles with chromoly, aluminum, and carbon fiber frames. The IBD importers, including ***, reported that frames of high-tensile steel accounted for 50 to 70 percent of imports into that channel in terms of quantity, with the remainder composed of the more expensive materials. For the mass merchandiser importers, *** reported that virtually all of their bicycles were

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[23] The frame size equals the seat-tube length, or, more technically, "the number of inches between the centerline of the bottom-bracket spindle and the top of the seat tube." The choice of frame size allows purchasers to buy bicycles that correctly fit their height. Eugene A. Sloane, *The All New Complete Book of Bicycling*, 3rd ed. (New York: Simon & Schuster, 1980), p. 82.

[24] Respondents argued that the high-tensile steel used in the production of bicycles shipped to the mass merchandiser market was primarily AISI 1010 steel, a generic high-tensile steel that does not meet pressure standards. The vast majority of bicycles with high-tensile steel frames shipped to the IBD market are reportedly composed of AISI 1020 steel (the Coalition's prehearing brief, pp. 18-19).

[25] Chromoly steel tubing is defined as a strong tubing made of high-carbon steel alloyed with chromium and molybdenun. It can be drawn very thin to produce lightweight steel frames and forks.

[26] Compared to the average cost of a high-tensile steel frame which according to questionnaire data ranged from $7 to $13, the average cost of a chromoly frame was estimated to range from $50 to $100, an aluminum frame from $115 to $168, and a carbon fiber frame from $168 to $219.

produced from high-tensile steel frames, while *** reported that all of its bicycles were produced from cold-rolled steel frames.

Common Manufacturing Facilities and Production Employees

The mass merchandiser and IBD producers employ similar processes in their production of bicycles; however, their techniques differ based on their manufacturing strategies. The manufacturing process for all bicycles primarily consists of the fabrication or sourcing of the frame, fork, and other components; the finishing of these components, which includes such operations as machining, welding, plating, painting, and/or decal application; and the assembly of the remaining components to the frame. Because the mass merchandiser producers manufacture large quantities of similar models and frame sizes, the focus of their manufacturing strategy is to be as efficient and automated as possible. On the other hand, IBD producers manufacture a greater number of models consisting of varying frame sizes and frame materials. Their manufacturing strategy primarily focuses on the development and design of new bicycle models.

Most U.S. producers purchase the tubing used to manufacture the frames from outside suppliers. ***.[27] All producers cut the tubes to appropriate lengths, depending on their functions and frames sizes. The process for welding the tubes together to form the frame depends on the tubing material. The mass merchandiser producers primarily use metallic inert gas (MIG) welding because it is most adaptable to robotics.[28] In MIG welding, a wire is fed continuously by machine, leaving a large bead at the weld. MIG welding is used primarily with steel tubing and is not suitable for tubing with thin walls. Because the IBD producers generally manufacture frames from thinner tubing and materials such as chromoly, aluminum, or titanium, they primarily use TIG welding. TIG welding requires the use of a skilled welder hand feeding the wire as the weld is made;[29] the TIG welding leaves a coin bead at the weld, which is stronger than the MIG weld.[30] [31]

In addition to frame production, some producers also manufacture some of their own components, such as the forks, handlebars, handlebar stems, seat posts, front sprockets, and wheel rims, spokes, and nipples. *** have extensive component operations. Cannondale recently developed its own private line of components that includes cranks, bottom brackets, chain rings, wheel hubs, brakes, handlebars, and grips. Some of the major components, such as derailleurs, multiple free-wheel sprockets, brake assemblies, tires and tubes, sprocket clusters, chains, and rear hubs, are not produced in commercial quantities in the United States and must be imported.

The mass merchandiser and IBD producers utilize similar painting techniques. *** uses an elastrostatic wet paint operation in which the paint is positively charged and the metal negatively charged.

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[27] ***.

[28] A typical MIG operation can produce in the range of 1,000 to 1,200 frames per day (the Coalition's prehearing brief, p. 22).

[29] A TIG-welded frame requires about 5 to 10 times more workhours than a MIG-welded frame (the Coalition's prehearing brief, p. 22).

[30] ***.

[31] For bonded carbon fiber frames, IBD producers bond the composite tubes with epoxy into metal or composite lugs. Trek also produces a one-piece carbon fiber bicycle, which consists of a molded "monocoque" frame with no major glued joints.

The frame goes through a series of paint applications and baking before a finished polyurethane clear coat is applied. ***.[32]

For both mass merchandiser and IBD producers, bicycles are usually shipped in a semi-knocked down (SKD) condition, in which the bicycle is fully assembled except for several components (e.g., the front wheel, the saddle, the handlebars, the pedals, and the brake levers), which are packaged separately in the same carton. The retailers are responsible for final assembly and adjustments. Some bicycles sold by the mass merchandisers must be assembled by the consumer.

The Coalition respondents argued that because U.S. producers served either the mass merchandiser or the IBD channel exclusively, the two channels did not share common manufacturing facilities and production employees.[33] The petitioners asserted, however, that bicycles shipped to the mass merchandiser and IBD markets can and do share common manufacturing facilities and production employees. They pointed to CBC, a Chinese manufacturer of bicycles for both the U.S. mass merchant and IBD channels, which reportedly maintains a single assembly line that alternates between bicycles sold to the mass merchandiser and IBD channels.[34]

Interchangeability

Petitioners asserted that bicycles shipped to the mass merchandiser and IBD channels were interchangeable because the bicycles in both channels were offered in the same basic bicycle categories, and consumers typically comparison shop between channels before making purchasing decisions.[35] Respondents countered that even though both channels offer products in the same bicycle categories, an MTB sold at an IBD was not interchangeable with one sold at a mass merchandiser because of differences in bicycle performance, frame composition, and componentry. Respondents also argued that the two channels sell to different types of consumers, with the IBD channel selling to bicycle enthusiasts that demand higher levels of service and expertise, compared with the mass merchandisers, which primarily sell to occasional cyclists that are most interested in price.[36]

Price

The mass merchandisers offer the relatively lower-priced standard bicycles, ranging in price from $50 to $250 suggested retail. In general, the IBDs offer the higher-priced, higher-quality bicycles, with retail prices ranging from $200 to over $3,000. Petitioners argued that the price overlap between the two channels had increased because the IBDs had become more aggressive in attempting to capture the sub-$250 retail business.[37] The Coalition respondents contended that there was very little overlap in prices between the two channels and that the average prices charged in each channel diverged widely.[38]

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[32] ***.

[33] The Coalition's prehearing brief, pp. 29-30.

[34] Petitioners' prehearing brief, pp. 5-6.

[35] Petitioners' prehearing brief, pp. 3-5.

[36] The Coalition's prehearing brief, pp. 35-36.

[37] Conference transcript, p. 26.

[38] The Coalition's postconference brief, pp. 13-14.

The following tabulation shows the number of adult bicycles shipped in 1995 by wholesale price range.[39] U.S. producers' questionnaire responses showed some price overlap between the ***. However, the vast majority of adult bicycles shipped to mass merchandisers during 1995 were less than $101 wholesale and about two-thirds of bicycles shipped to IBDs were over $250. ***. In terms of U.S. importers, only one importer reported shipments to mass merchandisers at over $100 wholesale, while virtually all of the importers' shipments to IBDs were over $100 wholesale.

* * * * * * *

The following tabulation shows the number of children's bicycles shipped in 1995 by wholesale price range.[40] U.S. producers' questionnaire responses showed some price overlap between the IBD producer *** and the mass merchandiser producers in the $101 to $150 price range. ***. The vast majority of the mass merchandiser children's bicycles were below $101 wholesale. In terms of U.S. importers, six mass merchandiser importers reported shipments of children's bicycles below $101 wholesale, with one importer also reporting some shipments above $100 wholesale. Six IBD importers reported shipments of children's bicycles, with one reporting shipments below $101 wholesale, two reporting shipments ranging from $51 to $100 wholesale, and the other three reporting shipments from $51 to $250 wholesale.

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[39] The tabulation includes shipments of both LTFV and fair value imports from China.

[40] The tabulation includes shipments of both LTFV and fair value imports from China.

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

BUSINESS CYCLES

Although fluctuations in the growth of the overall economy influence annual U.S. bicycle demand, seasonal weather trends, substitute products, and the mature nature of the U.S. bicycle market also affect bicycle demand. Within a one-year period, consumer demand for bicycles is generally highest in the second and fourth quarters of the year, reflecting spring and Christmas buying patterns.

MARKET SEGMENTS AND CHANNELS OF DISTRIBUTION

The two primary channels of distribution for U.S. producers and importers of bicycles are the mass merchandiser market (e.g., department stores and toy stores) and the IBD market. In the United States, approximately 85 percent of bicycles are sold through the mass merchant channel,[1] where retail prices are generally under $200. Approximately 10 percent of bicycles are sold through the IBD channel, where retail prices range from about $200 to over $3,000.[2] While IBDs account for about 10 percent of sales by volume, they account for approximately 50 percent of sales by value, given their higher retail price points.[3] Bicycles are also sold through such retailers as sporting good stores and discount warehouses.

Suppliers of domestic and imported bicycles generally concentrate their sales on either mass merchandisers or IBDs. Of the U.S. producers responding to the Commission's questionnaire, three supply the mass merchant market almost exclusively and four supply only the IBDs. Among importers, 8 firms reported selling primarily to mass merchandisers, 16 reported selling almost exclusively to IBDs, and 3 reported selling exclusively to the "all other" category.[4] Marketing strategies for the mass merchandiser and IBD distribution channels are discussed separately below.[5]

Supplying the Mass Merchant Market

Mass merchandisers generally sell large quantities of lower-priced, standard-sized juvenile and adult bicycles, and offer a very limited range of after-sales services. Most U.S. producers and importers that market bicycles in this channel use a combination of price lists, catalogs, sample models, and/or showroom displays to introduce products to their customers.

The mass merchandiser market is distinguished by its customers. As previously mentioned, five U.S. national retail chains account for approximately two-thirds of the total market. This high degree of concentration allows for considerable buying leverage in price negotiations. Toys "R" Us is the largest retail supplier of bicycles in the United States, accounting for one out of four bicycles sold in the mass-merchandise channel. A large percentage of the petitioners' domestic sales go to Wal-Mart, K-Mart, and Sears. Wal-Mart has a fairly strict "Buy America" policy, and K-Mart and Sears advertise a "Buy America" preference and

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[1] These percentages somewhat overstate sales to mass merchandisers since they do not include sales of bicycles from Taiwan which are sold mainly in the IBD channel.

[2] An estimated 5 percent of IBD bicycles retail for less than $200, most of which are juvenile bicycles with wheel sizes of 20 inches or smaller (conference transcript, p. 82).

[3] Conference transcript, p. 110.

[4] Three importers--***--primarily supply mass merchandisers, but also reported some sales to IBDs. Similarly, *** primarily supplies the IBD market, but also reported some sales to mass merchandisers.

[5] For a more detailed discussion of the channels of distribution see the "Product" section of the report.

reportedly have not purchased imported bicycles in recent years.[6] As a result, Toys "R" Us and Target account for nearly *** of the imports entering this market channel.

Supplying the IBD Market

Distribution practices are somewhat different for vendors selling to the IBD market. IBDs sell bicycles in a variety of frame sizes, offer a range of component options, and provide extensive after-sales services. Annual bicycle shows, generally held during the third and fourth quarters of the year, are used to introduce new product lines, price lists, and purchasing programs for IBD customers. Almost all sales in this market are spot sales, with delivery dates spanning several months. In general, shipment quantities to IBDs tend to be much smaller than those to mass merchandisers due to the IBDs' lower sales volume and smaller scale of operation.

Customers in this channel of distribution are small bicycle stores, or small-to-medium-size wholesale distributors scattered across the United States. Contrary to the high concentration found in the mass merchant channel, the IBD market is composed of over 6,500 independent retailers.[7] As a result, the buying-power leverage purchasers have over prices is much more limited in this market.

SUPPLY AND DEMAND CONSIDERATIONS

U.S. Supply

Domestic Production

Based on the available information, staff believes that U.S. producers of bicycles have the flexibility to respond to changes in demand. Factors that support this conclusion include U.S. mass merchandiser producers' ability to increase capacity and significant levels of available excess capacity. Factors that inhibit U.S. mass merchandiser producers' ability to react to changes in demand include relatively low inventories-to-total shipments ratios and relatively small sales to export markets.

U.S. producers for IBDs increased capacity at an even greater rate than U.S. producers for the mass market. Although U.S. IBD producers' capacity utilization rates were significantly higher than capacity utilization rates for U.S. mass merchandiser producers, U.S. IBD producers also had significantly higher inventory-to-total shipments ratios and significantly greater sales to export markets.

Industry capacity

Average-of-period capacity for U.S. producers of bicycles shipped to mass merchandisers increased by 33.4 percent from 9.7 million units in 1992 to 12.9 million units in 1995. U.S. production for the mass market increased from 8.9 million units in 1992 to 10.1 million units in 1993, then fell to 8.4 million units in 1995. Consequently, capacity utilization for U.S. mass market producers fell from 91.9 percent in 1992 to 65.4 percent in 1995.

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[6] Wal-Mart reports a commitment to buy American to the extent that there are quality products at competitive prices. It reported that it only buys U.S.-produced bicycles. However, it said that in the past 18 months it has requested that its U.S. suppliers lower their prices to help Wal-Mart compete with competitors that are selling Chinese bicycles. Letter from Wal-Mart, Apr. 6, 1995.

[7] Conference transcript, p. 110. The majority of these stores are individually owned, though some metropolitan areas have bicycle chain stores.

Average-of-period capacity for U.S. producers of bicycles shipped to IBDs increased by 49.6 percent from 614,000 units in 1992 to 918,000 units in 1995. However, unlike U.S. production for the mass merchant market, U.S. production for the IBD market increased at a rate even greater than its rate of capacity increase, from 447,000 units in 1992 to 830,000 units in 1995, or by 85.6 percent. As a result, capacity utilization rates for U.S. IBD producers increased from 72.9 percent in 1992 to 90.4 percent in 1995.

Inventory levels

U.S. mass market producers' inventories increased from 441,000 units in 1992 to 912,000 units in 1993, then declined to 577,000 units in 1995. The ratio of inventories to total shipments to the mass market increased from 4.9 percent in 1992 to 9.5 percent in 1993, then declined to 6.8 percent in 1995. U.S. IBD producers' inventories showed little variation, ranging between 87,000 and 94,000 units during the period. The ratio of inventories to total shipments to IBDs declined from 23.0 percent in 1992 to 11.2 percent in 1995.

Export markets

U.S. mass market producers' exports increased from 145,000 units in 1992 to 226,000 units in 1993, then declined to 128,000 units in 1995. The ratio of exports to total mass market shipments increased from 1.6 percent in 1992 to 2.4 percent in 1993, then declined to 1.5 percent in 1995. U.S. IBD producers' exports increased from 108,000 units in 1992 to 181,000 units in 1995. The ratio of exports to total IBD shipments declined from 27.1 percent in 1992 to 21.8 percent in 1995.

Subject Imports

Chinese bicycle producers also appear to have the ability to react to changes in demand in the U.S. bicycle market. During 1992-95, Chinese producers sharply increased their capacity to produce export-quality bicycles. The fact that Chinese producers were able to significantly increase their exports to the United States during the same time suggests flexibility in their supply response to the U.S. market. Factors that inhibit supply flexibility include relatively high capacity utilization rates and relatively stable inventory-to-shipments ratios.

Industry capacity

Reported Chinese total capacity to produce export-quality bicycles increased by 44.8 percent from 13.7 million units in 1992 to 19.8 million units in 1995. During the same period, Chinese bicycle production increased 40.4 percent, from 11.8 million units in 1992 to 16.5 million units in 1995. Consequently, Chinese capacity utilization decreased from 85.9 percent in 1992 to 83.3 percent in 1995.

Inventory levels

Reported Chinese export-quality bicycle inventories increased by 72.7 percent from 736,000 units in 1992 to 1.3 million units in 1995. The ratio of Chinese inventories to all shipments showed little variation, ranging between 6.3 percent and 7.7 percent during 1992-95.

Export markets

The ratio of reported Chinese home market sales of export-quality bicycles to Chinese total shipments decreased from 62.0 percent in 1992 to 51.2 percent in 1995. Conversely, the share of Chinese total shipments accounted for by Chinese exports to the United States increased from 15.0 percent in 1992 to 22.8 percent in 1995. The ratio of Chinese exports to all other countries versus Chinese total shipments increased from 23.0 percent in 1992 to 25.7 percent in 1995.

Nonsubject Imports

The vast majority of nonsubject imported bicycles are produced in Taiwan. During 1992-95, imported Taiwan bicycles accounted for 47.4 percent of total U.S. imports of bicycles. Imports of Taiwan bicycles declined over the period as Taiwan producers opened production facilities in China.

U.S. Demand

Total U.S. consumption of bicycles increased by 9.1 percent during 1992-93, then fell by 3.7 percent during 1993-95. Annual demand for bicycles tends to follow fluctuations in the overall growth of the economy. Demand during the year tends to follow a seasonal pattern, although fluctuations in weather trends can disrupt this pattern. The availability of substitute products and the fact that bicycles are a deferable purchase suggests that the quantity of bicycles demanded will change somewhat as the price of bicycles changes.

Substitutes for bicycles include other sporting and fitness equipment (e.g., inline skates, skateboards, scooters, etc.), sporting and fitness activities (e.g., hiking, camping, golf, etc.), and other leisure activities and equipment (e.g., computers, video games, etc.). In particular, all of the responding mass merchandisers stated that sales of inline skates had increased during 1992-95, and nearly all stated that sales of inline skates had adversely impacted their sales of bicycles.[8]

SUBSTITUTABILITY ISSUES

Factors Affecting Retailers' Purchase Decisions

U.S. producers of bicycles for the mass merchandiser market maintain that non-price differences between U.S.-produced bicycles and bicycles imported from China are not a significant factor in their sales of U.S.-produced bicycles. Conversely, U.S. producers of bicycles for the IBD market and most importers of Chinese bicycles maintain that non-price differences are important. U.S. IBD producers cited differences in weight and finish quality. Importers that sold Chinese bicycles to mass merchandisers cited non-price factors such as product range, appearance and paint finish, marketing service, and "Buy American" policies. Importers that sold Chinese bicycles to IBDs cited non-price factors such as quality, componentry, service, technical assistance, warranty, and reputation of the producer.

Responding mass merchandiser purchasers[9] reported that availability, delivery time, product consistency, product quality, and supply reliability are very important factors in their sourcing decisions.

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[8] ***.

[9] The Commission received purchasers' questionnaire responses from *** mass merchandisers, ***; *** IBDs, ***; and one other firm, ***.

Three of seven mass merchandisers reported that lowest price, delivery terms, and transportation costs were very important factors, while four reported that these were somewhat important factors.

Comparison of Domestic Bicycles and Imported Chinese Bicycles

A little over half of the volume of LTFV bicycle sales during 1995 were to the mass merchandiser channel while most of the remaining sales were to the IBD channel.[10] By value, however, the majority of LTFV bicycle sales were to the IBD and "all other channels." Substitutability between U.S.-produced bicycles and imported Chinese bicycles is lower in the IBD channel than in the mass merchandiser channel. There is some evidence of a limited degree of substitutability among bicycles sold in the mass merchandise, IBD, and other market segments. ***.[11]

Retailer Sourcing Patterns

The vast majority of U.S. producers' sales of bicycles were to mass merchandisers while sales by importers of Chinese LTFV bicycles were more evenly split between sales to mass merchandisers and sales to IBDs and others. During 1995, U.S. producers sold 7.9 million bicycles to mass merchandisers and 648,475 bicycles to IBDs, while importers of LTFV Chinese bicycles sold 808,216 bicycles to mass merchandisers and 542,011 bicycles to IBDs.

Figures II-1 to II-3 show 1995 sales of U.S.-produced and imported LTFV Chinese juvenile and adult bicycles, by market segment and price range (in units). The greatest amount of overlap between sales of U.S.-produced and imported Chinese bicycles occurs in the mass merchandiser market segment, for sales of the lower-priced (up to $100) juvenile bicycles and lower-priced (up to $150) adult bicycles. U.S. producers' sales to the IBD market segment are concentrated in the higher-priced (over $250) adult bicycle category, whereas IBD sales of imported Chinese bicycles occur mainly in the middle price ranges ($101-$250) of the adult bicycle category.

Figure II-1
Shipments of U.S.-produced and imported Chinese juvenile and adult bicycles to mass merchandisers, by price ranges, 1995

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Figure II-2
Shipments of U.S.-produced and imported Chinese juvenile and adult bicycles to IBDs, by price ranges, 1995

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Figure II-3
Shipments of U.S.-produced and imported Chinese juvenile and adult bicycles to all others, by price ranges, 1995

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[10] In 1995, sales of LTFV Chinese bicycles by channel of distribution were as follows: 56.8 percent to mass merchandisers, 38.1 percent to IBDs, and 5.1 percent to all other.

[11] Toys "R" Us prehearing brief, ex. 2.

Purchase Factors

Within the basic characteristics of wheel size, type, and number of speeds, there is a wide range of makes and models available, distinguished by brand name, styling characteristics, component makeup, fabrication techniques, weights, and price. No two manufacturers produce completely identical bicycles, and they further differ in the range of product offered. Collectively, however, U.S. producers and importers of Chinese bicycles supply nearly all current basic bicycle types and wheel sizes.

However, both U.S. producers and importers cited factors which limit substitutability in the IBD market. Responding U.S. IBD producers maintained that U.S.-produced bicycles are lighter-weight and have better-quality finishes than imported Chinese bicycles. Most importers of Chinese bicycles for the IBD market maintained that non-price differences were important. Cited advantages of the imported Chinese bicycles sold to IBDs include better paint and graphic application; better frame welds, frame design, and componentry; better brand reputation and recognition; proximity to the supply of components used by both U.S. and foreign producers; and a larger range of available sizes. Several importers noted that U.S. producers have the value-added advantage of using "Made-in-America" terminology in their advertising efforts.

Several factors also somewhat limit substitutability between U.S.-produced bicycles and Chinese bicycles in the mass merchandise market.[12] These include "Buy American" preferences, licensing, and lead times.

Domestic producers have an advantage with mass merchandiser customers that have bought "Made-in-America" products in recent years, such as Wal-Mart, K-Mart, and Sears. Huffy, Murray, and Roadmaster reported sales of approximately 10.4 million bicycles that were associated with retailers' "Buy American" policies. These "Buy American" sales accounted for 27.9 percent of U.S. producers' domestic shipments during 1992-95.

The advantage of U.S.-produced bicycles most often cited by mass merchandisers was shorter lead times. Other advantages cited by mass merchandisers include service and advertising, warehousing, and "Made in the USA." Four mass merchandisers cited price as an advantage of Chinese imports. Other advantages cited were overall reliability, licenses, and the fact that the mass merchandiser can create its own look.[13]

Purchasers were asked how much higher the price of Chinese bicycles would have had to have been before they would have purchased U.S.-produced bicycles. The responding mass merchandisers and the percent higher that each stated that the Chinese bicycles would have had to have been are as follows: ***.

Comparison of Domestic Bicycles and Imported Chinese Bicycles to Bicycles Imported from Nonsubject Countries

Taiwan is by far the largest nonsubject source of bicycles sold in the U.S. market. Imports from Taiwan accounted for 47.4 percent of total U.S. imports of bicycles during 1992-95. The vast majority of

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[12] U.S. producers of bicycles for the mass merchandiser market maintain that U.S.-produced and imported Chinese bicycles are not significantly differentiated by factors other than price. *** allows that U.S. manufacturers offer shorter delivery lead times, but maintains that this advantage is minimized by importers who are warehousing imported goods in U.S. warehouses.

Importers of Chinese bicycles for the mass merchandiser market were split in their opinions of the importance of non-price factors. Cited advantages of the imported Chinese bicycles sold to the mass market include availability of models not produced in the United States; more features and specification options; lower minimum quantity requirements; broader product range; and better marketing service.

[13] Toys "R" Us, the largest mass merchandiser purchaser of bicycles, ***. ***.

imported Taiwan bicycles are sold to the IBD market segment. Within the IBD segment, there is some substitutability between Taiwan and Chinese bicycles. However, overall substitutability between Taiwan and Chinese bicycles is somewhat limited since few Taiwan bicycles are sold in the mass merchandise market.

U.S. producers and importers of Chinese bicycles reported that non-price differences between bicycles imported from Taiwan, those imported from China, and those produced in the United States were not a significant factor in the U.S. bicycle market.

ELASTICITY ESTIMATES

This section discusses the elasticity estimates used in the COMPAS analysis (appendix D).

U.S. Supply Elasticity[14]

The domestic supply elasticity for bicycles measures the sensitivity of quantity supplied by U.S. producers to a change in the U.S. market price of bicycles. The elasticity of domestic supply depends on several factors including U.S. producers' level of excess capacity, the ease with which U.S. producers can alter productive capacity, the existence of inventories, and the availability of alternate markets for U.S.-produced bicycles.[15] Analysis of these factors indicates that, overall, U.S. producers have the flexibility to substantially alter their supply of bicycles in response to relative changes in the demand for their product; thus, the domestic supply elasticity is estimated to be high, or in the range of 5 to 10.

Only the Coalition respondents commented on supply elasticity. They stated that "substantial excess capacity in the mass market industry suggests that supply elasticity is highly elastic to price."[16]

U.S. Demand Elasticity

The U.S. demand elasticity for bicycles measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of bicycles. This estimate depends on factors such as the existence, availability, and commercial viability of substitute products, as well as the extent to which bicycles are a deferable purchase. Based on available information the demand elasticity for bicycles is believed to be in the range of -0.75 to -1.25. Purchasers would likely be somewhat sensitive to changes in the price of bicycles.

Only the Coalition respondents commented on demand elasticity. They stated that "the recreational nature of the product, the price tag, and the plethora of substitutes, e.g., in-line skates, computer games, etc., indicate that demand is elastic to price."

Substitution Elasticity[17]

The elasticity of substitution largely depends upon the degree to which the U.S. bicycle market is segmented, the degree to which there is an overlap of competition between U.S.-produced and imported

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

[15] Domestic supply response is assumed to be symmetrical for both an increase and a decrease in demand for the domestic product. Therefore, factors opposite to those resulting in increased quantity supplied to the U.S. market result in decreased quantity supplied to the same extent.

[16] Coalition respondents' posthearing brief, ex. A, p. 5.

[17] The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the U.S. like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject imported product (or vice versa) when prices change.

Chinese bicycles within the market segments, and product differentiation. Product differentiation, in turn, depends on such factors as physical composition (e.g., frame composition, paint finish, componentry, etc.) and conditions of sale (e.g., delivery lead times, reliability of supply, standard minimum quantity requirements, product service, product range, etc.).

Based on available information discussed earlier, the elasticity of substitution between domestic and imported bicycles is likely to be between 2 and 4.[18] Because nearly 40 percent of the quantity (and a larger percentage by value) of Chinese bicycles found to be sold at LTFV are sold in the IBD channel, the elasticity of substitution is likely to be at the lower end of this range. The elasticity of substitution between domestic and imported nonsubject bicycles and the elasticity of substitution between imported Chinese and imported nonsubject bicycles should also be between 2 and 4.

Petitioners stated that the elasticity of substitution between domestic product and subject imports is higher than 2 to 4 and that the elasticity of substitution between subject and nonsubject imports is lower than that of domestic versus subject imports.[19] They argue that U.S. producers offer models at every price point and that there is a high degree of substitution "at each point along the price/quality continuum for shipments to the mass merchant channel as well as the low end of the IBD channel which is in direct competition with the mass merchant channel."

The Coalition respondents stated that two factors limit substitution in the mass merchant market. First, they stated that "imported mass market bikes tend to be feature and color differentiated step-up models, while U.S.-produced mass market bikes tend to cluster at the opening price point level." Second, they stated that licensing differentiates U.S. and imported bicycles. They stated that IBD bicycles from China are complementary products to U.S. IBD bicycles because they round out the U.S. producers' IBD lines.

They "conservatively" estimate an elasticity of substitution of 4 for Chinese and U.S. mass market bicycles and 0 for all Chinese and U.S. IBD bicycles. Therefore, they stated that the maximum aggregate elasticity of substitution for all Chinese and U.S.-produced bicycles is 2. They further stated that if a mass market substitution elasticity of 2 is assumed, then the aggregate substitution is 1.

Dynacraft respondents[20] estimated the elasticity of substitution between U.S.-produced bicycles and Chinese bicycles to be 2 due to product differentiation based on the large number of models with varying features and licensing, differences in terms and conditions of sale (including lead times, preference for "Made in America," reliability of importers in meeting contractual obligations, and willingness of Chinese importers to accept smaller orders than U.S. producers and "specialize" the product for small orders), and the fact that a much greater share of subject imports vs. domestic bicycles is shipped through the IBD channel.[21] They further estimate the elasticity of substitution between subject and nonsubject imports to be 4. This higher estimate is because Dynacraft "dual-sources some of its most popular models from its suppliers in China and in Taiwan."

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[18] Kenneth Reinert and David Roland-Holst estimate the elasticity of substitution for the broader category of motorcycles, bicycles, and parts imported from all countries to be between 1.46 and 2.00. Roland-Holst, D.W., and Reinert, K. A., (1992) Disaggregated Armington Elasticities for the Mining and Manufacturing Sectors of the United States. Journal of Policy Modeling 14: 1-9.

[19] Petitioners' posthearing brief, pp. 37-39.

[20] Dynacraft imports bicycles from Chitech, an exporter that was found to be trading at fair value.

[21] Dynacraft's prehearing brief, p. 9 and pp. 33-37.

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 margin of dumping was presented earlier in this report and information on 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 seven firms that accounted for virtually all of U.S. production of bicycles during 1995.

U.S. PRODUCERS

The three mass merchandiser producers, Huffy, Murray, and Roadmaster, accounted for 91.0 percent of bicycle production during 1995 (table III-1). All three offer a relatively complete line of bicycle models and sizes, generally ranging in price from $50 to $250 suggested retail. They sell primarily to the high-volume mass merchandisers such as K-Mart, Wal-Mart, Target, Toys "R" Us, and Sears. Accounting for 9.0 percent of bicycle production during 1995, the four IBD producers--Cannondale, GT, Raleigh, and Trek--produce a complete line of bicycle models and sizes concentrated in the higher end of the market, with prices generally ranging from $200 to over $3,000 suggested retail. They sell primarily to the 6,500 independent bicycle dealers around the country.

In addition to these seven producers, there are a number of producers of custom-made bicycles located primarily on the West Coast, at least two producers of recumbent bicycles, and at least one producer of industrial bicycles. Although their share of overall U.S. production is very small, these producers serve niche markets that are not otherwise served by either U.S. or Chinese sources.

Mass Merchandiser Producers

Huffy

Accounting for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the mass merchandiser channel during 1995, Huffy is the largest producer of bicycles in the United States. Until 1994, Huffy produced a complete line of bicycles at its factory in Celina, OH. ***, Huffy opened a more efficient manufacturing facility in Farmington, MO, in September 1994.[1] ***.[2]

Huffy's bicycles are predominately sold to mass merchandiser retailers, with Wal-Mart, Toys "R" Us, K-Mart, Target, and Sears all being significant purchasers. Huffy also sold *** percent of its shipments to sporting goods chains and discount warehouse clubs. Over 90 percent of Huffy's bicycles are sold under the Huffy brand name, with the balance sold under private label brands.[3] Huffy imported *** from China during 1995.[4] ***.

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[1] The facility reportedly cost $***.

[2] ***.

[3] Huffy's 1995 annual report, p. 4.

[4] Huffy's imports accounted for *** percent of its U.S. shipments and *** percent of total LTFV imports from China during 1995.

Table III-1
Bicycles: U.S. producers, locations of producing facilities, positions on petition, and shares of U.S. production in 1995

Channel and firm	Location	Position on petition	Share of U.S. total production	Share of U.S. mass production	Share of U.S. IBD production
			----------(*percent*)----------		
Mass merchandiser producers:					
Huffy	Celina, OH Farmington, MO	Supports	***	***	***
Murray	Lawrenceburg, TN	Supports	***	***	***
Roadmaster	Olney, IL Effingham, IL Delavan, WI	Supports	***	***	***
IBD producers:					
Cannondale	Bedford, PA	***	***	***	***
GT	Santa Ana, CA	Opposes	***	***	***
Raleigh	Kent, WA	***	***	***	***
Trek	Waterloo, WI Whitewater, WI	***	***	***	***

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

Murray

Murray of Brentwood, TN, a wholly-owned subsidiary of Tomkins PLC of London, England, produces a complete line of children's and adult bicycles at its factory in Lawrenceburg, TN. Murray accounted for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the mass merchandiser channel during 1995. In addition to bicycles, Murray produces riding and walking lawnmowers at the Lawrenceburg facility. ***.[5]

During the period for which data were collected, Murray primarily sold its bicycles to mass merchandiser retailers, although it also sold a few bicycles under the Spectra line to the IBD market during 1992-94. ***. Murray also reported that about *** percent of its sales were to hardware stores and small independent retailers. About *** percent of Murray's sales are "exclusive labels" that it manufactures for the large mass merchandiser retailers. Under these arrangements, the manufacturer and retailer sign written agreements in which the manufacturer agrees to exclusively supply a particular label to one customer which in turn agrees not to source that bicycle from any other supplier.[6]

[5] ***.

[6] ***.

Roadmaster

Roadmaster of Olney, IL, produces a full line of children's bicycles and adult MTBs at three factories located in Olney, IL; Effingham, IL; and Delavan, WI.[7] Roadmaster accounted for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the mass merchandiser channel during 1995. During the period for which data were collected, Roadmaster's shipments of bicycles ***. Roadmaster had historically focused on the children's market, but in 1991 it began to pursue a growth strategy which included the production of adult MTBs. ***.[8] Adult MTBs accounted for *** percent of Roadmaster's total shipments in 1995 compared to *** percent of its total shipments in 1992. ***.

Roadmaster sells its bicycle line primarily to the large mass merchandisers such as Wal-Mart, Toys "R" Us, and Target. Accounting for *** percent of its sales during 1995, *** is Roadmaster's largest purchaser.[9] ***. In addition to its sales to the mass merchandiser market, Roadmaster sold *** percent of its bicycles to sporting good chains and *** percent to discount warehouse clubs in 1995.

IBD Producers

Cannondale

Accounting for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the IBD channel during 1995, Cannondale of Georgetown, CT, produces its complete line of mid- to high-end bicycles, all of which feature aluminum frames, at its factory in Bedford, PA. Cannondale is the only IBD producer to domestically produce all of its product line; it does not source any of its bicycles from foreign operations. Cannondale's production consists primarily of bending and cutting the aluminum used in the frames, welding and painting the frames, and assembling the remaining components to the frames. In addition to bicycle production, Cannondale has recently developed its own private line of components (cranks, bottom brackets, chain rings, wheel hubs, brakes, handlebars, and grips) under the CODA (Cannondale Original Design Application) brand. Cannondale currently sources about 20 percent of its componentry needs in-house; in 1992 almost all of the non-frame components were supplied by outside manufacturers.[10]

With suggested retail prices ranging from $380 to over $3,000, Cannondale primarily supplies the mid- to high-end segments of the IBD channel. During 1996, Cannondale offered over 50 models, of which 23 were MTBs, 11 were lightweight road, 7 were hybrid/cross, and 9 were specialty and juvenile bicycles.[11] One of the distinguishing features found on all Cannondale bicycles is the wide diameter aluminum frame. In fact, Cannondale's marketing strategies are centered on the company's status as a "premier" aluminum bicycle brand. Cannondale distributes its products only through the IBD channel, selling to about 1,200 retailers in 1995. With exports ***, Cannondale has two company-owned sales subsidiaries in Europe and Japan. Both companies are primarily selling and distribution centers, with the facility in Europe doing some assembly of frames and forks that were produced in the United States.[12]

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[7] In March 1996, Roadmaster announced an indefinite shutdown of bicycle production at its factory in Opelika, AL. The factory accounted for about *** percent of Roadmaster's production during 1995 (hearing transcript, p. 41; ***).

[8] ***.

[9] Staff telephone interview, ***.

[10] *Cannondale Corporation*, Montgomery Securities, p. 2.

[11] Cannondale's 1995 annual report, pp. 1-2.

[12] *Cannondale Corporation*, Montgomery Securities, p. 6.

GT

Accounting for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the IBD channel during 1995, GT produces many of its premium-priced mountain, juvenile BMX, and road bicycles, as well as some of its mid-priced juvenile BMX bicycles, at its Santa Ana, CA, facility. GT's remaining bicycles are manufactured to GT's specifications by independent factories in Taiwan and China. In terms of quantity, *** percent of GT's total shipments during 1995 were produced at foreign factories, of which *** percent were produced in China.[13] Although GT has established relationships with its principal suppliers and manufacturing sources, it has no long-term contracts with these suppliers and competes with other companies for their production capacities. To ensure quality and reliability at these foreign factories, GT employs field engineers and independent representatives to oversee their manufacturing operations. During the period for which data were collected, GT sourced bicycles from *** Taiwanese and *** Chinese manufacturers.[14] ***.[15] ***.[16]

Founded in 1979 as a juvenile BMX bicycle manufacturer, GT has become the largest supplier of BMX bicycles to the IBD market. During 1996, GT offered 48 juvenile BMX bicycle models ranging from $229 to $780 suggested retail under its *GT*, *Dyno*, *Robinson*, *Auburn*, and *Powerlite* brand names. GT expanded into the MTB market in 1984 and has since developed a complete line of MTBs, including non-, front-, and full-suspension MTBs with a variety of frame compositions, including chromoly, aluminum, titanium, and thermal plastic. Currently, GT offers 37 MTBs ranging from $280 to $3,400 suggested retail under its *GT all terra* brand name. In addition to the BMX and MTB lines, GT also sells 14 road and specialty bicycle models. GT's bicycles are primarily sold through its Riteway distribution network to independent bicycle dealers throughout the United States. Riteway has four warehouses located in Santa Ana, CA; St. Louis, MO; Cheektowaga, NY; and Sheboygan, WI.

Raleigh

Raleigh of Kent, WA, a wholly-owned subsidiary of Derby International Corp., S.A. of Luxembourg, accounted for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the IBD channel during 1995. ***.[17]

***.[18] ***.[19] As noted in appendix E, Raleigh reported that its production functions contribute *** percent to the value of a Raleigh M20 (26-inch MTB).

Raleigh sells a full line of bicycles under the *Raleigh*, *Nishiki*, and *Cycle Pro* brands, with suggested retail prices ranging from $*** to $***. The majority of Raleigh's bicycle shipments are MTBs, with hybrid/cross and lightweight road bicycles each comprising about *** percent. Although the vast majority of Raleigh's sales are in the IBD market, it does sell about *** percent of its bicycles to sporting goods chains,

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[13] In terms of value, *** percent of GT's total shipments during 1995 were produced at foreign factories, of which *** percent were produced in China.

[14] ***.

[15] ***.

[16] ***.

[17] ***.

[18] ***.

[19] ***.

such as Sports Authority and Sports Town. It requires that the retailers have a qualified mechanic who can make adjustments and repairs.[20]

Trek

Trek, a wholly-owned subsidiary of Intrepid Corp., is *** of bicycles to the IBD market. It accounted for *** percent of total U.S. production of bicycles and *** percent of U.S. production in the IBD channel during 1995. Until mid-1995, Trek produced its more expensive steel, aluminum, and bonded carbon fiber bicycles in Waterloo, WI, and imported its low- to mid-priced bicycles from *** Taiwan manufacturers, ***.[21] During 1995, *** percent of Trek's U.S. shipments were imported from Taiwan. To reduce its dependence on these Taiwan factories, Trek built a new factory in Whitewater, WI, which opened in August 1995. The $6.8 million factory produces Trek's mid-priced, TIG-welded steel bicycles, ***. ***.[22]

During the period for which data were collected, Trek acquired three bicycle manufacturers: Gary Fisher Bicycle of San Rafael, CA, in 1993; Bontrager Cycle of Santa Cruz, CA, in March 1995; and Klein Bicycle of Chehalis, WA, in June 1995. With these recent acquisitions, Trek can reportedly offer more brands to a larger number of IBD stores and thus increase its presence in this market. ***.[23]

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

As indicated in table III-2 and figure III-1, total U.S. producers' average-of-period capacity to produce bicycles increased steadily during 1992-95. This increase in capacity was primarily a result of the addition of two factories by the mass merchandiser producers, Huffy and Roadmaster. ***.[24] ***. Production by the three mass merchandiser producers increased in 1993 but fell in both 1994 and 1995. ***. Capacity, production, and capacity utilization data for the mass merchandiser producers are presented in table III-3.

The IBD producers' capacity and production increased during 1992-95 (table III-4). ***. Trek opened a new factory in Whitewater, WI, during 1995 to produce mid-priced MTBs once produced by Giant in Taiwan. ***. During 1995, Cannondale offered more than 50 models compared to 23 in 1992.[25]

U.S. PRODUCERS' SHIPMENTS

Total U.S. producers' U.S. shipments, in terms of quantity, increased in 1993, declined slightly in 1994, then fell in 1995 to about the 1992 level (table III-2). Figure III-2 illustrates the trends in U.S. shipments and unit values of bicycles shipped to the mass merchant and IBD channels during 1992-95. ***. Accounting for less than 2 percent of total shipments, exports were not significant in the mass merchandiser market.

*** IBD producers reported increases in U.S. shipments during 1992-95. Accounting for 25.8 percent of total IBD shipments during 1992-95, exports were significant ***. Their major export markets were Europe, Japan, and South America.

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[20] ***.

[21] ***

[22] ***.

[23] ***.

[24] Petitioners' postconference brief, att. 2.

[25] Cannondale's 1995 annual report, p. 1.

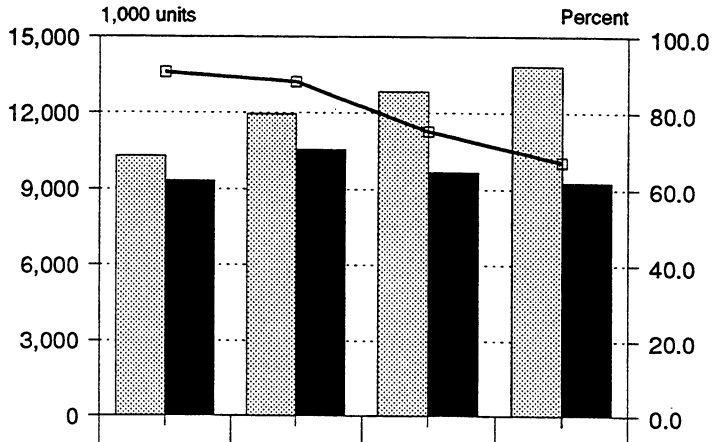
Table III-2
Bicycles: U.S. capacity, production, shipments, inventories, and employment data, 1992-95

(Quantity in 1,000 units and value in 1,000 dollars)

Item	1992	1993	1994	1995
Average-of-period capacity (*quantity*)	10,285	11,964	12,856	13,824
Production (*quantity*)	9,333	10,555	9,666	9,277
Capacity utilization (*percent*)	90.7	88.2	75.2	67.1
U.S. shipments:				
Quantity	9,096	9,708	9,682	9,012
Value	757,946	820,669	837,494	818,849
Unit value	$83.33	$84.54	$86.50	$90.87
Exports:				
Quantity	253	359	302	308
Value	64,482	71,159	77,087	80,970
Unit value	$255.06	$198.31	$254.94	$262.51
Total shipments:				
Quantity	9,349	10,067	9,985	9,320
Value	822,428	891,828	914,581	899,819
Unit value	$87.97	$88.59	$91.60	$96.55
Inventories (*quantity*)	533	1,005	707	669
Ratio of inventories to total shipments (*percent*)	5.7	10.0	7.1	7.2
Average number of PRWs	5,076	5,920	6,313	5,887
Hours worked by PRWs (*1,000 hours*)	10,375	12,173	12,319	12,446
Wages paid to PRWs (*value*)	109,457	124,223	123,843	117,590
Hourly wages paid to PRWs	$10.55	$10.20	$10.05	$9.45
Productivity (*units per 1,000 hours*)	899.60	867.06	784.62	745.40
Unit labor costs (*per unit*)	$11.73	$11.77	$12.81	$12.68

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

Figure III-1
Bicycles: U.S. capacity, production, and capacity utilization, 1992-95



	1992	1993	1994	1995
Capacity	10,285	11,964	12,856	13,824
Production	9,333	10,555	9,666	9,277
Cap. utilization (%)	90.7	88.2	75.2	67.1

Source: Table III-2.

U.S. PRODUCERS' INVENTORIES

U.S. producers' U.S. inventories nearly doubled from 1992 to 1993 but fell during 1993-95 (table III-2). The three mass merchandiser producers largely accounted for the increase in 1993 inventories (table III-3). Their ratio of inventories to shipments increased from 4.9 percent in 1992 to 9.5 percent in 1993, ***. The ratio of inventories to shipments improved to 6.6 percent in 1994 and was 6.8 percent in 1995.

The IBD producers' total inventories fluctuated only slightly during 1992-95, but their aggregate ratio of inventories to shipments declined sharply from 23.0 percent in 1992 to 11.2 percent in 1995 (table III-4). In general, the IBD producers carry more inventory relative to their shipments than do the mass merchandisers because the IBD producers sell to a larger number of smaller retailers that do not have much inventory capability and they produce a broader range of models with many more frame sizes. All of the IBD producers have regional storage facilities that supply a full line of bicycle models. The mass merchandiser producers sell primarily from their plant locations, with warehousing onsite.

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

U.S. producers' employment data are presented in table III-2. In the aggregate, employment trends for the U.S. producers are mixed. The average number of PRWs increased from 1992 to 1994 before declining during 1994-95, while their hours worked increased during 1992-95. Average hourly wages and productivity declined during 1992-95. ***. The mass merchandiser producers' hourly wages paid to PRWs fell from $11.23 in 1992 to $9.69 in 1995, ***.

The IBD producers' employment data were generally favorable; the average number of PRWs, hours worked by PRWs, and wages paid to PRWs increased during 1992-95 (table III-4). *** IBD producers

Table III-3
Bicycles shipped to mass merchandisers: U.S. capacity, production, shipments, inventories, and employment data, 1992-95

(Quantity in 1,000 units and value in 1,000 dollars)

Item	1992	1993	1994	1995
Average-of-period capacity (*quantity*)	9,672	11,302	12,114	12,906
Production (*quantity*)	8,886	10,073	9,087	8,447
Capacity utilization (*percent*)	91.9	89.1	75.0	65.4
U.S. shipments:				
Quantity	8,805	9,376	9,247	8,363
Value	633,594	689,908	669,704	586,313
Unit value	$71.96	$73.58	$72.43	$70.11
Exports:				
Quantity	145	226	132	128
Value	12,858	16,295	10,145	8,892
Unit value	$88.77	$72.14	$76.90	$69.63
Total shipments:				
Quantity	8,950	9,602	9,379	8,491
Value	646,452	706,203	679,849	595,205
Unit value	$72.23	$73.55	$72.49	$70.10
Inventories (*quantity*)	441	912	620	577
Ratio of inventories to total shipments (percent)	4.9	9.5	6.6	6.8
Average number of PRWs	4,125	4,934	5,193	4,549
Hours worked by PRWs (*1,000 hours*)	8,319	10,082	10,123	9,844
Wages paid to PRWs (*value*)	93,406	107,180	105,826	95,434
Hourly wages paid to PRWs	$11.23	$10.63	$10.45	$9.69
Productivity (*units per 1,000 hours*)	1,068.17	999.06	897.69	858.08
Unit labor costs (*per unit*)	$10.51	$10.64	$11.65	$11.30

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

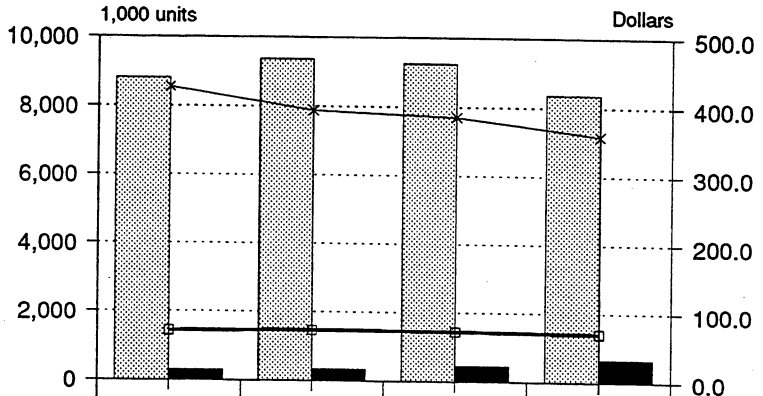
Table III-4
Bicycles shipped to IBDs: U.S. capacity, production, shipments, inventories, and employment data, 1992-95

(Quantity in 1,000 units and value in 1,000 dollars)

Item	1992	1993	1994	1995
Average-of-period capacity (*quantity*)	614	662	742	918
Production (*quantity*)	447	482	578	830
Capacity utilization (*percent*)	72.9	72.8	78.0	90.4
U.S. shipments:				
Quantity	291	332	436	648
Value	124,352	130,761	167,790	232,536
Unit value	$427.52	$394.20	$385.14	$358.59
Exports:				
Quantity	108	133	170	181
Value	51,624	54,864	66,942	72,078
Unit value	$478.16	$412.66	$392.75	$398.79
Total shipments:				
Quantity	399	465	606	829
Value	175,976	185,625	234,732	304,614
Unit value	$441.23	$399.48	$387.28	$367.35
Inventories (*quantity*)	92	94	87	93
Ratio of inventories to total shipments (*percent*)	23.0	20.2	14.3	11.2
Average number of PRWs	951	986	1,120	1,338
Hours worked by PRWs (*1,000 hours*)	2,056	2,091	2,196	2,602
Wages paid to PRWs (*value*)	16,051	17,043	18,017	22,156
Hourly wages paid to PRWs	$7.81	$8.15	$8.20	$8.51
Productivity (*units per 1,000 hours*)	217.53	230.60	263.42	319.10
Unit labor costs (*per unit*)	$35.89	$35.35	$31.15	$26.68

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

Figure III-2
Bicycles: U.S. shipments and unit values of bicycles shipped to the mass merchant (MM) and IBD channels, 1992-95



	1992	1993	1994	1995
MM shipments	8,805	9,376	9,247	8,363
IBD shipments	291	332	436	648
MM unit values	72.0	73.6	72.4	70.1
IBD unit values	427.5	394.2	385.1	358.6

Source: Table III-3 and table III-4.

indicated increases in employment during 1995, which is consistent with their reported capacity additions for the same period. The IBD producers' productivity increased from 217.5 units per 1,000 hours in 1992 to 319.1 units per 1,000 hours in 1995. These productivity rates are low when compared to the mass merchandiser producers (858.08 per 1,000 hours in 1995), primarily because of the lack of automation in the fabrication of frames and forks in IBD bicycles and the need to produce many more models and frame sizes.

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

U.S. IMPORTERS

Questionnaires were sent to 49 firms named in the petition and in the Customs Net Import File as importing bicycles. Forty-two responded to the Commission's request for information, accounting for about 80 percent of LTFV imports and 92 percent of total imports from China during 1995. Four U.S. producers imported bicycles from China during the period for which data were collected. In each case, the producer's imports accounted for a small share of LTFV imports from China; GT's imports from *** accounted for *** percent of total LTFV imports from China during 1995, Raleigh's imports from *** accounted for *** percent,[1] and Huffy's imports accounted for *** percent.[2] Trek imported from ***, but it was determined not to be selling LTFV imports.

Similar to the U.S. producers, the importers tend to sell primarily to either the mass merchandiser or the IBD market, although four importers reported that they sell to both.[3] In addition to their sales to the mass merchandiser and IBD markets, seven reported some sales to discount warehouse clubs and sporting goods chains. Three additional importers reported sales only to discount warehouse clubs, sporting good chains, or auto wholesale stores. The names of the largest importers, their locations, their bicycle brands, and their shares of LTFV imports in 1995 are presented in table IV-1.

Mass Merchandiser Importers

Of the 28 responding importers of Chinese bicycles, eight sell to the mass merchandiser market, primarily to Toys "R" Us and Target. Wal-Mart has adhered to a strict Buy America policy for bicycles, and K-Mart and Sears have strong Buy America preferences, and thus have sold only minimal quantities of imported bicycles during the period for which data were collected. Toys "R" Us, the largest bicycle retailer in the United States, primarily sources its imported bicycle lines from six importers, ***. ***.[4] The mass merchandiser importers accounted for about 61 percent of total reported LTFV imports from China during 1995. ***.[5]

IBD Importers

The large importers in the IBD market, such as Western States, Specialized Bicycle Components (Specialized), and Schwinn, own their own brands and, although their bicycles are produced in foreign factories, they are responsible for the design, marketing, and testing. Although the companies generally have established relationships with their principal suppliers and manufacturing sources, ***. To ensure quality and reliability at these foreign factories, ***. Accounting for *** percent of Chinese LTFV imports shipped

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[1] ***.

[2] ***.

[3] ***.

[4] ***.

[5] Chitech is the Hong Kong trading company for the Chinese bicycle manufacturer, Shun Lu Bicycle Co. (Shun Lu). ***.

Table IV-1
Bicycles: U.S. importers, locations, supplying brands, and shares of LTFV and total imports from China in 1995

Firm	Location	Bicycle brands	Share of total LTFV imports[1]	Share of LTFV MM imports[2]	Share of LTFV IBD imports[2]	Share of total imports[3]
Mass merchandiser importers:						
Diversified	McFarland, WI	Pacific	***	***	***	***
Dynacraft	Ashland, MA	Magna	***	***	***	***
Huffy	Miamisburg, OH	Huffy	***	***	***	***
Kent	Parsippany, NJ	Kent	***	***	***	***
Pinnacle	Jersey City, NJ	Pinnacle	***	***	***	***
Rand	Farmingdale, NY	Rand	***	***	***	***
Royce Union	Hauppauge, NY	Royce Union	***	***	***	***
Target	Minneapolis, MN	([4])	***	***	***	***
IBD importers:						
Schwinn	Boulder, CO	Schwinn	***	***	***	***
Specialized	Morgan Hill, CA	Specialized	***	***	***	***
Taiwan Trading	Elk Grove, IL	TT	***	***	***	***
Western States	Camarillo, CA	Diamondback	***	***	***	***

[1] The shares of total LTFV imports are calculated using official import statistics adjusted to exclude non-LTFV suppliers.
[2] The shares of LTFV imports shipped to the mass merchandiser and IBD markets are calculated using questionnaire responses submitted to the Commission.
[3] The shares of total imports are calculated using official import statistics.
[4] ***.

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

to the IBD market, Western States is ***. It sells these bicycles under the *Diamondback* brand. ***.[6] In addition to Western States, the other major IBD importers, ***, also import bicycles from ***. In fact, *** was the primary supplier of LTFV imports shipped to the IBD market during the period for which data were collected. All of the major IBD importers also reported significant imports of bicycles from Taiwan suppliers.

U.S. IMPORTS

U.S. imports of bicycles are presented in table IV-2 and figure IV-1. Since the Commission received questionnaire responses accounting for about 80 percent of LTFV imports and 92 percent of total imports from China and the HTS subheadings cover all of the subject merchandise in this investigation, data in this section regarding the quantity and value of U.S. imports of bicycles are based on official U.S. import statistics adjusted for fair value imports. Commerce determined that six Chinese producers were not selling

[6] ***.

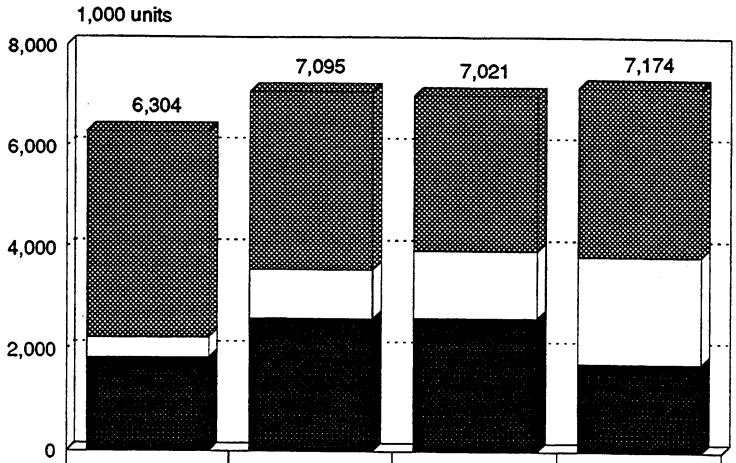
Table IV-2
Bicycles: U.S. imports, by sources, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
China (LTFV)	1,747	2,501	2,546	1,650
Hong Kong	104	112	91	95
Subtotal	1,852	2,614	2,637	1,746
China (fair value)	393	964	1,323	2,113
Taiwan	3,721	3,395	2,944	3,014
Other sources	337	122	116	301
Total	6,304	7,095	7,021	7,174
	Value (*1,000 dollars*)			
China (LTFV)	74,693	125,762	130,041	109,067
Hong Kong	8,516	9,315	6,381	7,084
Subtotal	83,209	135,078	136,422	116,151
China (fair value)	25,134	59,012	84,881	121,236
Taiwan	390,201	400,381	371,412	430,427
Other sources	43,810	22,778	15,428	25,771
Total	542,355	617,249	608,142	693,585
	Unit value (*per unit*)			
China (LTFV)	$42.74	$50.28	$51.07	$66.08
Hong Kong	81.56	82.91	70.43	74.30
Subtotal	44.93	51.68	51.73	66.53
China (fair value)	63.92	61.21	64.14	57.37
Taiwan	104.85	117.94	126.15	142.83
Other sources	129.98	186.43	133.23	85.52
Total	86.04	87.00	86.62	96.68
	Share of total quantity (*percent*)			
China (LTFV)	27.7	35.3	36.3	23.0
Hong Kong	1.7	1.6	1.3	1.3
Subtotal	29.4	36.8	37.6	24.3
China (fair value)	6.2	13.6	18.9	29.5
Taiwan	59.0	47.8	41.9	42.0
Other sources	5.3	1.7	1.6	4.2
Total	100.0	100.0	100.0	100.0
	Share of total value (*percent*)			
China (LTFV)	13.8	20.4	21.4	15.7
Hong Kong	1.6	1.5	1.0	1.0
Subtotal	15.3	21.9	22.4	16.7
China (fair value)	4.6	9.6	14.0	17.5
Taiwan	71.9	64.9	61.1	62.1
Other sources	8.1	3.7	2.5	3.7
Total	100.0	100.0	100.0	100.0

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

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

Figure IV-1
Bicycles: U.S. imports, by sources, 1992-95



	1992	1993	1994	1995
Other sources	4,059	3,517	3,061	3,315
China (fair value)	393	964	1,323	2,113
China (LTFV)	1,852	2,614	2,637	1,746

Source: Table IV-2.

bicycles at LTFV. To account for these fair value imports from China, the Commission subtracted the imports from these suppliers from the import statistics. The information regarding U.S. imports is separated to reflect both LTFV and fair value imports from China. Because there are no known Hong Kong producers, it is believed that all imports of bicycles from Hong Kong are of Chinese origin, and thus imports from Hong Kong are included in the China LTFV subtotal.

Imports From China

LTFV imports of bicycles from China (including Hong Kong) increased by quantity from 1992 to 1994, but declined in 1995. ***. Fair value imports from China increased significantly during 1992-95. ***.

The average unit value of LTFV imports of bicycles from China (including Hong Kong), which were generally lower than the average unit values of U.S. imports from other countries, increased from $44.93 per bicycle in 1992 to $66.53 per bicycle in 1995. The average unit values of U.S. imports from Taiwan and other sources were generally higher because these imports were primarily sold in the U.S. IBD market. As a share of the total quantity of U.S. imports of bicycles from all sources, LTFV imports increased from 29.4 percent in 1992 to 37.6 percent in 1994, but fell to 24.3 percent in 1995.

U.S. Importers' Orders

The Commission requested importing firms to report orders for imports of bicycles that were delivered after December 31, 1995. Nine importers' responses revealed that 1.27 million bicycles from China had been scheduled for delivery through July 1996. ***.

APPARENT U.S. CONSUMPTION

Data on apparent U.S. consumption of bicycles based on U.S. producers' U.S. shipments as reported in questionnaires and imports as reported in official import statistics are shown in table IV-3 and figure IV-2. The quantity of apparent consumption increased from 1992 to 1993 but declined slightly between 1993 and 1995. The value of apparent consumption increased steadily during the period for which data were collected. Petitioners noted that the 1993 consumption of 16.8 million bicycles was the highest year for consumption in over a decade and even with the slight decrease in consumption during 1994-95, consumption reportedly remained at one of the highest levels ever.[7] The growth in the U.S. bicycle market is attributable to a number of factors, including the improvement of the economy, the introduction of the MTB, an increased interest in physical fitness, growing media coverage, and an increase in the number of bicycle paths and trails.

SHIPMENTS BY BICYCLE TYPE

Shipments by bicycle type for U.S. producers and U.S. importers of Chinese bicycles are presented in table IV-4 and figure IV-3.[8] In the U.S. market, there are six standard categories of bicycles: under 16-inch sidewalk bicycles, 16- and 20-inch BMX or hi-rise bicycles, 24- and 26-inch MTBs, 26-inch lightweight road bicycles, 26-inch hybrid/cross bicycles, and 26-inch middleweight or cruiser bicycles. The shipments of U.S. and Chinese bicycles were concentrated in the same product categories. Adult MTBs were the most significant market segment for U.S. producers and U.S. importers of Chinese bicycles. Since its introduction in the early 1980s, this market segment has shown tremendous growth, rising to almost 65 percent of the total market in 1994. During the period for which data were collected, the MTB segment also showed growth (U.S. producers' shipments increased during 1992-94 before declining slightly in 1995, while imports from China increased steadily). The U.S. producers' growth in this segment was primarily a result of ***.

The second largest segment was children's BMX and/or hi-rise bicycles. Accounting for 41.2 percent of total shipments, the U.S. producers' shipments in both the 16- and 20-inch markets fluctuated slightly from 1992 to 1994 but fell during 1994-95. ***.

The children's sidewalk bicycles and adult hybrid, road, and cruiser bicycles were less significant segments for both producers and importers. The shipments in these categories for both producers and importers were under 15 percent of the total.

U.S. MARKET SHARES

Market shares based on U.S. producers' shipments and U.S. imports are presented in table IV-5 and figure IV-4. As a share of total apparent U.S. consumption, based on quantity, LTFV imports of bicycles from China (including Hong Kong) increased from 12.0 percent in 1992 to 15.8 percent in 1994, but fell to 10.8 percent in 1995. In 1994, China surpassed Taiwan as the largest import source of bicycles in the United States. This is partly attributed to a growing number of Taiwan firms transferring their production to China in search of cheaper labor and transportation costs.

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[7] Petitioners' postconference brief, p. 18. Bicycle consumption during 1992-95 was reportedly 19 percent above consumption in the previous 4-year period (petitioners' posthearing brief, pp. 5-6).

[8] The data include shipments of fair value imports from China.

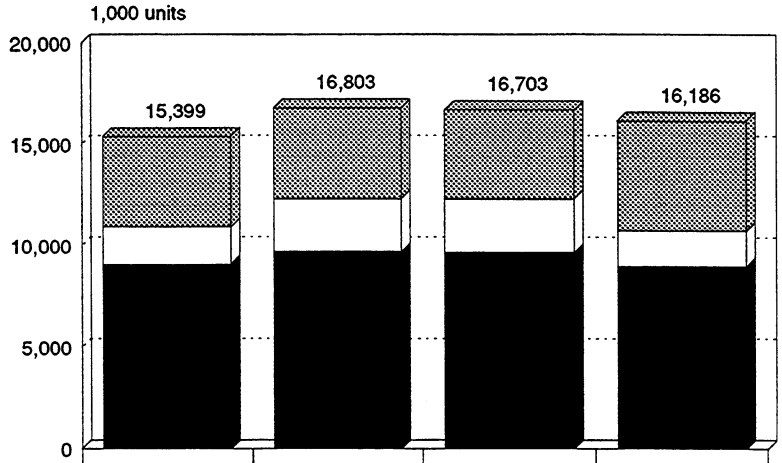
Table IV-3
Bicycles: U.S. shipments of domestic product, U.S. imports, by sources, and apparent U.S. consumption, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Producers' U.S. shipments	9,096	9,708	9,682	9,012
Importers' U.S. imports:				
China (LTFV)	1,747	2,501	2,546	1,650
Hong Kong	104	112	91	95
Subtotal	1,852	2,614	2,637	1,746
China (fair value)	393	964	1,323	2,113
Taiwan	3,721	3,395	2,944	3,014
Other sources	337	122	116	301
Total	6,304	7,095	7,021	7,174
Apparent consumption	15,399	16,803	16,703	16,186
	Value (*1,000 dollars*)			
Producers' U.S. shipments	757,946	820,669	837,494	818,849
Importers' U.S. imports:				
China (LTFV)	74,693	125,762	130,041	109,067
Hong Kong	8,516	9,315	6,381	7,084
Subtotal	83,209	135,078	136,422	116,151
China (fair value)	25,134	59,012	84,881	121,236
Taiwan	390,201	400,381	371,412	430,427
Other sources	43,810	22,778	15,428	25,771
Total	542,355	617,249	608,142	693,585
Apparent consumption	1,300,301	1,437,918	1,445,636	1,512,434

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

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and official statistics of the U.S. Department of Commerce.

Figure IV-2
Bicycles: U.S. shipments of domestic product, U.S. imports, by sources, and apparent U.S. consumption, 1992-95



	1992	1993	1994	1995
Other imports	4,451	4,481	4,384	5,428
China (LTFV)	1,852	2,614	2,637	1,746
U.S. producers	9,096	9,708	9,682	9,012

Source: Table IV-3.

U.S. MARKET SHARES BY CHANNELS OF DISTRIBUTION

Market shares for bicycles shipped to the mass merchandisers are presented in table IV-6 and figure IV-5, bicycles shipped to the IBDs in table IV-7 and figure IV-6, and bicycles shipped to other channels of distribution in table IV-8 and figure IV-7. Apparent consumption quantities and market shares were compiled from data submitted in response to Commission questionnaires and official import statistics.

Table IV-4
Bicycles: U.S. shipments of U.S. producers and U.S. shipments of U.S. importers of Chinese bicycles,[1] by types, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Under 16-inch bicycles:				
U.S. producers	227	278	325	267
Importers from China	110	217	292	260
16-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	1,625	1,577	1,730	1,554
Importers from China	274	463	502	418
Other 16-inch bicycles:				
U.S. producers	0	0	0	0
Importers from China	0	0	1	1
20-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	2,559	2,796	2,498	2,055
Importers from China	416	559	523	820
Other 20-inch bicycles:				
U.S. producers	0	0	0	0
Importers from China	1	6	17	14
24-inch bicycles:				
U.S. producers	1,037	1,098	883	937
Importers from China	67	147	304	451
26-inch and over mountain bicycles:				
U.S. producers	3,067	3,610	3,982	3,777
Importers from China	311	626	881	1,032
26-inch and over hybrid/cross bicycles:				
U.S. producers	233	101	48	59
Importers from China	91	86	101	121
26-inch and over middleweight/cruisers:				
U.S. producers	53	66	65	69
Importers from China	14	10	8	20
26-inch and over lightweight road bicycles:				
U.S. producers	247	111	37	24
Importers from China	16	26	7	1
Other 26-inch and over bicycles:				
U.S. producers	4	6	11	12
Importers from China	0	4	8	6

Table continued on next page.

Table IV-4--Continued
Bicycles: U.S. shipments of U.S. producers and U.S. shipments of U.S. importers of Chinese bicycles,[1] by types, 1992-95

Item	1992	1993	1994	1995
	Value (*1,000 dollars*)			
Under 16-inch bicycles:				
U.S. producers	9,469	10,930	13,266	10,777
Importers from China	4,960	8,831	9,954	9,698
16-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	81,475	79,021	85,692	75,550
Importers from China	11,023	21,666	22,064	18,544
Other 16-inch bicycles:				
U.S. producers	0	0	0	0
Importers from China	0	0	37	59
20-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	156,812	185,999	174,851	134,946
Importers from China	20,045	30,297	28,849	43,018
Other 20-inch bicycles:				
U.S. producers	0	0	0	0
Importers from China	135	735	2,007	1,323
24-inch bicycles:				
U.S. producers	87,230	91,199	71,564	74,738
Importers from China	6,402	12,634	26,695	37,838
26-inch and over mountain bicycles:				
U.S. producers	314,522	364,100	399,309	401,814
Importers from China	49,691	87,507	120,205	126,095
26-inch and over hybrid/cross bicycles:				
U.S. producers	30,237	12,510	9,110	22,668
Importers from China	18,343	16,717	17,408	17,939
26-inch and over middleweight/cruisers:				
U.S. producers	3,788	4,889	4,936	5,604
Importers from China	2,356	1,122	1,083	1,405
26-inch and over lightweight road bicycles:				
U.S. producers	31,413	27,285	17,272	9,432
Importers from China	2,569	2,202	978	181
Other 26-inch and over bicycles:				
U.S. producers	1,563	1,889	3,345	4,175
Importers from China	68	548	1,081	738

Table continued on next page.

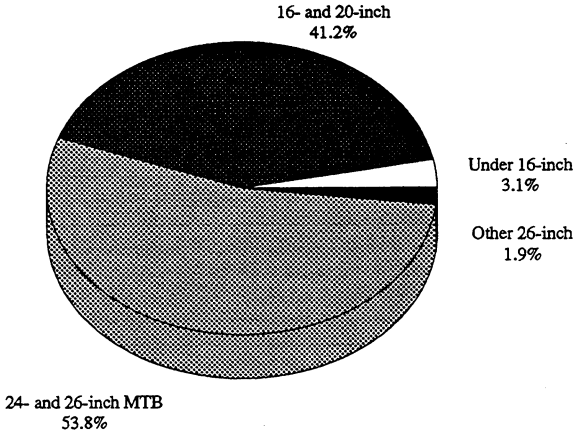
Table IV-4--Continued
Bicycles: U.S. shipments of U.S. producers and U.S. shipments of U.S. importers of Chinese bicycles,[1] by types, 1992-95

Item	1992	1993	1994	1995
	Unit value (*per unit*)			
Under 16-inch bicycles:				
U.S. producers	$41.62	$39.34	$40.83	$40.31
Importers from China	44.96	40.66	34.12	37.26
16-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	50.14	50.11	49.54	48.62
Importers from China	40.22	46.75	43.93	44.34
Other 16-inch bicycles:				
U.S. producers	(2)	(2)	(2)	(2)
Importers from China	(2)	(2)	(2)	(2)
20-inch Moto-Cross (BMX)/hi-rise:				
U.S. producers	61.29	66.53	69.99	65.67
Importers from China	48.23	54.17	55.15	52.45
Other 20-inch bicycles:				
U.S. producers	(2)	(2)	(2)	(2)
Importers from China	138.61	128.91	117.13	95.23
24-inch bicycles:				
U.S. producers	84.10	83.08	81.08	79.80
Importers from China	95.35	86.18	87.94	83.97
26-inch and over mountain bicycles:				
U.S. producers	102.57	100.86	100.28	106.38
Importers from China	159.81	139.88	136.37	122.20
26-inch and over hybrid/cross bicycles:				
U.S. producers	130.04	123.87	190.24	386.44
Importers from China	201.75	193.65	172.91	148.48
26-inch and over middleweight/cruisers:				
U.S. producers	72.06	73.91	75.60	81.00
Importers from China	165.81	112.51	137.99	71.17
26-inch and over lightweight road bicycles:				
U.S. producers	127.08	246.57	463.32	387.65
Importers from China	165.00	84.42	140.00	143.39
Other 26-inch and over bicycles:				
U.S. producers	390.75	314.83	304.09	347.92
Importers from China	164.16	139.29	128.88	121.11

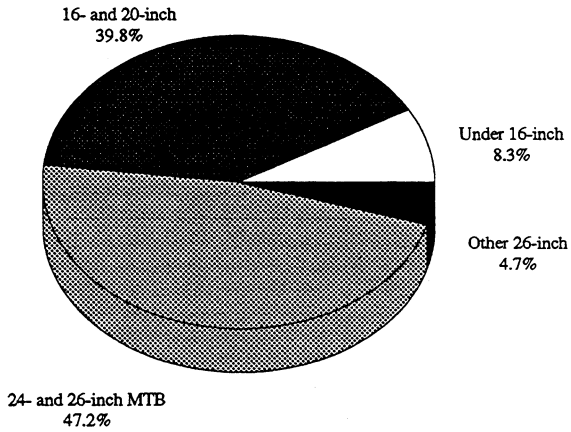
[1] The data in the table are for 6 producers and 22 importers, accounting for about 75 percent of apparent U.S. consumption of bicycles. The data do not include shipments of imports from sources other than China.
[2] Not applicable.

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

Figure IV-3
Shares of U.S. producers' and U.S. importers' U.S. shipments of bicycles, by types, 1995



U.S. Producers



U.S. Importers of Chinese Bicycles

Source: Table IV-4.

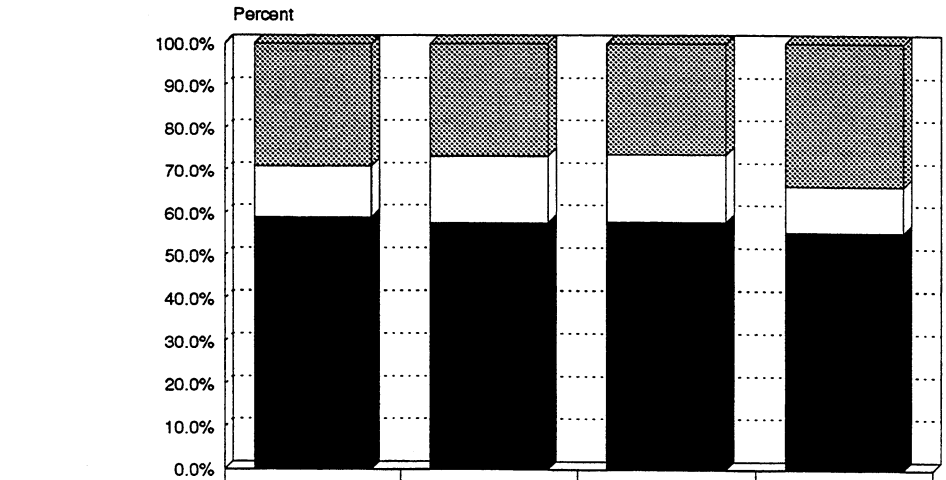
Table IV-5
Bicycles: Apparent U.S. consumption and market shares, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Apparent consumption	15,399	16,803	16,703	16,186
	Value (*1,000 dollars*)			
Apparent consumption	1,300,301	1,437,918	1,445,636	1,512,434
	Share of the quantity of U.S. consumption (*percent*)			
Producers' U.S. shipments	59.1	57.8	58.0	55.7
Importers' U.S. imports:				
China (LTFV)	11.3	14.9	15.2	10.2
Hong Kong	0.7	0.7	0.5	0.6
Subtotal	12.0	15.6	15.8	10.8
China (fair value)	2.6	5.7	7.9	13.1
Taiwan	24.2	20.2	17.6	18.6
Other sources	2.2	0.7	0.7	1.9
Total	40.9	42.2	42.0	44.3
Apparent consumption	100.0	100.0	100.0	100.0
	Share of the value of U.S. consumption (*percent*)			
Producers' U.S. shipments	58.3	57.1	57.9	54.1
Importers' U.S. imports:				
China (LTFV)	5.7	8.7	9.0	7.2
Hong Kong	0.7	0.6	0.4	0.5
Subtotal	6.4	9.4	9.4	7.7
China (fair value)	1.9	4.1	5.9	8.0
Taiwan	30.0	27.8	25.7	28.5
Other sources	3.4	1.6	1.1	1.7
Total	41.7	42.9	42.1	45.9
Apparent consumption	100.0	100.0	100.0	100.0

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

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and official statistics of the U.S. Department of Commerce.

Figure IV-4
Bicycles: Apparent U.S. consumption and market shares, 1992-95



	1992	1993	1994	1995
Other imports	28.9%	26.6%	26.2%	33.5%
China (LTFV)	12.0%	15.6%	15.8%	10.8%
U.S. producers	59.1%	57.8%	58.0%	55.7%

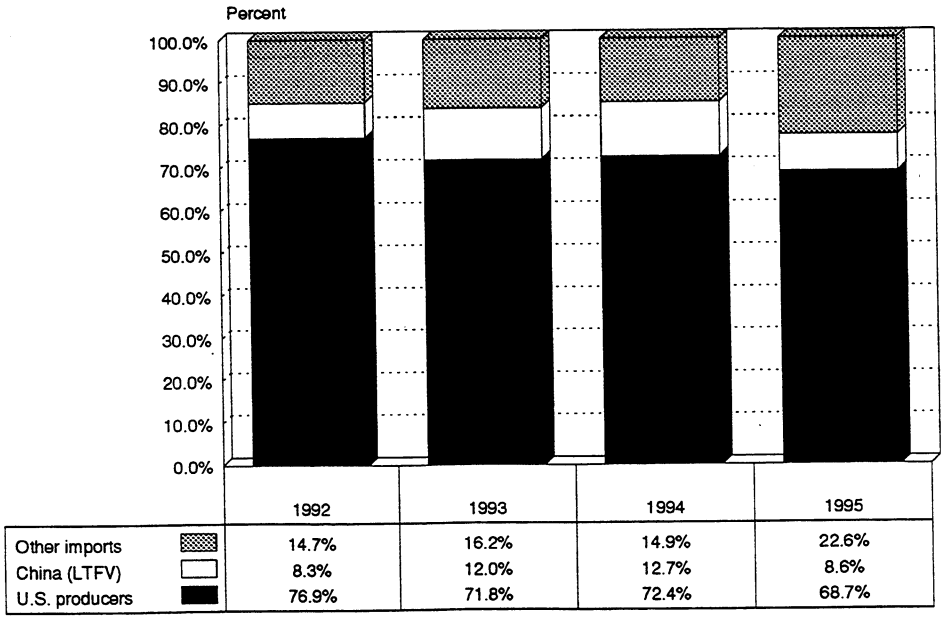
Source: Table IV-5.

Table IV-6
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to mass merchandisers, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Apparent consumption	10,360	11,854	11,821	11,527
	Share of the quantity of U.S. consumption (*percent*)			
Producers' U.S. shipments	76.9	71.8	72.4	68.7
Importers' U.S. imports:				
China (LTFV)	8.3	12.0	12.7	8.6
China (fair value)	2.7	6.4	9.1	16.8
Taiwan	10.8	9.5	5.0	3.5
Other sources	1.2	0.3	0.8	2.3
Total	23.1	28.2	27.6	31.3
Apparent consumption	100.0	100.0	100.0	100.0

Source: Compiled from Commission questionnaires and official statistics of the U.S. Department of Commerce.

Figure IV-5
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to mass merchandisers, 1992-95



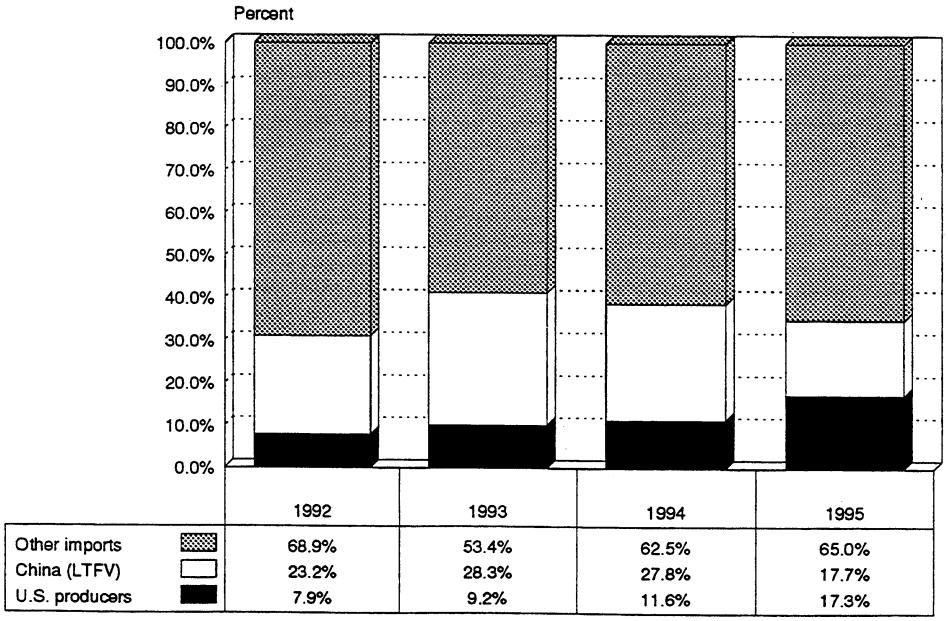
Source: Table IV-6.

Table IV-7
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to IBDs, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Apparent consumption	3,714	3,623	3,743	3,754
	Share of the quantity of U.S. consumption (*percent*)			
Producers' U.S. shipments	7.9	9.2	11.6	17.3
Importers' U.S. imports:				
China (LTFV)	23.2	28.3	27.8	17.7
China (fair value)	1.5	4.1	5.5	4.4
Taiwan	61.6	55.9	54.5	59.9
Other sources	5.8	2.5	0.5	0.7
Total	92.1	90.8	88.4	82.7
Apparent consumption	100.0	100.0	100.0	100.0

Source: Compiled from Commission questionnaires and official statistics of the U.S. Department of Commerce.

Figure IV-6
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to IBDs, 1992-95



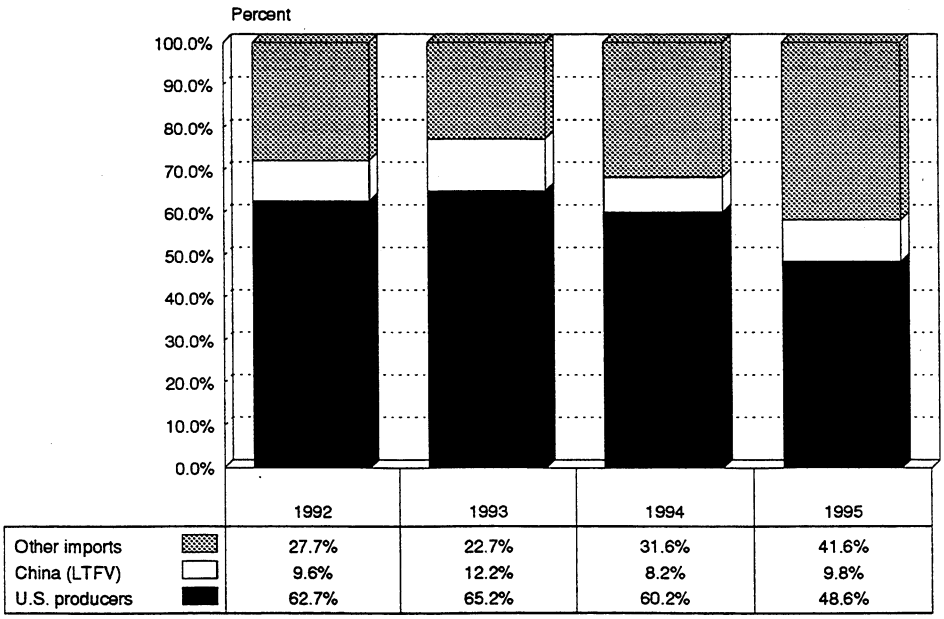
Source: Table IV-7.

Table IV-8
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to all other channels of distribution, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Apparent consumption	1,330	1,326	1,138	904
	Share of the quantity of U.S. consumption (*percent*)			
Producers' U.S. shipments	62.7	65.2	60.2	48.6
Importers' U.S. imports:				
China (LTFV)	9.6	12.2	8.2	9.8
China (fair value)	4.0	4.5	4.0	0.5
Taiwan	23.7	18.2	27.6	40.1
Other sources	0.0	0.0	0.0	1.0
Total	37.3	34.8	39.8	51.4
Apparent consumption	100.0	100.0	100.0	100.0

Source: Compiled from Commission questionnaires and official statistics of the U.S. Department of Commerce.

Figure IV-7
Bicycles: Apparent U.S. consumption and market shares for bicycles shipped to all other channels of distribution, 1992-95



Source: Table IV-8.

PART V: PRICING AND RELATED DATA

FACTORS AFFECTING PRICING

Bicycles are produced in a variety of sizes and styles and are used by consumers for recreation, exercise, sport, and transport. U.S. producers' and importers' prices for bicycles vary widely depending on the size and style of bicycle. For any given product category, price may be affected by a variety of factors including the number of gears on the bicycle, the quality of the components, the material used for frame construction, features (i.e., water bottles, pad kits, etc.), paint finish, license agreements, and the quantity of bicycles sold.

Raw Material Costs

Raw materials cost trends differed depending on whether the U.S. bicycle producer sold primarily to mass merchandisers or IBDs. On average, raw material costs reported by Huffy, Murray, and Roadmaster accounted for 67.8 percent of cost of goods sold during 1992-95. Average raw material costs for these three firms, which sell primarily to mass merchandisers, increased by 2.8 percent from $42.05 in 1992 to $43.40 in 1995. Average raw material costs reported by Cannondale, GT, and Raleigh accounted for 70.8 percent of the cost of goods sold during 1992-95. However, average raw material costs for these firms, which sell primarily to IBDs, decreased by 25.7 percent from $218.10 in 1992 to $162.06 in 1995.

Transportation Costs to the U.S. Market

Transportation charges from China to the U.S. port of entry are estimated to be 7.8 percent.[1]

U.S. Inland Transportation Costs

U.S. inland transportation costs averaged between 1 and 5 percent of the delivered cost, and lead times averaged 3 to 20 days for domestic suppliers and 15 to 120 days for importers.

Importer Markups

Importers' average sales markup margins (net of all discounts, allowances, and premiums) ranged from 10 to 20 percent for sales to mass merchandisers, and from 19 to 25 percent for sales to IBDs.

Commerce Margins of Dumping

On April 30, 1996, Commerce published notice of its final determination that bicycles from China are being, or are likely to be, sold in the United States at LTFV. On May 10, 1996, Commerce amended its margin determinations to correct for "ministerial errors." The amended final margins are as follows (in percent):

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[1] This estimate is derived from official U.S. import data (under HTS subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48) and represents the transportation and other charges included in imports valued on a c.i.f. basis.

Chinese producer/exporter	LTFV margins
Bo-An	0.00
CATIC	2.02
Giant	0.67 (de minimus)
Hua Chin	0.00
Merida	0.37 (de minimus)
CBC	2.95
Overlord	0.00
Chitech	1.83 (de minimus)
Universal	2.27
China-wide rate	61.67

Commerce's period of investigation was April 1, 1994, through March 31, 1995. To determine whether sales of bicycles from China to the United States by the nine Chinese exporters were made at LTFV, Commerce compared the "United States Price" (USP) to the "Normal Value" (NV). For all responding exporters, with the exception of CATIC, which had only constructed export price (CEP) sales, Commerce based USP on export price. In addition, for Giant, CBC, CATIC, and Chitech, where sales to the first unaffiliated purchaser took place after importation into the United States, Commerce based USP on CEP. Commerce based NV on the Chinese producers' factors of production, valued, to the extent possible, on a comparable market economy that has significant production of bicycles. The China-wide LTFV margin is based on adverse facts available.

Exchange Rates

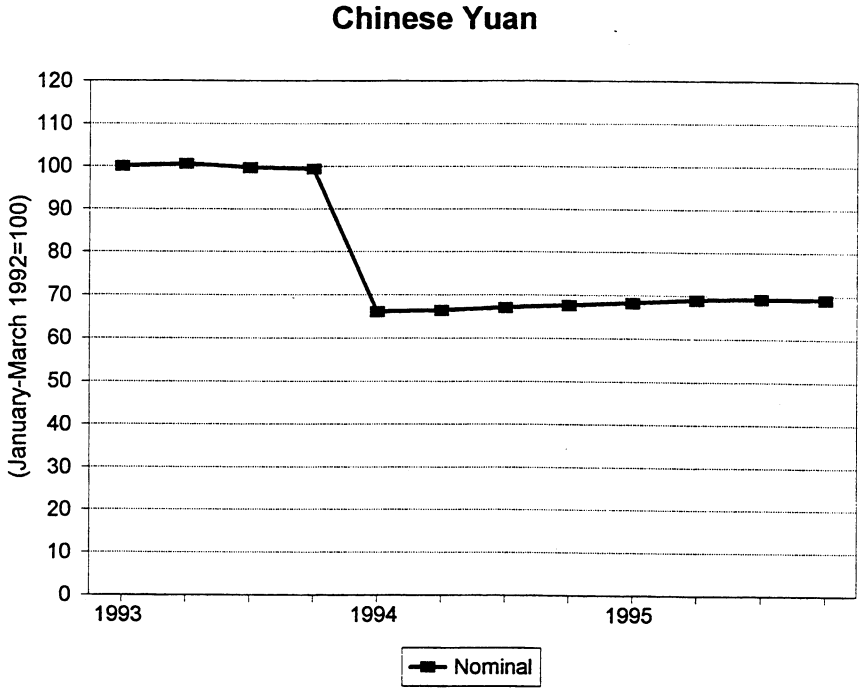
Quarterly data for China reported by the International Monetary Fund indicate that the value of the Chinese yuan depreciated by 30.8 percent in nominal terms relative to the U.S. dollar between January-March 1993 and October-December 1995 (figure V-1).[2] No wholesale price series data were available for China to calculate real exchange rates.

Tariff Rates

Bicycles are provided for in HTS subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48, with a most-favored-nation tariff rate of 11 percent for most sidewalk, BMX, and MTB bicycles; 5.5 percent for most lightweight road bicycles; and 5.5 and 13.4 percent for bicycles with different-sized front and rear tires.

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

Figure V-1
Nominal exchange rate index of the Chinese yuan, by quarters, Jan. 1993-Dec. 1995



Note: Index (Jan.-Mar. 1993=100), based on exchange rates expressed in U.S. dollars per yuan.

Source: International Monetary Fund, *International Financial Statistics*, May 1996.

PRICING PRACTICES

In the mass merchandiser sector, while basic price points are established by price lists, negotiations between the vendor and the buyer over the inclusion of specific features and components may alter the final purchase price.[3] Price discounts may be negotiated for purchases over a certain unit quantity or, in some cases, over a certain dollar value. ***, for example, offers discounts for annual purchases totaling over ***.[4] In addition, most mass merchant suppliers offer some form of cooperative advertising discount. A purchaser generally receives a ***-percent rebate for newsprint or other media advertisements that promote the vendor's product.[5] Prices are quoted f.o.b. factory or warehouse, and U.S.-inland transportation expenses are generally paid by the purchaser. Most shipments occur as spot sales throughout the year. Payment terms for this channel of distribution are similar among all suppliers, with net payments due within 30 or 60 days of billing.

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[3] In some cases, vendors will develop specific lines of bicycles for their largest customers. For example, *** manufactures *** for exclusive sale in *** stores. ***.

[4] Staff interview with ***.

[5] Purchasers may use any form of media for the advertisements, but the vast majority occur through circulars (which are inserted in the Sunday paper), flyers, direct mail, and newsprint. Rebates are distributed once the purchaser submits a copy of the advertisement to the vendor. In general, domestic producers offer *** advertising rebates than importers (***).

Pricing practices differ somewhat for sales in the IBD segment. In general, IBD prices do not deviate from price lists. Suppliers do, however, offer published price discounts through a variety of purchasing "programs." These programs are based on unit sales volume, and commonly include freight allowances and cooperative advertising rebates.[6] For example, while all suppliers to the IBD market quote prices on a U.S. f.o.b. basis, most offer free freight for purchases of 25 bikes or more.[7] In addition, most vendors offer cooperative advertising rebates in the range of *** percent of total purchase cost. Typical payment terms offered to an IBD retailer include a 2-percent discount for payments made within 10 days of billing; other payment terms require payment by 30 days with no discount.[8] Additional terms are available for "pre-season" shipments, with rolling discounts of 1 to 4 percent for early payments.

PRICE DATA

The Commission requested price and quantity information from U.S. producers and importers for their sales of bicycles during the period January 1992-December 1995. Producers and importers were asked to submit separate pricing data for their sales to retailers in the mass merchandiser market segment and sales to retailers in the IBD market segment. Product specifications for which pricing data were requested are listed below:[9]

Product 1: **16-inch Motocross (BMX) or Hi-Rise Bicycle; opening price point or entry-level model (single speed).** Bicycles with wheels 16 inches in diameter and 1.75 inches to 2.125 inches in width. Boys' or girls' model. Likely to include (but not limited to) the following features: rear coaster brakes; single speed (i.e., equipped with a single rear sprocket gear); multi-color graphics (2 to 5 colors); handlebar grips (basic/flange/foam); training wheels (rubber/plastic/molded); and basic or reflector pedals. May compete with "X-Factor," "Jagged Edge," "Trail Blazer," or "Pro-Racer" in mass merchandise market. May compete with "Pudd-N" or "Animator" in the IBD market.

Product 2: **20-inch Motocross (BMX) or Hi-Rise Bicycle; opening price point or entry-level model (single speed).** Bicycles with wheels 20 inches in diameter and 1.75 inches to 2.125 inches in width. Boys' or girls' model. Likely to include (but not limited to) the following specifications: rear coaster brakes only; single speed; handlebar grips (basic or flange); wheel rims with 20 or 28 spoke front/28 or 32 spoke rear; basic saddle. May compete with "ZR20," "Rocket Master," or "Dirt Zaster" in mass merchandise market.

Product 3: **20-inch Motocross (BMX) or Hi-Rise Bicycle; first step-up model with 5 or more speeds.** Bicycles with wheels 20 inches in diameter and 1.75 inches to 2.125 inches in

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[6] For example, one level of prices and purchasing options may be offered for sales of up to 49 bikes, another for sales of 50 to 74 bikes, etc. Most vendors appear to offer anywhere from 3 to 5 different program levels.

[7] The purchase volume necessary for a freight allowance varies by vendor. Freight costs average 1 to 5 percent of the delivered cost of the bicycle.

[8] Payment terms vary by vendor and by date of purchase.

[9] Staff did not collect pricing data for lightweight road bicycles (27" wheels) or hybrid bicycles (700c wheels). In 1995, road bicycles accounted for less than 1 percent of unit sales in both the mass merchant market segment and the IBD market segment. Hybrid bicycles accounted for only 1.4 percent of U.S. shipments of U.S.-produced and imported Chinese bicycles in 1995.

width. Boys' or girls' model. Likely to include (but not limited to) the following specifications: combination rear coaster brakes and front caliper or cantilever hand-brakes, OR front/rear cantilever/caliper side-pull brakes; 5 or more speeds; BMX tires; mag wheels or 32-36 spoke front/rear; BMX or racing saddle; quick release seat mast (optional); bar ends (optional); and handlebar crossbar pad (optional). May compete with "Hyper 8," "Nitron," or "Crunch" in mass merchandise market. May compete with "Mount Grizzly," "DXR," or "Hot Rock" in the IBD market.

Product 4: **24-inch and 26-inch All-Terrain Bicycle (ATB) or Mountain Bicycle (MTB); opening price-point or entry-level model with 10 or fewer speeds.** Bicycles with wheels 24 inches or 26 inches in diameter and 1.75 inches to 2.125 inches in width. Men's or women's model. Likely to include (but not limited to) the following specifications: front and rear caliper side-pull or cantilever brakes (steel or resin lever), 10 speeds or fewer (e.g., Shimano 10-speed index), handlebar grips (e.g., PVC or Krayton), standard resin pedals, steel or chrome rims and hubs (front/rear bolt-on), one-piece crank. May compete with "Rockslide" or "Northern Ridge" in mass merchandise market.

Product 5: **24-inch and 26-inch All-Terrain Bicycle (ATB) or Mountain Bicycle (MTB); first step-up model with 18 or more speeds.** Bicycles with wheels 24 inches or 26 inches in diameter and 1.75 inches to 2.125 inches in width. Men's or women's model. Likely to include (but not limited to) the following specifications: 18 or more speeds (e.g., Shimano TY 30, Shimano 200cs Rapid fire, or better); cantilever brakes; handlebar grips (e.g., PVC or better); standard or toe-clip adaptable pedals; steel or alloy hub; crank (one-piece to three-piece); standard or gel saddle; quick release hub (optional). May compete with "Velocity" or "Scorpio" model names in the mass merchandise market. May compete with "Mount Pocono," "Frontier," "M-20," "Outlook," or "Montana" in the IBD market.

Product 6: **26-inch Mountain Bicycle (MTB); high-end model with 21 or more speeds.** Bicycles with wheels 26 inches in diameter and 1.75 inches to 2.125 inches in width. Men's or women's model. Likely to include (but not limited to) the following specifications: 21 or more speeds; optional front suspension fork; Shimano alivio system; aluminum, chromoly, or TIG-welded steel frame. May compete with the "Rockhopper FS," "Unitrack ST," "Timberline," "Backwoods," or "Colorado" in the IBD market.

Usable pricing data were received from 5 U.S. producers and 11 importers of the LTFV Chinese bicycles; prices were reported for six products and for both channels of distribution. Reported pricing data accounted for approximately 27.1 percent of U.S. producers' domestic shipments of their U.S.-produced bicycles during 1992-95. Reported pricing data accounted for approximately 19.1 percent of LTFV imports of bicycles from China during 1992-95.

At the hearing and in their posthearing briefs, respondents maintained that the different price data reported by the petitioners in the preliminary and final investigations resulted in serious anomalies in the

pricing data available to the Commission.[10] An analysis of the price data reported by both petitioners and respondents in the final investigation is presented in appendix F. Based on this analysis, staff decided to include only "no-features" models in the opening price point (OPP) categories (products 1, 2, and 4).

Sales To Mass Merchandisers

In general, prices for U.S. products 1 through 6 sold by U.S. producers declined irregularly during January 1992-December 1995 (tables V-1 through V-6 and figures V-2 and V-3). Price trends for imported Chinese products 1 through 6 varied, depending on the product.

Product 1--16" bicycles.--Prices for product 1 sold by U.S. producers fluctuated downward, falling by *** percent during 1992-95. Prices for imported Chinese product 1 trended upward overall, dipping during the first quarters of 1994 and 1995. Importer prices for Chinese product 1 were *** percent higher at the end of the period than they were at the beginning.

Table V-1
Juvenile bicycles--Product 1: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 2--20" entry-level BMX.--Prices for U.S. product 2 fell by *** percent during 1992-95. Importer prices for product 2 increased by *** percent to a high of *** in the first quarter of 1993, then fell by *** percent during the rest of the period. Prices for imported Chinese product 2 were *** percent lower at the end of the period than they were at the beginning.

Table V-2
Juvenile bicycles--Product 2: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 3--20" step-up BMX.--U.S. producer prices for product 3 increased irregularly by *** percent during 1992-95. Prices for imported Chinese product 3 increased by *** percent to a high of *** in the first quarter of 1995, then declined by *** percent during the rest of the period.[11] Importer prices for product 3 were approximately the same at the end of the period as they were at the beginning.

[10] Dynacraft's posthearing brief, pp. 10-15; Target's posthearing brief, pp. 1-7; and Toys "R" Us' posthearing brief, pp. 13 and 14.
[11] ***.

Table V-3
Juvenile bicycles--Product 3: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 4--24"/26" 10-speed MTBs.--Domestic prices for product 4 declined slightly over the 1992-95 period, falling by *** percent. Importers did not report enough product 4 price data to show a consistent price trend.

Table V-4
Adult bicycles--Product 4: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 5--24"/26" 18-speed MTBs.[12]--Prices for U.S. product 5 also declined slightly, by *** percent during 1992-95. Available prices for imported Chinese product 5 fluctuated downward by *** percent to a low of *** in the third quarter of 1994, then increased by *** percent during the remaining quarters. Prices for imported Chinese product 5 were *** percent lower at the end of the period than they were at the beginning.

Table V-5
Adult bicycles--Product 5: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 6--24"/26" 21-speed MTBs.--U.S. product 6 prices fell by *** percent between the second quarter of 1992 and the second quarter of 1994, increased by *** percent over the next two quarters to a high of ***,[13] then fell by *** percent in the first quarter of 1995 and remained at this level during the rest of the year. U.S. product 6 prices were *** percent lower at the end of the period than they were at the beginning. Importers did not report enough product 6 price data to show a consistent price trend.

Table V-6
Adult bicycles--Product 6: Weighted-average net U.S. f.o.b. prices and quantities for sales to mass merchandisers, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

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[12] ***.
[13] ***.

Figure V-2
Juvenile bicycles--Products 1 through 3: Weighted-average net U.S. f.o.b. selling prices to mass merchandisers as reported by U.S. producers and importers, by quarters, 1992-95

* * * * * * *

Figure V-3
Adult bicycles--Products 4 through 6: Weighted-average net U.S. f.o.b. selling prices to mass merchandisers as reported by U.S. producers and importers, by quarters, 1992-95

* * * * * * *

Sales To IBDs

U.S. producers did not report any sales of products 1-3 to IBDs. In general, prices for U.S. products 4-6 fluctuated widely during 1992-95, and did not show consistent trends. Prices for imported Chinese juvenile bicycles (products 1-3) generally increased, whereas prices for imported Chinese adult bicycles (products 4-6) tended to decline (tables V-7 through V-12 and figures V-4 and V-5).

Product 1--16" bicycles.-- Prices of imported Chinese product 1 increased by *** percent to a high of *** in the first quarter of 1994, then fell by *** percent during the rest of the period.[14] Prices were *** percent higher at the end of the period than they were at the beginning.

Table V-7
Juvenile bicycles--Product 1: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 2--20" entry-level BMX.--Importer prices for product 2 were stable during 1992 and the first two quarters of 1993, increased by *** percent during the next two quarters, then continued to increase during the rest of the period.[15] Overall, prices increased by *** percent during 1992-95.

Table V-8
Juvenile bicycles--Product 2: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 3--20" step-up BMX.--Importer prices for product 3 ranged between *** and *** during October 1992-December 1995.

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[14] ***.
[15] ***.

Table V-9
Juvenile bicycles--Product 3: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 4--24"/26" 10-speed MTBs.--Neither U.S. producers, nor importers of Chinese bicycles reported enough price data to show consistent trends.

Table V-10
Adult bicycles--Product 4: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 5--24"/26" 18-speed MTBs.--Prices for U.S. product 5 increased by *** percent to a high of *** in the first quarter of 1994, fell *** percent to a low of *** in the fourth quarter of 1994, then fluctuated during the rest of the period.[16] Prices for imported Chinese product 5 fell by *** percent during 1992 and the first two quarters of 1993, increased by *** percent during the last two quarters of 1993 and the first two quarters of 1994, then fell by *** percent during the rest of the period. Imported Chinese product 5 prices were *** percent lower at the end of the period than they were at the beginning.

Table V-11
Adult bicycles--Product 5: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

Product 6--24"/26" 21-speed MTBs.--U.S. product 6 prices fluctuated upward in the range of *** to *** during 1992-95.[17] Prices for imported product 6 fluctuated downward in the range of *** to ***.

Table V-12
Adult bicycles--Product 6: Weighted-average net U.S. f.o.b. prices and quantities for sales to IBDs, as reported by U.S. producers and importers, and margins of underselling/(overselling), by quarters, January 1992-December 1995

* * * * * * *

[16] ***.
[17] ***.

Figure V-4
Juvenile bicycles--Products 1 through 3: Weighted-average net U.S. f.o.b. selling prices to IBDs as reported by U.S. producers and importers, by quarters, 1992-95

* * * * * * *

Figure V-5
Adult bicycles-products 4 through 6: Weighted-average net U.S. f.o.b. selling prices to IBDs as reported by U.S. producers and importers, by quarters, 1992-95

* * * * * * *

Price Comparisons

Quarterly f.o.b. prices reported for U.S.-produced bicycles and the imported LTFV Chinese bicycles sold to mass merchandisers yielded a total of 65 price comparisons (tables V-1 through V-6). In 16 of these instances, the Chinese product was priced lower than the comparable domestic product by an average of 6.2 percent. In 49 instances, the Chinese product was priced higher by an average of 12.7 percent.[18]

Quarterly f.o.b. prices reported for U.S.-produced bicycles and the imported Chinese bicycles sold to IBDs yielded a total of 32 comparisons (tables V-7 through V-12).[19] In 27 of these instances, the Chinese product was priced lower than the comparable domestic product by an average of 26.6 percent. Underselling was most evident in 24/26-inch MTBs (product 5).[20] In the remaining five instances, the Chinese product was priced higher by an average of 10.3 percent.

LOST SALES AND LOST REVENUES

The Commission received lost sales allegations from *** and lost revenue allegations from ***.[21] All allegations pertained to sales to the mass merchant channel. *** cited *** allegations of lost sales totaling *** on sales of *** bicycles.[22] *** reported *** cases of alleged lost sales, totaling *** on sales of *** bicycles. *** also listed *** lost revenue allegations totaling *** on sales of *** bicycles. *** cited *** allegations of lost sales, resulting in forfeiture of *** on sales of *** bicycles. *** also reported *** allegations of lost revenue, totaling *** on *** bicycles.[23] Tables V-13 and V-14 summarize the lost sales and lost revenue allegations submitted by U.S. producers.[24] Staff contacted *** of the named purchasers; a summary of these conversations is presented below.

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[18] ***.

[19] U.S. producers did not report any sales of products 1-3 to IBDs during 1992-95. Therefore, there are no price comparisons for these product categories.

[20] One of the domestic producers of this product, ***, manufactures very high-end products. This should be taken into consideration when viewing the price data for product 5 sold in the IBD market.

[21] *** indicated it had lost sales to imports, but did not have the time to document them. The *** did not report any lost sales or lost revenues.

[22] ***.

[23] In addition, *** maintained that it lost significant revenues on sales to WalMart and Sears based on these retailers' competition with retailers such as Toys "R" Us and Target that buy imported Chinese bicycles.

[24] Tables V-13 and V-14 include LTFV and fair value imports.

Table V-13
Lost sales allegations concerning imports of bicycles from China, as reported by U.S. producers

* * * * * * *

Table V-14
Lost revenue allegations concerning imports of bicycles from China, as reported by U.S. producers

* * * * * * *

*** was named in *** lost sales allegations on products ranging from juvenile 18- and 20-inch bicycles to adult 24- and 26-inch bicycles. *** stated that store purchases are, on average, *** percent imports and *** percent domestic product. While price is an important factor, many other considerations contribute to final buying decisions.[25] For example, bicycle componentry, appearance, and other features are significant, as are delivery lead times.[26]

Responding to two specific allegations on 18-inch juvenile bicycles (allegation numbers 30 and 31), *** indicated that bids had been received from both domestic suppliers and importers. In both cases, the business went to a domestic producer, ***. He also corrected the final price on allegation number *** from the alleged *** to ***.

For 20-inch bicycles, particularly the girls' product listed in allegation number ***, *** said that domestic and import prices were generally within a few dollars of one another and would not be the primary consideration. *** indicated that he usually makes his selection based on appearance and, in this instance, the import may have offered a fancier bike bag or more decorative streamers. On a higher-grade 20-inch bicycle (allegation number ***), *** suggested that the *** price discrepancy between the domestic and imported Chinese bicycles reflected significant differences in the two products. He said that *** was offering a 20-inch MTB with a front shock, five speeds, friction shifting, and side-pull brakes. The import had six speeds, index shifting, cantilever brakes, and a better frame.[27] These types of components gave the bicycle more of an "IBD look," which is what *** was striving for. The final allegation on 20-inch bicycles (number ***) referred to sales of 20-inch 5-speed *** bikes. *** said that he did not recall receiving any domestic bids for this product.[28]

There were also *** allegations against *** on sales of 24- and 26-inch bicycles. *** did not recall the specifics of allegation number *** regarding sales of 15-speed bicycles, but he did note that *** purchases similar bikes from *** and primarily turns to imports for variety. Similarly, on allegation *** regarding sales of 26-inch bicycles, *** noted that *** tries to round out its product lines by using ***. For example, while *** generally offer *** different models of this style of bicycle, *** offers *** models.[29] In this instance, the store bought from both an importer and a domestic supplier. On allegations ***, ***

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[25] *** noted that price is very important on ***. Price is less important for ***.

[26] *** indicated that lead times for domestic products ranged between 60 and 90 days, while lead times for imports averaged 90 to 120 days.

[27] Index shifting components are more complex and expensive than friction shifting mechanisms. Similarly, cantilever brakes are considered preferable to side-pull brakes, and are found more often on imported bicycles. Front shocks, offered by the domestic producer in this instance, generally add about $10.00 to the value of a mass merchandiser bike.

[28] While *** recalled bids on single-speed *** bicycles, he did not think that domestic producers were offering any multi-speed products in this category.

[29] See also ***.

indicated that the imported product had better components.[30] Specifically on allegation ***, no domestic competitor was producing a competitively priced bicycle that had componentry similar to ***.[31]

*** was named in *** lost sales allegations. Staff contacted two buyers for this store, *** and ***. The buyers explained that *** purchases are approximately *** percent domestic and *** percent imports.[32] Purchasing decisions are based on quality, cosmetics, price, components, and lead times.[33] *** imports for style variation, price value, and design capability. *** said that style variation can only be achieved through a variety of suppliers, and a combination of imports and domestic products is therefore essential to ***'s strategy of maintaining a fluid assortment of bicycles. *** noted that imported bicycles offered more style varieties and had superior decals and designs. They reported that foreign producers are more willing than domestic producers to run short lines of bikes that require multiple paint jobs.[34] Imported products also tended to have shorter lead times on the production of "cutting edge" bicycles that *** would request to meet changing market demand patterns.[35] On the other hand, *** reported that domestic suppliers offer a better sales package of volume, dating, and advertising discounts than the importers.[36] Further, the generally shorter lead times of domestic suppliers allow *** to maintain lower inventories through weekly rather than monthly orders. Finally, domestic suppliers were often reported to have better prices than importers on "promotional" products, where a manufacturer offers a certain style bicycle to all stores with only minor variations, making the price low through extensive economies of scale.

With regard to the specific allegations, *** was only able to offer general information. He noted that allegations *** were all juvenile products where price is rarely the overriding factor. *** uses *** for almost all of its purchases of juvenile bicycles, since appearance is what attracts sales in this category. For allegations ***, *** indicated that the alleged import price was too low. He said *** had paid between *** and *** for these products, rather than the alleged ***. He further noted that the domestic producers had bid several dollars lower than what was reported in the allegations, and that the alleged quantities were higher than ***'s standard order size. For some products, including those in allegations ***, *** said the quality was better on imports, based on the number of spokes in the wheels, componentry, and length of frame.[37]

***, named in *** allegations of lost sales, reported that it purchases from both U.S. producers and importers. According to ***, value to the customer is the store's foremost consideration when purchasing a bicycle. As such, he bases his buying decisions on a product's quality and its price. *** reported that the

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[30] *** said that domestic producers will reduce costs by mixing Shimano components with other brands of parts on a bicycle, while most of the foreign producers maintain a complete Shimano package on their products.

[31] *** reportedly offered dual index shifting with left and right optical displays. According to ***, domestic producers did not start offering this until 1995. At slightly lower price points in the 26-inch category, *** noted that he did sell two domestic products that were doing well, ***.

[32] *** reported that domestic producers had increased their share of *** market in recent years. ***.

[33] Reliability of vendors was also listed as a factor, though there was no reported difference between domestic producers and importers. *** does visit factories for quality assurance. *** noted that the factories *** uses in China are related to *** suppliers in Taiwan, so they were reportedly already familiar with quality requirements.

[34] See also ***. *** suggested that foreign producers benefit from fewer environmental regulations regarding the use and disposal of paint and are thus more inclined to create elaborate paint jobs.

[35] *** reported that imported products had longer lead times than domestic products, except in cases where the store wanted to quickly offer a new design or model. Foreign producers appeared more willing to produce such low-volume items on their lines.

[36] Most domestic providers offer net 30-day terms (allowing a bike to conceivably be sold before it is paid for), while importers have to be paid up front. Further, while both domestic and import suppliers offer some form of advertising rebate, those offered by the domestic manufacturers tended to be of greater value. ***.

[37] *** reported that some of the domestic suppliers were using lower-quality *** components, rather than the higher-priced Shimano products. In addition, some imported bicycles reportedly had better paint designs and finishes, such as the 26-inch *** bicycle.

store's mix of imported and domestic products changes from quarter to quarter, but is approximately *** percent domestic and *** percent imports. The only major difference between the domestic suppliers and importers is lead times, which average 45 days and 90 days, respectively.

Responding to allegation number ***, *** said that price for this size bike (16 inch) is important, ***. Further, he said *** had been selling the imported model of this 16-inch bicycle for several years and had no reason to change suppliers when retail sales of the imported product were quite strong. For the second allegation (number ***), *** corrected the final price paid for the imported product from the alleged *** to ***, only *** lower than the domestic bid. Again, *** noted that *** had carried the imported product with some success in the past and saw no reason to deviate from it, especially for a higher price. On the third allegation (number ***), *** said the price the store paid for the imported 16-inch bicycle was actually *** per bike, not *** as alleged by the U.S. producer. In this case, the importers had the better price. However, *** noted that the domestic producers sell an almost identical bike *** that is priced at ***, which suggested to him that they could have offered a lower bid. Finally, *** had no recollection of the sale reported in allegation ***. He did say, however, that his records indicated that his lowest-cost bike in 1994 had been ***, rather than the alleged ***.

*** was named in one lost sale allegation. *** corrected the alleged quantity of the sale from *** units of 12-inch bicycles to *** units. He further indicated that while U.S. firms were considered as suppliers, ***.

*** was cited in *** lost revenue allegations, of which *** recalled only one. *** reported that the sale went to another domestic supplier. *** further indicated that the price for this product ***.

*** was named in one lost sale allegation. *** reported that the store purchases both domestic and imported bicycles, but the majority is domestic. He further reported that price is not always the most overriding factor in ***'s purchases; the store also considers quality, consistency in delivery, and timeliness. *** noted that domestic producers provide a more even flow of product, preventing the store from having to accumulate inventory as it does for its imported products. Also, the purchaser enjoys more control and flexibility with a domestic provider, and a shorter lead time. However, the store turns to imports for particularly price-sensitive products. *** did not recall the specifics of the reported transaction, but he did indicate that juvenile bikes, including the 20-inch bike described in this allegation, are particularly price-sensitive items where his store likely would turn to imports.

*** was cited for one lost sale of 16-inch bicycles. *** did not recall the exact transaction, but he noted that imported products often come with additional features, such as three handlebar pads rather than two. These "extras" generally translate into better retail sales.

*** was named in four lost sales allegations. The company's buyer, ***, could not confirm the exact pricing information, but he did recall the transaction. He noted that *** traditionally buys *** models of 16-inch bicycles from *** domestic producers. Last year he added an extra model, which he bought from *** because he specifically wanted a *** to round out his line. He said the domestic producers could not bid on this product because none of them ***. Price was not the overriding factor in this purchase, given that the import is his highest-price-point bike in the 16-inch category.

*** was named in *** lost revenue allegations. ***.[38] *** reported that he will ask his domestic suppliers to lower their bids to meet current import prices in the market. ***. He could not confirm the exact data.

*** was named in one lost sale allegation on 20-inch bicycles. *** reported that the store generally purchases *** percent of its bicycles from domestic producers and *** percent from importers. While *** did not have specific information on the alleged sale, she indicated that ***'s lowest purchase price for any bicycle from China in 1994 was ***, the same price as the domestic product. *** reported that bicycle

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[38] ***.

features and appearance are the primary reasons for purchasing imports. *** was also named in one lost revenue allegation. *** had no record of this transaction.

*** was named in *** lost sales allegations. Staff contacted one of the store's buyers, ***.

PART VI: FINANCIAL CONDITION OF U.S. INDUSTRY

BACKGROUND

All three producers that sell to the mass merchandise market--Huffy, Murray, and Roadmaster--and all four of the producers that sell to the IBD market--Cannondale, GT, Raleigh, and Trek --supplied profit-and-loss data on their bicycle operations. These producers accounted for all U.S. production of bicycles for the mass merchandise market and virtually all production of bicycles for the IBD market. *** fiscal year ends September 30, *** ends on or about July 1,[1] Murray's ends April 30, and the year end for the four other producers is December 31. Murray's data for its fiscal year ending April 30, 1995 are presented as fiscal 1995 data in this report; the company was unable to provide financial data for its year ending April 30, 1996.

Export sales for the seven producers combined were about *** percent of sales quantities and *** percent of sales values in every period. About *** percent of sales (both quantity and value) every year by producers in the mass merchandise market were export sales. The corresponding figures for producers in the IBD market were much higher, peaking at about *** percent of sales (both quantity and value) in 1993 before declining to *** percent in 1995. There were no intercompany transfers to speak of.

Staff verified Murray's data on April 15-16, 1996. As a result of the verification ***.

OPERATIONS ON BICYCLES SOLD TO MASS MERCHANDISERS AND IBDs

Profit-and-loss data on the producers' sales of bicycles to mass merchandisers and IBDs combined are shown in table VI-1 and figure VI-1. Net sales and all levels of profitability posted strong increases in 1993, the result of a large increase in sales quantities, a small increase in unit sales value, and decrease in unit costs (cost of goods sold and selling, general, and administrative (SG&A) expenses). While *** accounted for most of the increase in net sales and profitability, the improved financial results were ***.

Results waned the next two years as net sales value remained flat while profitability decreased at all levels and by all measures. Although unit sales values increased each year, unit costs increased by twice as much ($6.57 vs. $3.38 in 1994 and $3.38 vs. $1.60 in 1995) while sales quantities dwindled. Unlike 1993, when the improvement in financial performance was the result of an industry-wide trend, the deteriorating results in 1994 and 1995 were the result of the decreases in sales and profitability suffered by *** which overpowered increases in sales and profitability enjoyed by ***. For instance, from 1993 to 1995, ***.

Selected financial data for all seven producers are shown in table VI-2. For a detailed discussion of the data see the section of this part discussing the industry segment that each producer sells to.

The variance analysis showing the effects of prices and volume on the producers' net sales of bicycles to both market segments and costs and volume on their total expenses is shown in table VI-3. The analysis shows that changes in profitability between and among periods were principally due to changing prices and costs, not changes in volume. For instance, $32.0 million of the $33.7 million decrease in operating profits from 1993 to 1994 was attributable to the combination of decreased prices and increased costs; the remaining $1.7 million decrease was attributable to changes in volume.

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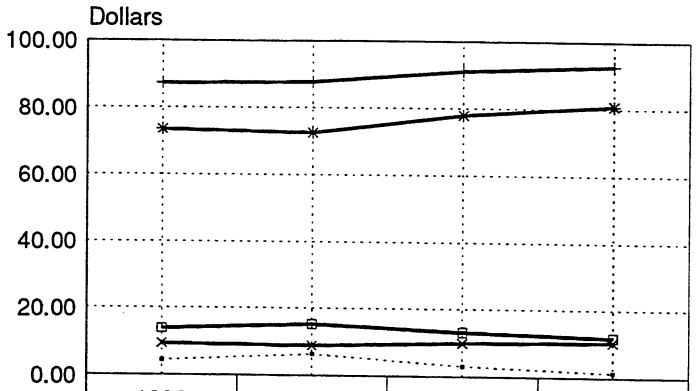
[1] ***.

Table VI-1
Income-and-loss experience of U.S. producers on their operations producing bicycles, fiscal years 1992-95

Item	1992	1993	1994	1995
	Quantity *(1,000 units)*			
Trade sales	9,148	10,291	10,031	9,861
	Value *(1,000 dollars)*			
Net sales	798,606	902,714	913,781	914,122
Cost of goods sold	672,342	746,140	782,214	797,849
Gross profit	126,264	156,574	131,567	116,273
SG&A expenses	85,519	91,454	100,136	102,879
Operating income	40,745	65,120	31,431	13,394
Interest expense	8,682	10,657	17,285	16,751
Other expense items	8,317	9,854	7,818	16,944
Other income items	2,007	1,244	1,862	1,419
Net income or loss (-) before income taxes	25,753	45,853	8,190	-18,882
Depreciation and amortization	14,015	14,127	17,786	20,757
Cash flow	39,768	59,980	25,976	1,875
	Ratio to net sales *(percent)*			
Cost of goods sold	84.2	82.7	85.6	87.3
Gross profit	15.8	17.3	14.4	12.7
SG&A expenses	10.7	10.1	11.0	11.3
Operating income	5.1	7.2	3.4	1.5
	Value *(per unit)*			
Net sales	$87.30	$87.72	$91.10	$92.70
Cost of goods sold	73.50	72.50	77.98	80.91
Gross profit	13.80	15.21	13.12	11.79
SG&A expenses	9.35	8.89	9.98	10.43
Operating income	4.45	6.33	3.13	1.36
	Number of firms reporting			
Operating losses	***	***	***	***
Net losses	***	***	***	***
Data	7	7	7	7

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

Figure VI-1
Selected per-unit financial data of U.S. producers on all bicycle sales



	1992	1993	1994	1995
Net sales	87.30	87.72	91.10	92.70
Cost of goods sold	73.50	72.50	77.98	80.91
Gross profit	13.80	15.21	13.12	11.79
SG&A expenses	9.35	8.89	9.98	10.43
Operating income	4.45	6.33	3.13	1.36

Source: Table VI-1.

Table VI-2
Income-and-loss experience of U.S. producers on their operations producing bicycles, by firms, fiscal years 1992-95

* * * * * * *

OPERATIONS ON BICYCLES SOLD TO MASS MERCHANDISERS

Profit-and-loss data on the producers' sales of bicycles to mass merchandisers are shown in table VI-4 and figure VI-2. In brief, net sales and all levels of profitability peaked in 1993 and then declined the next two years. Net sales value increased by almost $100 million from 1992 to 1993, the result of a moderate increase in unit sales value and a large increase in sales quantities. Since the increase in unit sales value was $1.25 higher than the increase in unit costs (cost of goods sold and SG&A expenses), profitability increased at every level, both on a per-unit and an absolute basis. In contrast, the reverse was true the next two years.

In 1994, the combination of depressed sales quantities, lower unit sales values, and higher unit costs resulted in a $34 to $35 million decrease in net sales values, gross profits, and operating profits. The situation repeated itself in 1995, as the same combination of negative financial indicators resulted in a $58 million decrease in net sales and another $34 million decrease in profits through the operating level. While the decrease in unit sales value was more pronounced in 1995 than in 1994 ($3.22 versus $0.65), the increase in unit costs was less pronounced ($0.43 vs. $2.78), such that the decline in unit profitability at the operating profit level ($3.65 in 1995 vs. $3.43 in 1994) was quite similar.

Selected financial data for the three producers are shown in table VI-5.

* * * * * * *

Table VI-3
Variance analysis of the results of U.S. producers on their operations producing bicycles, fiscal years 1992-95

	Value *(1,000 dollars)*			
Item	1992-95	1992-93	1993-94	1994-95
Total net sales:				
Price variance	53,271	4,300	33,922	15,803
Volume variance	62,245	99,808	-22,855	-15,462
Total variance	115,516	104,108	11,067	341
Cost of goods sold:				
Cost variance	-73,104	10,230	-54,965	-28,871
Volume variance	-52,403	-84,028	18,891	13,236
Total variance	-125,507	-73,798	-36,074	-15,635
Gross profit variance	-9,991	30,310	-25,007	-15,294
SG&A expenses:				
Expense variance	-10,695	4,753	-10,997	-4,437
Volume variance	-6,665	-10,688	2,315	1,694
Total SG&A variance	-17,360	-5,935	-8,682	-2,743
Operating income variance	-27,351	24,375	-33,689	-18,037

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

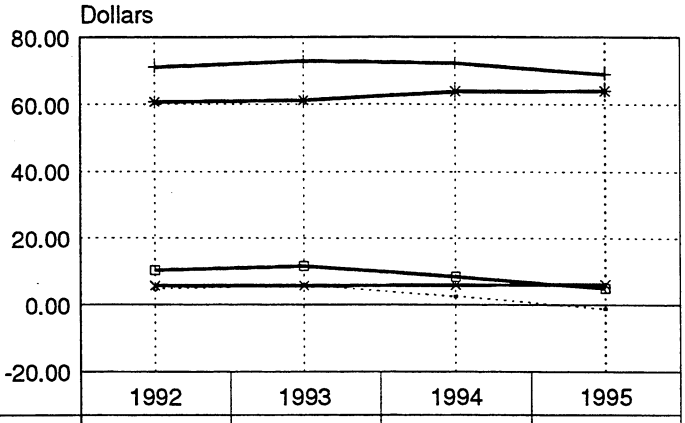
The variance analysis showing the effects of prices and volume on the producers' net sales of bicycles to mass merchandisers and costs and volume on their total expenses is shown in table VI-6. The analysis shows that changes in profitability between and among periods were principally due to changing prices and costs, not changes in volume. For instance, $32.5 million of the $34.7 million decrease in operating profits from 1993 to 1994 was attributable to the combination of decreased prices and increased costs; the remaining $2.2 million decrease was attributable to changes in volume.

Table VI-4
Income-and-loss experience of U.S. producers on their operations producing bicycles for mass merchandisers, fiscal years 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Trade sales	8,732	9,847	9,470	9,067
	Value (*1,000 dollars*)			
Net sales	621,018	717,427	683,766	625,455
Cost of goods sold	530,800	602,891	603,995	580,559
Gross profit	90,218	114,536	79,771	44,896
SG&A expenses	49,602	56,388	56,340	55,590
Operating income or loss (-)	40,616	58,148	23,431	-10,694
Interest expense	3,321	4,673	12,920	13,190
Other expense items	1,196	3,089	966	8,853
Other income items	710	295	640	0
Net income or loss (-) before income taxes	36,809	50,681	10,185	-32,737
Depreciation and amortization	10,757	12,160	15,132	17,518
Cash flow	47,566	62,841	25,317	-15,219
	Ratio to net sales (*percent*)			
Cost of goods sold	85.5	84.0	88.3	92.8
Gross profit	14.5	16.0	11.7	7.2
SG&A expenses	8.0	7.9	8.2	8.9
Operating income or loss (-)	6.5	8.1	3.4	-1.7
	Value (*per unit*)			
Net sales	$71.12	$72.85	$72.20	$68.98
Cost of goods sold	60.78	61.22	63.78	64.03
Gross profit	10.33	11.63	8.42	4.95
SG&A expenses	5.68	5.73	5.95	6.13
Operating income or loss (-)	4.65	5.90	2.47	-1.18
	Number of firms reporting			
Operating losses	***	***	***	***
Net losses	***	***	***	***
Data	3	3	3	3

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

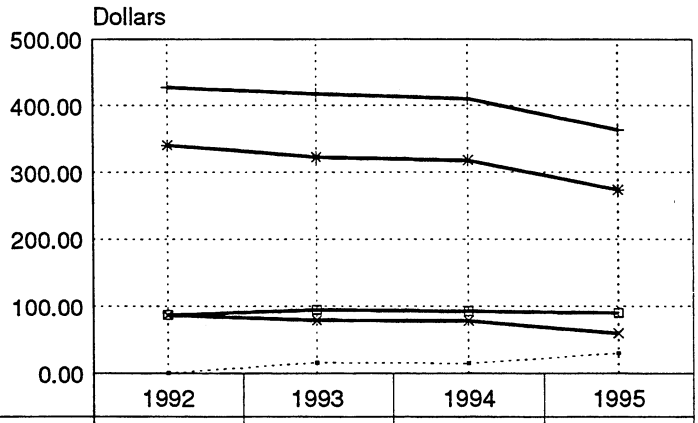
Figure VI-2
Selected per-unit financial data of U.S. producers on sales to mass merchandisers



	1992	1993	1994	1995
Net sales	71.12	72.85	72.20	68.98
Cost of goods sold	60.78	61.22	63.78	64.03
Gross profit	10.33	11.63	8.42	4.95
SG&A expenses	5.68	5.73	5.95	6.13
Operating income	4.65	5.90	2.47	-1.18

Source: Table VI-4.

Figure VI-3
Selected per-unit financial data of U.S. producers on sales to IBDs



	1992	1993	1994	1995
Net sales	427.31	417.45	410.22	363.60
Cost of goods sold	340.58	322.74	317.84	273.69
Gross profit	86.73	94.71	92.38	89.91
SG&A expenses	86.42	79.00	78.11	59.56
Operating income	0.31	15.71	14.27	30.34

Source: Table VI-7.

Table VI-5
Income-and-loss experience of U.S. producers on their operations producing bicycles for mass merchandisers, by firms, fiscal years 1992-95

* * * * * * *

Table VI-6
Variance analysis of the results of U.S. producers on their operations producing bicycles for mass merchandisers, fiscal years 1992-95

	Value (*1,000 dollars*)			
Item	1992-95	1992-93	1993-94	1994-95
Total net sales:				
Price variance	-19,365	17,111	-6,165	-29,218
Volume variance	23,802	79,298	-27,496	-29,093
Total variance	4,437	96,409	-33,661	-58,311
Cost of goods sold:				
Cost variance	-29,415	-4,313	-24,211	-2,263
Volume variance	-20,344	-67,778	23,107	25,699
Total variance	-49,759	-72,091	-1,104	23,436
Gross profit variance	-45,322	24,318	-34,765	-34,875
SG&A expenses:				
Expense variance	-4,087	-452	-2,113	-1,647
Volume variance	-1,901	-6,334	2,161	2,397
Total SG&A variance	-5,988	-6,786	48	750
Operating income variance	-51,310	17,532	-34,717	-34,125

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

OPERATIONS ON BICYCLES SOLD TO IBDs

Profit-and-loss data on the producers' sales of bicycles to IBDs are shown in table VI-7 and figure VI-3. Almost without exception, sales and all levels and measures of profitability showed steady and strong improvement from 1992 to 1995. Comparing 1993 to 1992, operating profits went from next to nothing to about $7 million despite only a moderate increase in net sales because of an $8 increase in the unit gross margin and a similar decrease in unit SG&A expense. Then, in 1994, when the increase in net sales was much stronger (almost one-quarter), operating income changed little because the aforementioned increase in unit gross margins faded. Finally, in 1995, when the increase in net sales was stronger yet, operating income more than tripled. Key to the large increase in operating profits was the large decrease in unit SG&A expenses. The $18-19 decrease in the unit expense (about $27 since 1992) can in turn be traced to ***.

When compared to the data in table VI-4, the differences in prices and costs between bicycles sold in the mass merchandiser market and those sold in the IBD market become clear. Bicycles sold in the IBD

Table VI-7
Income-and-loss experience of U.S. producers on their operations producing bicycles for IBDs, fiscal years 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
Net sales	416	444	561	794
	Value (*1,000 dollars*)			
Net sales	177,588	185,287	230,015	288,667
Cost of goods sold	141,542	143,249	178,219	217,290
Gross profit	36,046	42,038	51,796	71,377
SG&A expenses	35,917	35,066	43,796	47,289
Operating income	129	6,972	8,000	24,088
Interest expense	5,361	5,984	4,365	3,561
Other expense items	7,121	6,765	6,852	8,091
Other income items	1,297	949	1,222	1,419
Net income or loss (-) before income taxes	-11,056	-4,828	-1,995	13,855
Depreciation and amortization	3,258	1,967	2,654	3,239
Cash flow	-7,798	-2,861	659	17,094
	Ratio to net sales (*percent*)			
Cost of goods sold	79.7	77.3	77.5	75.3
Gross profit	20.3	22.7	22.5	24.7
SG&A expenses	20.2	18.9	19.0	16.4
Operating income	0.1	3.8	3.5	8.3
	Value (*per unit*)			
Net sales	$427.31	$417.45	$410.22	$363.60
Cost of goods sold	340.58	322.74	317.84	273.69
Gross profit	86.73	94.71	92.38	89.91
SG&A expenses	86.42	79.00	78.11	59.56
Operating income	0.31	15.71	14.27	30.34
	Number of firms reporting			
Operating losses	***	***	***	***
Net losses	***	***	***	***
Data	4	4	4	4

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

market have unit sales values and unit cost of goods sold values about five times as high as those sold in the mass merchandiser market. While bikes sold in the IBD market have much higher unit gross profits (about $85 to $95 per bicycle as opposed to about $5 to $12 for those sold in the mass merchandiser market), most of the higher profit margin is eroded by higher unit SG&A costs ($60 to $85 instead of $6).

Selected financial data for the four producers are shown in table VI-8.

* * * * * * *

Table VI-8
Income-and-loss experience of U.S. producers on their operations producing bicycles for IBDs, by firms, fiscal years 1992-95

* * * * * * *

The variance analysis showing the effects of prices and volume on the producers' net sales of bicycles to IBDs and costs and volume on their total expenses is shown in table VI-9. The analysis indicates that, much like sales to the mass merchandiser market, changes in profitability between and among periods were principally due to changing prices and costs, not changes in volume. Further, since decreases in price were essentially offset by decreases in unit costs of goods sold, it could be argued that the main reason for improved profitability in 1995 was the large decrease in SG&A expenses.

NATURE OF U.S. PRODUCTION OPERATIONS--COSTS AND SOURCES

The producers were asked to supply data on the nature of their U.S. production operations (value added), and the source(s) of the parts used to produce 20-inch BMX bicycles and 26-inch mountain bicycles. The data are presented in appendix E, along with a computation of domestic value added, both with and without SG&A expenses. Huffy, Roadmaster, Murray, and GT were able to supply data on both bicycles, and Trek and Raleigh supplied data on the 26-inch bike (they did not produce the 20-inch one). Only Cannondale was unable to provide data on either type of bicycle.

INVESTMENT IN PRODUCTION FACILITIES

Data on the producers' investment in production facilities are presented in table VI-10. ***.

CAPITAL EXPENDITURES

The capital expenditures for the producers are shown in table VI-11. With respect to producers in the mass merchandise market, ***. With respect to producers in the IBD market, *** expenditures.

Table VI-9
Variance analysis of the results of U.S. producers on their operations producing bicycles for IBDs, fiscal years 1992-95

Item	Value (*1,000 dollars*) 1992-95	1992-93	1993-94	1994-95
Total net sales:				
Price variance	-50,582	-4,377	-4,055	-37,012
Volume variance	161,661	12,076	48,783	95,664
Total variance	111,079	7,699	44,728	58,652
Cost of goods sold:				
Cost variance	53,100	7,918	2,745	35,051
Volume variance	-128,848	-9,625	-37,715	-74,122
Total variance	-75,748	-1,707	-34,970	-39,071
Gross profit variance	35,331	5,992	9,758	19,581
SG&A expenses:				
Expense variance	21,324	3,293	502	14,722
Volume variance	-32,696	-2,442	-9,232	-18,215
Total SG&A variance	-11,372	851	-8,730	-3,493
Operating income variance	23,959	6,843	1,028	16,088

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

Table VI-10
Value of assets used by U.S. producers in their operations producing bicycles, fiscal years 1992-95

Item	Value (*1,000 dollars*) 1992	1993	1994	1995
Bicycles for mass merchandisers:				
Original cost	92,511	115,962	143,441	164,204
Book value	44,071	52,231	77,144	96,024
Bicycles for IBDs:				
Original cost	7,575	9,019	10,985	14,205
Book value	4,153	4,526	5,670	7,581
Bicycles:				
Original cost	100,086	124,981	154,426	178,409
Book value	48,224	56,757	82,814	103,605

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

Table VI-11
Capital expenditures by U.S. producers of bicycles, by markets and by firms, fiscal years 1992-95

* * * * * * *

RESEARCH AND DEVELOPMENT EXPENSES

The research and development expenditures for the producers are shown in table VI-12. *** in the last couple of years.

Table VI-12
Research and development expenses of U.S. producers of bicycles, by markets and by firms, fiscal years 1992-95

* * * * * * *

CAPITAL AND INVESTMENT

The producers' comments regarding any actual or potential negative effects of imports of bicycles 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 shown in appendix G.

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 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

With an estimated annual production of about 40 million bicycles, China is the world's largest producer of bicycles.[1] A significant share of this production is targeted for the domestic market, which has traditionally consisted of the standard single-speed "black" bicycles.[2] Two of China's largest bicycle manufacturers, Shanghai Phoenix Bicycle Co., Ltd. (Shanghai Phoenix) and Shanghai Forever Bicycle Co., Ltd., (Shanghai Forever), are significant producers of single-speed "black" bicycles, with Shanghai Phoenix reporting production of *** units and Shanghai Forever *** units during 1995. ***. The Commission requested the Chinese producers to break out their capacity, production, and shipment data for the standard single-speed "black" bicycles from the export-quality bicycles. The data for export-quality bicycles from producers found to be selling at LTFV are presented in table VII-1.[3] The 14 responding producers accounted for virtually all of Chinese LTFV exports to the United States during 1995. Data for all 20 reporting Chinese producers of export-quality bicycles, including the 6 producers determined by Commerce to be selling at fair value, are presented in table VII-2.

Two of the largest Chinese manufacturers that provided data in response to the Commission's questionnaire were not significant exporters to the United States. With a capacity to produce *** bicycles, Shanghai Phoenix is the largest bicycle manufacturer in the world. It primarily produces roadsters, light cycles, and to a lesser degree, derailleur-equipped MTBs and sells the majority of its production in China.[4] During 1995, *** percent of its shipments were exports, primarily to ***. Less than *** percent of its exports were to the United States. Guangzhou Five Rams Industrial Corp. (Five Rams), with a capacity of *** bicycles, operates two factories in Guangzhou. ***.

The names of the largest Chinese exporters, their major importers and bicycle brands, their shares of LTFV and total exports in 1995, and their LTFV margins are presented in table VII-3. Three of the largest Chinese exporters to the United States were Chitech, CBC, and South China Bicycle Co., Ltd. (South China). Commerce determined that the largest Chinese exporter, Chitech, was selling at fair value. Chitech is *** for the manufacturer Shun Lu, of Lin-Tin Industrial Park, Li-Lu. Shun Lu came on line in 1992 with a capacity to produce *** units per year and is expected to reach full capacity in 1996 at *** units per year. Shun Lu

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[1] China's bicycle production for 1995 was expected to total 38 million units. "China International Bicycle Fair," *Cycle Press*, Oct. 1995, p. 28. China's bicycle production for 1993 was estimated to be 41 million units. "Chinese Industry Remains Optimistic," *Cycle Press*, Oct. 1993, p. 34.

[2] "Black" bicycles are defined as bicycles that are basic, single-speed adult bicycles produced primarily for sale in China. They may be exported to some developing country markets but are not marketable in the United States.

[3] The six producers found to be selling at fair value are Bo An, Chitech, Giant, Hua Chin, Merida, and Overlord.

[4] "Shanghai Phoenix," *Cycle Press*, Dec. 1994, p. 14.

Table VII-1
Export-quality bicycles: China's capacity, production, inventories, shipments, and capacity utilization, for producers[1] found to be selling at LTFV, 1992-95 and projected 1996-97

Item	1992	1993	1994	1995	Projected-- 1996	1997
	Quantity (*1,000 units*)					
Capacity	12,307	13,980	14,821	14,750	14,830	14,830
Beginning inventories	579	743	1,042	1,074	1,190	979
End of period inventories	734	1,006	1,073	1,189	979	786
Production	11,480	12,806	13,631	13,116	13,730	14,095
Shipments:						
Home market	7,208	7,944	8,491	7,866	8,446	8,738
Exports to--						
United States	1,611	2,014	2,037	1,760	1,676	1,676
European Union	969	949	682	711	888	893
Canada	70	78	98	90	121	126
All other markets	1,466	1,556	2,291	2,530	2,810	2,855
Total exports	4,116	4,599	5,108	5,092	5,495	5,550
Total shipments	11,324	12,542	13,599	13,000	13,941	14,288
	Ratios and shares (*percent*)					
Capacity utilization	93.3	91.6	92.0	88.9	92.6	95.0
Inventories to production	6.4	7.9	7.9	9.1	7.1	5.6
Inventories to all shipments	6.5	8.0	7.9	9.1	7.0	5.5
Share of total quantity of shipments:						
Home market	63.7	63.3	62.4	60.5	60.6	61.2
Exports to--						
United States	14.2	16.1	15.0	13.5	12.0	11.7
European Union	8.6	7.6	5.0	5.5	6.4	6.3
Canada	0.6	0.6	0.7	0.7	0.9	0.9
All other markets	12.9	12.4	16.8	19.5	20.2	20.0
Total exports	36.3	36.7	37.6	39.2	39.4	38.8

[1] The data in the table are for 14 producers, accounting for virtually all LTFV exports to the United States during 1995.

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

Table VII-2
Export-quality bicycles: China's total capacity, production, inventories, shipments, and capacity utilization, 1992-95 and projected 1996-97[1]

Item	1992	1993	1994	1995	Projected-- 1996	1997
	Quantity (*1,000 units*)					
Capacity	13,707	16,083	19,031	19,847	20,390	20,390
Beginning inventories	579	745	1,053	1,153	1,271	1,066
End of period inventories	736	1,016	1,153	1,271	1,066	857
Production	11,779	14,018	16,181	16,542	18,355	18,900
Shipments:						
Home market	7,208	8,108	9,046	8,415	9,326	9,823
Exports to--						
United States	1,743	2,799	3,422	3,747	4,172	4,172
European Union	1,019	1,058	820	813	1,031	1,048
Canada	88	83	145	163	206	216
All other markets	1,563	1,698	2,649	3,243	3,825	3,850
Total exports	4,413	5,639	7,036	7,966	9,234	9,286
Total shipments	11,621	13,747	16,082	16,381	18,560	19,109
	Ratios and shares (*percent*)					
Capacity utilization	85.9	87.2	85.0	83.3	90.0	92.7
Inventories to production	6.2	7.1	6.8	7.6	5.7	4.5
Inventories to all shipments	6.3	7.4	7.2	7.7	5.7	4.5
Share of total quantity of shipments:						
Home market	62.0	59.0	56.2	51.2	50.2	51.4
Exports to--						
United States	15.0	20.4	21.3	22.8	22.5	21.8
European Union	8.8	7.7	5.1	5.0	5.6	5.5
Canada	0.8	0.6	0.9	1.0	1.1	1.1
All other markets	13.4	12.4	16.5	19.7	20.6	20.1
Total exports	38.0	41.0	43.8	48.5	49.8	48.6

[1] The data in the table are for 20 producers, accounting for virtually all exports to the United States during 1995.

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

Table VII-3
Bicycles: Chinese exporters, their major U.S. importers, bicycle brands, shares of LTFV and total exports to the United States in 1995, and LTFV margins

Channel and firm	Major importers	Major bicycle brands	Share of LTFV exports to U.S.	Share of total exports to U.S.	LTFV margin
Mass merchandiser exporters:					
Chitech	***	***	***	***	1.83
	***	***			
Golden Lion	***	***	***	***	61.67
South China	***	***	***	***	61.67
	***	***			
Overlord	***	***	***	***	0.00
	***	***			
IBD exporters:					
Bo An	***	***	***	***	0.00
CBC[3]	***	***	***	***	2.95
	***	***			
	***	***			
Giant	***	***	***	***	0.67
	***	***			
Hua Chin	***	***	***	***	0.00
Merida	***	***	***	***	0.37
	***	***			
	***	***			
Universal	***	***	***	***	2.27
	***	***			
Warehouse club exporter:					
CATIC	***	***	***	***	2.02

[1] ***.
[2] Not available.
[3] ***.

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

reported a capacity of *** units per year for 1995. *** of Shun Lu's production was exported to the United States, with Dynacraft and Target as its largest customers.[5] Dynacraft, the largest U.S. importer of Chinese bicycles, ***. Chitech's exports *** during the period for which data were collected; exports to the United States were *** units in 1995 compared to *** units in 1992.

CBC is ***. Accounting for *** percent of LTFV Chinese exports to the United States during 1995, CBC's primary U.S. customers were ***, all suppliers to the U.S. IBD market. CBC also sells a line of mass

[5] In 1995, *** percent of Shun Lu's production was exported to the United States, with the remainder exported to ***.

merchandiser bicycles to ***. CBC currently operates two plants in Shenzhen, one of which was opened in 1993. It is expected to reach full capacity in ***.

South China, of Zhao Quing, Guandong, was established in 1989 ***. Accounting for *** percent of LTFV Chinese exports to the United States in 1995, South China supplies the U.S. mass merchandiser market, primarily through ***. South China's export shipments were primarily to the United States, ***.

In addition to the three major exporters, there are a number of Taiwan bicycle manufacturers that have set up manufacturing facilities in China. The majority of them built factories in Shenzhen and Guangzhou in southern China during the early 1990s. Among these firms that reported exports to the United States are Bo An, Merida, Overlord, Hua Chin, and Universal.[6] Giant Manufacturing of Taiwan built two plants in China during the period for which data were collected: (1) Giant China in Kunshun in 1993, with an annual production of *** units; and (2) as part of a joint venture with Shanghai Phoenix, a plant in Shanghai, Shanghai Giant & Phoenix Bicycle, with a current annual production of *** units and expected annual production of *** units.

As indicated in table VII-1, reported Chinese LTFV capacity increased by 19.9 percent from 1992 to 1995. The increases in reported capacity are primarily due to ***. After Giant built its Chinese factory in Kunshun, which is in Jiangsu province, a production zone consisting of 10 bicycle manufacturers emerged in this province. Jiangsu was expected to become the second center for bicycle manufacturing after Shenzhen.[7] With the manufacturers *** primarily producing for export, exports accounted for a large and increasing share of total shipments during the period for which data were collected. The U.S. share of these exports also increased during 1992-93, but fell from 1993 to 1995; exports to the United States are projected to decline further in 1996 and 1997.

Since 1992, the Chinese bicycle industry has been subject to affirmative antidumping duty determinations by Canada, the EU, and Mexico. The duties imposed were 34 percent by Canada in 1992, 31 percent by the EU in 1993, and 144 percent by Mexico in 1994. Petitioners argued that the high tariffs in Canada, the EU, and Mexico place severe limits on the amount of exports China can ship to these major markets and that as a result, Chinese bicycle producers can easily divert sales from these markets to the U.S. market.[8] Respondents for Dynacraft and Shun Lu argued that because the EU order applies only to finished bicycles and not to bicycle kits (which include the frame, fork, and other components required to assemble a complete bicycle), exports to the EU have not been greatly affected.[9] [10] In the preliminary investigation, respondents for CBC noted that the imposition of the EU dumping order did not cause CBC to divert exports to the United States, because under the EU order, CBC could still reportedly supply its assembly facility in France with frames manufactured at its facilities in China. Respondents further noted that the Canadian order only covers low-end bicycles (bicycles under $274 (Can $325)) and that Chinese exports to Canada in fact increased during 1993-94 after the order went into effect.[11]

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[6] Since Bo An, Giant, Hua Chin, Merida, and Overlord were found to be selling at fair value, their data are presented in table VII-2.

[7] "New Production Zone Emerging in Jiangsu Province," *Cycle Press*, Mar. 1993, p. 4.

[8] Petition, p. 44; petitioners' prehearing brief, pp. 44-45.

[9] Dynacraft and Shun Lu's prehearing brief, p. 16.

[10] Because of a surge of Chinese exports of bicycle frames to the EU during 1991-94, petitioners reported that the EU is currently investigating alleged circumvention of its antidumping order. Petitioners argued that the circumvention investigation could divert additional Chinese bicycle exports to the United States (petitioners' posthearing brief, pp. 12-13).

[11] CBC's postconference brief, p. 31.

Petitioners concluded that the continued increases in Chinese capacity coupled with the already increasing exports to the United States pose an imminent threat to the health of the U.S. bicycle industry.[12] Respondents countered that the increases in capacity have been primarily directed to the Chinese market. With personal incomes and purchasing power allegedly increasing in China, respondents noted that Chinese consumers are increasingly switching their purchases from the "black" single-speed bicycles to the higher priced multi-speed bicycles.[13] Respondents further added that some capacity is directed toward growing markets in Japan, Latin America, Eastern Europe, and Australia.[14]

U.S. INVENTORIES OF PRODUCT FROM CHINA

U.S. importers' inventories of LTFV bicycles imported from China increased irregularly from 233,000 units in 1992 to 251,000 units in 1995 (table VII-4). The ratio of inventories to total shipments declined from 21.3 percent in 1992 to 17.6 percent in 1995. In general, U.S. importers order from Chinese producers according to the expected needs of their buyers and do not import large quantities for inventory.

[12] Petition, p. 50; petitioners' prehearing brief, pp. 42-48.

[13] Dynacraft and Shun Lu's prehearing brief, pp. 15-16.

[14] Dynacraft and Shun Lu's prehearing brief, p. 16.

Table VII-4
Bicycles: End-of-period inventories of U.S. importers, by sources, 1992-95

Item	1992	1993	1994	1995
	Quantity (*1,000 units*)			
China (LTFV)	233	279	284	251
Hong Kong	0	0	0	0
Subtotal	233	279	284	251
China (fairly traded)	57	68	87	64
Taiwan	571	741	461	529
Other sources	24	16	12	39
Total	885	1,104	843	882
	Ratio to total shipments of imports (*percent*)			
China (LTFV)	21.3	16.5	15.5	17.6
Hong Kong	([1])	([1])	([1])	([1])
Subtotal	21.3	16.5	15.5	17.6
China (fairly traded)	16.7	7.2	6.7	3.0
Taiwan	24.3	32.7	20.6	22.3
Other sources	16.8	18.3	8.0	16.0
Total	23.4	22.5	15.7	14.9

[1] Not applicable.

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

APPENDIX A

FEDERAL REGISTER NOTICES

INTERNATIONAL TRADE COMMISSION

[Investigation No. 731–TA–731 (Final)]

Bicycles From China

AGENCY: International Trade Commission.

ACTION: Institution and scheduling of a final antidumping investigation.

SUMMARY: The Commission hereby gives notice of the institution of final antidumping investigation No. 731–TA–731 (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 China of bicycles,[1] provided for in subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48 of the Harmonized Tariff Schedule of the United States.

For further information concerning the conduct of this 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).

EFFECTIVE DATE: November 9, 1995.

FOR FURTHER INFORMATION CONTACT: Brad Hudgens (202–205–3189), 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

This investigation is being instituted as a result of an affirmative preliminary determination by the Department of Commerce that imports of bicycles 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 April 5, 1995, by Huffy Bicycle Co., Dayton, OH; Murray Ohio Manufacturing Co., Brentwood, TN; and Roadmaster Corp., Olney, IL.

Participation in the Investigation and Public Service List

Persons wishing to participate in the 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, not later than 21 days after publication of this notice in the Federal Register. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

Limited Disclosure of Business Proprietary Information (BPI) Under an Administrative Protective Order (APO) and BPI Service List

Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in this final investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made not later than 21 days after the publication of this notice in the Federal Register. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Staff Report

The prehearing staff report in this investigation will be placed in the nonpublic record on March 20, 1996, and a public version will be issued thereafter, pursuant to section 207.21 of the Commission's rules.

Hearing

The Commission will hold a hearing in connection with this investigation beginning at 9:30 a.m. on April 2, 1996, 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 March 25, 1996. 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 March 28, 1996, 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 207.23(b) of the Commission's rules. Parties are strongly encouraged to submit as early in the investigation as possible any requests to present a portion of their hearing testimony *in camera*.

Written Submissions

Each party is encouraged to submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.22 of the Commission's rules; the deadline for filing is March 27, 1996. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.23(b) of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.24 of the Commission's rules. The deadline for filing posthearing briefs is April 8, 1996;

[1] For purposes of this investigation, bicycles are defined as bicycles of all types, whether assembled or unassembled, complete or incomplete, finished or unfinished, including industrial bicycles, tandems, recumbents, and folding bicycles. The term "unassembled" means fully or partially unassembled or disassembled; the term "incomplete" means lacking one or more parts or components with which the complete bicycle is intended to be equipped; and the term "unfinished" means wholly or partially unpainted or lacking decals or other essentially aesthetic material. Specifically, this investigation is intended to cover: (1) Any assembled complete bicycle, whether finished or unfinished; (2) any unassembled complete bicycle, if shipped in a single shipment, regardless of how it is packed and whether it is finished or unfinished; and (3) any incomplete bicycle, defined for purposes of this investigation as a frame finished or unfinished, whether or not assembled together with a fork, and imported in the same shipment with any two of the following components, whether or not assembled together with the frame and/or fork: (a) the rear wheel; (b) the front wheel; (c) a rear derailleur; (d) a front derailleur; (e) any one caliper or cantilever brake; (f) an integrated brake lever and shifter, or separate brake lever and click stick lever; (g) crankset; (h) handlebars, with or without a stem; (i) chain; (j) pedals; and (k) seat (saddle), with or without seat post and seat pin. Incomplete bicycles may be classified for tariff purposes under any of the above-mentioned HTSUS subheadings covering complete bicycles or under HTS subheadings 8714.91.20 through 8714.99.80, inclusive (covering various bicycle parts). The scope of this investigation is not intended to cover bicycle parts except to the extent that they are attached to or in the same shipment as an unassembled complete bicycle or an incomplete bicycle, as defined above.

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 April 8, 1996. On April 26, 1996, 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 May 1, 1996, but such final comments must not contain new factual information, or comment on information disclosed prior to the filing of posthearing briefs, and must otherwise comply with section 207.29 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 207.20 of the Commission's rules.

Issued: December 13, 1995.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 95–30941 Filed 12–19–95; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 731–TA–731 (Final)]

Bicycles From China

AGENCY: International Trade Commission.
ACTION: Revised schedule for the subject investigation.

EFFECTIVE DATE: January 31, 1996.

FOR FURTHER INFORMATION CONTACT: Brad Hudgens (202–205–3189), 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: On November 9, 1995, the Commission instituted the subject investigation and established a schedule for its conduct (60 FR 65667, December 20, 1995). Subsequently, the Department of Commerce extended the date for its final determination in the investigation from March 29, 1996, to April 22, 1996. The Commission, therefore, is revising its schedule in the investigation to conform with Commerce's new schedule.

The Commission's new schedule for the investigation is as follows: requests to appear at the hearing must be filed with the Secretary to the Commission not later than April 15, 1996; the prehearing conference will be held at the U.S. International Trade Commission Building at 9:30 a.m. on April 18, 1996; the prehearing staff report will be placed in the nonpublic record on April 11, 1996; the deadline for filing prehearing briefs is April 18, 1996; the hearing will be held at the U.S. International Trade Commission Building at 9:30 a.m. on April 24, 1996; the deadline for filing posthearing briefs is April 30, 1996; the Commission will make its final release of information on May 20, 1996; and final party comments are due on May 23, 1996.

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

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.20 of the Commission's rules.

By order of the Commission.

Issued: February 1, 1996.

Donna R. Koehnke,

Secretary.

[FR Doc. 96–2579 Filed 2–6–96; 8:45 am]

BILLING CODE 7020–02–P

DEPARTMENT OF COMMERCE

International Trade Administration

[A-570-843]

Notice of Final Determination of Sales at Less Than Fair Value: Bicycles From the People's Republic of China

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

EFFECTIVE DATE: April 30, 1996.

FOR FURTHER INFORMATION CONTACT: Katherine Johnson at (202) 482-4929, Shawn Thompson at (202) 482-1776, or James Terpstra at (202) 482-3965, Office of Antidumping Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230.

Applicable Statute and Regulations

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

Final Determination

As explained in the memoranda from the Assistant Secretary for Import Administration dated November 22, 1995, and January 11, 1996, the Department of Commerce (the Department) has exercised its discretion to toll all deadlines for the duration of the partial shutdowns of the Federal Government from November 15 through November 21, 1995, and December 16, 1995, through January 6, 1996. Thus, the deadline for the final determination in this investigation has been extended by 28 days, *i.e.*, one day for each day (or partial day) the Department was closed. As such, the deadline for this final determination is no later than April 22, 1996.

We determine that bicycles from the People's Republic of China (PRC) are being sold in the United States at less than fair value (LTFV), as provided in section 735 of the Tariff Act of 1930, as amended (the Act). The estimated margins are shown in the "Suspension of Liquidation" section of this notice.

Case History

Since the preliminary determination on November 1, 1995 (60 FR 56575, November 9, 1995), the following events have occurred:

On November 6, 1995, Bo An Bike Co., Ltd. (hereinafter Bo An), CATIC Bicycle Co., Ltd. (hereinafter CATIC), Shenzhen China Bicycles Co. (Holdings) Ltd. (hereinafter CBC), Giant China Co., Ltd. (hereinafter Giant), Hua Chin Bicycle Co., Ltd. (hereinafter Hua Chin), Merida Industry (Hong Kong) Co., Ltd./ Merida Bicycle Co., Ltd. (hereinafter Merida), Shenzhen Overlord Bicycle Co., Ltd. (hereinafter Overlord), and Universal Cycle Corp. (hereinafter Universal) requested a postponement of the final determination pursuant to 19 CFR 353.20. On November 9, 1995, Chitech Industries, Ltd. (Hong Kong) (and affiliated parties Tandem Industries, Ltd. (Hong Kong), Magna Technology Corp. (Taiwan), Taiwan Tandem Co., Ltd. (Taiwan), and Shun Lu Bicycle Co. (aka Shunde Tandem Bicycle Parts Company) (hereinafter Chitech) made a similar request.

On November 9 and 20, 1995, respondents alleged clerical errors in the preliminary determination. Also, on

November 20, 1995, petitioners and all respondents, except Chitech, requested a hearing. On December 4, 1995, the Department amended the preliminary determination and postponed the final determination. (*See, Amendment to Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Bicycles from the People's Republic of China*, 60 FR 64016 (December 13, 1995)).

In December, January, and February, we verified the respondents' questionnaire responses. Additional published information (PI) on surrogate values was submitted by petitioners and respondents on March 6, 1996. Petitioners and respondents submitted case briefs on March 26, 1996, and rebuttal briefs on April 2, 1996. A public hearing was held on April 3, 1996.

On January 31 and February 5, 1996, Chitech and CBC, respectively, requested that the Department reconsider its decision not to publish an amended preliminary determination with respect to these two companies. On February 9, 1996, these requests were denied.

Finally, the respondents have made numerous submissions requesting that the Department rescind the investigation (*See*, Comment 7 in the *General Comments* section below).

Scope of Investigation

The product covered by this investigation is bicycles of all types, whether assembled or unassembled, complete or incomplete, finished or unfinished, including industrial bicycles, tandems, recumbents, and folding bicycles. For purposes of this investigation, the following definitions apply irrespective of any different definition that may be found in Customs rulings, U.S. Customs law, or the Harmonized Tariff Schedule of the United States (HTSUS): (1) The term "unassembled" means fully or partially unassembled or disassembled; (2) the term "incomplete" means lacking one or more parts or components with which the complete bicycle is intended to be equipped; and (3) the term "unfinished" means wholly or partially unpainted or lacking decals or other essentially aesthetic material. Specifically, this investigation is intended to cover: (1) Any assembled complete bicycle, whether finished or unfinished; (2) any unassembled complete bicycle, if shipped in a single shipment, regardless of how it is packed and whether it is finished or unfinished; and (3) any incomplete bicycle, defined for purposes of this investigation as a frame, finished or unfinished, whether or not assembled together with a fork, and imported in the same shipment with any two of the following components: (a) The rear wheel; (b) the front wheel; (c) a rear derailleur; (d) a front derailleur; (e) any one caliper or cantilever brake; (f) an integrated brake lever and shifter, or separate brake lever and click stick lever; (g) crankset; (h) handlebars, with or without a stem; (i) chain; (j) pedals; and (k) seat (saddle), with or without seat post and seat pin.

The scope of this investigation is not intended to cover bicycle parts except to the extent that they are attached to or in the same shipment as an unassembled complete bicycle or an incomplete bicycle, as defined above.

Complete bicycles are classifiable under subheadings 8712.00.15, 8712.00.25, 8712.00.35, 8712.00.44, and 8712.00.48 of the 1995 HTSUS. Incomplete bicycles, as defined above, may be classified for tariff purposes under any of the aforementioned HTSUS subheadings covering complete bicycles or under HTSUS subheadings 8714.91.20–8714.99.80, inclusive (covering various bicycle parts). The HTSUS subheadings are provided for convenience and customs purposes. The written description of the scope of this investigation is dispositive.

Period of Investigation

The period of investigation is April 1, 1994, through March 31, 1995.

Separate Rates

Four of the responding exporters in this investigation are located outside the PRC. They are Merida, Giant, Hua Chin and Chitech. Further, there is no PRC ownership of any of these companies. Therefore, we determine that no separate rates analysis is required for these exporters because they are beyond the jurisdiction of the PRC government. (*See, e.g., Final Determination of Sales at Less Than Fair Value: Disposable Pocket Lighters from the People's Republic of China*, 60 FR 22359, 22361, (May 5, 1995)).

The remaining five respondents are either joint ventures between Chinese and foreign companies or are Chinese-owned companies publicly traded on the Shenzhen stock exchange. They are CATIC, CBC, Overlord, Universal, and Bo An. For these respondents, a separate rates analysis is necessary to determine whether the exporters are independent from government control.

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 the *Final Determination of Sales at Less Than Fair Value: Silicon Carbide from the People's Republic of China*, 59 FR 22585 (May 2, 1994) (*Silicon Carbide*). Under the separate rates criteria, the Department assigns separate rates in non-market-economy cases only if respondents can demonstrate the absence of both *de jure* and *de facto* governmental control over export activities.

1. Absence of De Jure Control

The respondent have 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. Respondents have also submitted documents which establish that bicylcles are not included on the list of products that may be subject to central government export constraints. The Department has reviewed these and other enactments in prior cases and has previously determined that these laws indicate that the responsibility for managing state-owned enterprises has been shifted from the government to the enterprise itself (*See, Silicon Carbide* and *Final Determination of Sales at Less Than Fair Value: Furfuryl Alchohol from the People's Republic of China*, 60 FR 22544. (May 8, 1995) (*Furfuryl Alcohol*)). In addition, as discussed in the *Final Determination of Sales at Less Than Fair Value: Certain Cased Pencils from the People's Republic of China*, 59 FR 55625, (November 9, 1994) (*Pencils*), the laws governing share companies have not altered the devolution of control.

However, as stated 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*).

Each respondent has asserted and we verified the following: (1) it establishes its own export prices; (2) it negotiates contracts, without guidance from any governmental entities or organizations; (3) it makes its own personnel decisions; and (4) it retains the proceeds of its export sales, uses profits according to its business needs and has the authority to sell its assets and to obtain loans. In addition, respondents' questionnaire responses indicate that company-specific pricing during the POI does not suggest coordination among exporters. During verification proceedings, Department officials viewed such evidence as sales documents, company correspondence, and bank statements. Regarding personnel decisions, we reviewed such evidence as the discussion of the selection of the board of directors in contracts between joint venture companies and minutes from the board of director meetings. This information supports a finding that there is a *de facto* absence of governmental control of export functions. Consequently, we have determined that the above-mentioned respondents have met the criteria for the application of separate rates.

China-Wide Rate

Six of the mandatory respondents did not respond to the questionnaire. Hence, we are applying a single antidumping rate to these exporters as well as all other exporters of PRC-manufactured bicycles based on our presumption that the export activities of these respondents who failed to completely respond and to establish that they meet the criteria for a separate rate are controlled by the PRC government. (*See*, Comments 8 and 9 in the *General Comments* section below).

Facts Available

Pursuant to sections 776(a) and (b) of the Act, we have based the China-wide rate on facts available, using adverse inferences, because the non-responding companies have failed to cooperate to the best of their ability. Given that this margin involves data contained in the petition, we are required to corroborate this data, to the extent practicable, pursuant to section 776(c) of the Act. (*See*, also, Statement of Administrative Action (SAA) at 200). We have identified several major items (*i.e.*, depreciation, interest, and profit, as well as the factor values for frames, forks, and rims) contained in the petition which individually comprise a significant portion of the normal value (NV) calculations. We compared the data in the petition to secondary data which includes but is not limited to the same type of data used as the basis for the petition and the audited financial reports of two of the largest Indian bicycle producers.

As a result of our analysis, we found that, with the exception noted immediately below, the secondary information for these factor values are comparable to those provided in the petition. Accordingly, this petition information has been corroborated.

However, after analyzing the figure contained in the petition for depreciation, interest and profit, we found, as did both petitioners and respondents, that this figure does not reflect usual cost and profit in the Indonesian bicycle industry. Specifically, the 1992 figure of 57.91 percent provided in the petition does not correspond with the 1993 figure of 22.84 percent and the 1991 figure of 22 percent provided by respondents on September 19 and 25, 1995. (For further discussion *see* Memorandum to Barbara R. Stafford re: Factors Valuation dated November 1, 1995). Therefore, we find that the 57.91 percent figure is not corroborated (*i.e.*, has no probative value in determining depreciation, interest, and profit).

We have used the 1991 figure for depreciation, profit, and interest in recalculating the margins in the petition. We did not use the more current 1993 figure because the study containing it was issued only in draft form.

Fair Value Comparisons

To determine whether sales of bicycles from the PRC to the United States were made at LTFV, we compared Export Price (EP) and/or Constructed Export Price (CEP) to the NV, as specified in the "United States Price" and "Normal Value" sections of this notice.

United States Price

For all responding exporters, with the exception of CATIC, which had only CEP sales, we based United States Price (USP) on EP in accordance with section 772(a) of the Act, as the subject merchandise was sold directly to the first unaffiliated purchaser in the United States prior to importation and CEP methodology was not otherwise indicated.

In addition, for Giant, CBC, CATIC, and Chitech, where sales to the first unaffiliated purchaser took place after importation into the United States, we based USP on CEP, in accordance with section 772(b) of the Act.

We corrected respondents' data for errors and omissions found at verification. *See*, Concurrence Memorandum and company-specific calculation memoranda for details. In addition, we made company-specific adjustments as follows:

1. Bo An

We calculated EP based on packed, FOB Hong Kong port prices to unaffiliated purchasers in the United States. We made deductions from the starting price, where appropriate, for foreign inland freight and brokerage and handling (which includes containerization, documentation fees, the Hong Kong terminal handling charge and PRC brokerage costs) and Hong Kong duty. As all foreign inland freight and brokerage and handling were provided by PRC suppliers, these services were valued in India.

2. CBC

We calculated EP and CEP based on packed, delivered prices to unaffiliated customers. Where appropriate, we made deductions from the starting price for discounts and rebates and credit notes. We also made deductions, where appropriate, for foreign inland freight, foreign brokerage and handling, Hong Kong duty, U.S. freight and warehousing expenses, ocean freight and marine insurance, and U.S. duty and harbor fees. With the exception of foreign inland freight, movement charges were provided by market-economy suppliers and paid for in market-economy currency. Regarding foreign inland freight, this service was provided by a PRC supplier. Accordingly, we valued this expense in India.

Further, we made additions to CEP for interest revenue received from the unaffiliated customers. In accordance with section 772(d)(1) of the Act, we deducted from CEP the following expenses that related to economic activity in the United States: commissions, direct selling expenses, including advertising, warranties, and credit expenses, and indirect selling expenses, including inventory carrying costs. Finally, we made an adjustment for CEP profit in accordance with section 772(d)(3) of the Act. (*See*,

Comments 1 and 2 in the *General Comments* section below.)

3. CATIC

We calculated CEP based on packed, FOB U.S. warehouse prices, or delivered prices, to unaffiliated customers. We made deductions from the starting price for discounts, where appropriate. We also made deductions for foreign brokerage and handling, freight expenses, ocean freight and marine insurance, U.S. brokerage and handling, and U.S. duty and harbor fees. We deducted from CEP the following expenses that related to economic activity in the United States: commissions, direct selling expenses, including advertising, warranty, credit, and repacking, and indirect selling expenses, including inventory carrying costs. Finally, we made an adjustment for CEP profit in accordance with section 772(d)(3) of the Act. (*See*, Comments 1 and 2 in the *General Comments* section below.)

4. Giant

We calculated EP and CEP based on packed, FOB PRC port or CIF U.S. port or delivered prices to unaffiliated purchasers. We made deductions from the starting price, where appropriate, for the following: foreign brokerage and handling, U.S. brokerage, international freight (which includes U.S. inland freight), U.S. duty, loading and containerization, and marine insurance (which also includes U.S. inland insurance, harbor maintenance fees and merchandise processing fees). All of the above expenses were provided by market-economy carriers and paid for in market-economy currencies. We also deducted an amount for foreign inland freight but since this service was provided by a PRC supplier, we valued this expense in India. We also deducted from the starting price, where appropriate, discounts and rebates.

In accordance with section 772(d)(1) of the Act, we deducted from CEP the following expenses that related to economic activity in the United States: direct selling expenses, including warranties, advertising, and credit expenses, and indirect selling expenses, including inventory carrying costs. Finally, we made an adjustment for CEP profit in accordance with section 772(d)(3) of the Act. (*See*, Comments 1 and 2 in the *General Comments* section below.)

5. Hua Chin

We calculated EP based on packed, FOB Hong Kong port prices to unaffiliated purchasers in the United States. We made deductions from the starting price, where appropriate, for foreign inland freight and Hong Kong terminal handling fees. As all foreign inland freight and handling fees were provided by PRC suppliers, these services were valued in India.

6. Merida

We calculated EP based on packed, FOB Hong Kong port prices to unaffiliated purchasers in the United States. We made deductions from the starting price, where appropriate, for foreign inland freight and brokerage and handling (which includes containerization, documentation fees, the Hong Kong terminal handling charge and PRC brokerage costs) and Hong Kong duty. As all foreign inland freight and brokerage and handling were provided by PRC suppliers, these services were valued in India.

7. Overlord

We calculated EP based on packed. FOB Hong Kong port prices to unaffiliated purchasers in the United States. We made deductions from the starting price, where appropriate, for foreign inland freight, brokerage and handling and Hong Kong duty. As all foreign inland freight and brokerage and handling were provided by PRC suppliers, these services were valued in India.

8. Chitech

We calculated EP based on packed. FOB Hong Kong prices and CEP based on packed, duty-paid, FOB U.S. warehouse prices to unaffiliated customers. Were appropriate, we made deductions from the starting price for various discounts. We also made deductions for foreign brokerage and handling, freight, Hong Kong import and export fees, terminal handling fees, ocean freight and marine insurance, U.S. brokerage and handling, and U.S. duty and harbor fees.

In accordance with section 772(d)(1) of the Act, we deducted from CEP the following expenses that related to economic activity in the United States: commissions, direct selling expenses, including advertising, warranties, and credit expenses, and indirect selling expenses, including inventory carrying costs. Finally, we made an adjustment for CEP profit in accordance with section 772(d)(3) of the Act. (*See*, Comments 1 and 2 in the *General Comments* section below.)

9. Universal

We calculated EP based on packed, FOB Hong Kong or FOB Huangpu port prices to unaffiliated purchasers in the United States. We made deductions from the starting prices for foreign inland freight, which was provided by a PRC supplier and therefore was valued using Indian surrogate values. In addition, we deducted from the FOB Hong Kong prices terminal handling charges, document fees, import/export declaration fees, handling fees and courier fees.

Normal Value

In accordance with section 773(c) of the Act, we calculated NV based on factors of production reported by the responding exporters. Where an input was sourced from a market economy and paid for in market-economy currency, we have used the actual price paid for the input to calculate NV, when possible, in accordance with Department practice. *See, Lasko Metal Products v.* United States, 437.3d 1442, 1443 (Fed. Cir. 1994) (*Lasko*).

In instances where inputs were sourced domestically, we valued the factors using PI from India where possible. Where appropriate Indian values were not available, we used PI from Indonesia.

Valuation of Bicycle Parts and Components

As in our preliminary determination, we valued certain parts and components purchased by some respondents in the PRC, using the average market-economy prices reported by other respondents for the same part or component, as discussed below. However, unlike in our preliminary determination, we used the average actual market-economy price reported by the other respondents rather than the ranged public version of those prices. We did this because we determined that the manner in which the actual prices were ranged, *i.e.*, either higher or lower, could potentially introduce distortion into the calculation. (*See*, Comment 3 in the *General Comments* section below).

The nine responding exporters reported that they purchased a large number of different components (*e.g.*, brake sets) and sub-components (*e.g.* brake arms) for use in assembling finished bicycles. The vast majority of these purchased inputs are sub-components. These inputs, both components and sub-components, vary in terms of material composition (*e.g.*, carbon steel versus aluminum), size, design (*e.g.*, cantilever versus side-pull brakes), and other relevant physical characteristics.

Some inputs were purchased from market-economy suppliers and paid for in convertible currency. Following our normal practice, we used the actual price paid for these inputs, where

possible. However, where the input was not purchased from a market-economy supplier and paid for in a market-economy currency, it was necessary to develop a surrogate value.

For certain components and sub-components, differences in material content and design result in large price differentials. For example, there is a substantial difference in the price of a frame tube made from high-tensile steel versus one made with chrome-molybdenum; therefore, using a surrogate value for a frame tube of high-tensile steel would unreasonably distort the calculation of NV for a bicycle with a chrome-molybdenum frame. In reality, for certain components, a specific design or material composition can result in a distinctly different input.

With respect to the factors of production methodology, the Court of Appeals has noted that "there is much in the statute that supports the notion that it is Commerce's duty to calculate margins as accurately as possible and to use the best information in doing so." *See, Lasko.* Therefore, to minimize distortions and ensure the most accurate margin calculation possible, we developed a hierarchy for selection of surrogate values for parts and components based on the need for specificity with respect to design or material composition or both. Our first choice under that hierarchy is to use data from India (*e.g.*, the component prices from the Delhi Market Report) or Indonesia (*e.g.*, the average unit values from the Indonesian study) if it is specific with respect to design and material composition or if we could not determine, based on the evidence, whether significant variations in the price data stemmed from design or material composition. Where design or material composition appeared to have a significant impact on price but design or material-specific data was not available in a surrogate country, we used the average actual market-economy prices from market-economy suppliers to the PRC. However, we used this data strictly as a second alternative to design- or material-specific data from India or Indonesia, where available.

In one instance, a respondent reported factors of production for a number of piece-parts produced by its affiliated supplier, *e.g.*, fork arms. We did not value those subcomponents because we had no factor values for fork arms. Instead, we valued the smallest component that incorporated these sub-components, *e.g.*, completed fork set.

Other Factor Valuations

Where possible, we used public information for the surrogate values. 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. 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 Factors Calculation Memorandum to Barbara R. Stafford from the team, dated April 22, 1996.

To value caustic soda, methylene dichloride, zinc hydroxide, oxalic acid, sulfuric acid, nitric acid, chromic nitric acid, tartaric acid, and sodium carbonate we used public information from POI issues of the Indian publication *Chemical Weekly.* For chromic anhydride, various phosphates, various chromates, sodium bichromate, dimethyl benzene, and acetylene and carbon dioxide, we relied on POI import prices contained in *Monthly Statistics.*

Regarding sodium bichromate, sodium chromate, and potassium chromate, we could not find POI prices for these exact inputs. Therefore, we used a POI import price based on a basket category containing chromates and dichromates in *Monthly Statistics* to value these inputs. For dimethyl benzene, we obtained a price for a similar chemical from *Monthly Statistics.*

To value argon gas and oxygen, we relied on 1994 Indonesian price data in the *Statistical Bulletin* because we could not locate a price from Indian publications.

With regard to hydrochloric acid, we relied on a 1993 Indian export price quote from *Chemical Weekly* because the prices for this input in other known Indian publications are based on an Indian import category that is not exclusive to hydrochloric acid (*See, Final Determination of Sales at Less Than Fair Value: Coumarin from the People's Republic of China,* 59 FR 66895 (December 28, 1995.))

We valued degreaser using information from the only known Indian publication which contained such a price, *The Analyst's Import Reference 1993, Chemical & Pharmaceutical Products (The Analyst).*

We valued paint using Indian price data from *Monthly Statistics.* We could not find a material price for solvent (thinner) from publicly available information. Therefore, we used Indian price data from *Monthly Statistics* for a similar chemical, which also dilutes paint.

To value diesel fuel, we used a POI Indian price from the publication *AP Worldstream.* To value liquefied petroleum gas, we used a POI price from the periodical *Financial Times of India.*

For the valuation of electricity, we used an average 1992 industrial rate from the publication *Current Energy Scene in India* because this publication contained data more contemporaneous to the POI than other known publications.

With regard to labor, we used data from the United Nations' publication *Yearbook of Labor Statistics.* Following the method established in the *Final Determination of Sales at Less Than Fair Value: Polyvinyl Alcohol from the PRC,* 61 FR 14062 (March 29, 1996) (*PVA*), we find no basis to assume the skill level of the surrogate value, nor do we have agreement among parties regarding use of this labor rate for skilled and unskilled labor rate assumptions. Thus, we applied a single labor value to all reported labor factors, including indirect labor (*See* Comment 18 below for further discussion).

To value scrap metal, we relied on Indian data from *Monthly Statistics.* We treated the scrap metal as a by-product and deducted its value from the cost of manufacture (COM) for CBC, Chitech, Giant, Merida, and Overlord. This adjustment was not appropriate for the remaining respondents.

For nuts and bolts and screws, we used product-specific published prices contained from the Indonesian publication *Indonesian Foreign Trade Statistics for Imports* (*See* Comment 17 below for further discussion).

For certain subcomponents we had no published prices or publicly ranged market prices from which to choose. Therefore, we valued these specific components based on the content of material (*e.g.*, steel , plastic or rubber). To value components made of steel, we used an average tax-exclusive 1994 domestic steel price from the Indian publication *Statistics for Iron and Steel.* For components made of plastic and/or rubber, we used Indian price data from *Monthly Statistics.*

To value factory overhead, SG&A, and profit, we calculated simple average percentages based on the data from the four financial statements of Indian surrogate producers which are contemporaneous with the POI, *i.e.*, Atlas, Hero, Gujurat and TI. We made certain adjustments to the percentages calculated as a result of reclassifying

expenses contained in the financial reports. We calculated a simple average of the profit ratios for the three Indian surrogate producers which were profitable during the POI. We also included the profit ratio of a fourth company; however, we set this additional profit ratio to zero because this company was not profitable during the POI (*See* Comment 15 below for further discussion).

Finally, to value the packing materials, corrugated cartons, uncorrugated cartons, bubble wrap/foam paper, staples, adhesive tape, rope, packing paper, polypropylene, polyethylene, recycled plastic cups, inner recycled paper boxes, and plastic bags, we relied on Indian data from *Monthly Statistics*. To value glue, we used an average price based on Indian price data for two types of glue products from the publication *Chemical Weekly*.

Critical Circumstances

For purposes of the preliminary determination, we determined that critical circumstances existed only with respect to Hua Chin. However, the margin for Hua Chin in the amended preliminary determination was *de minimis*; in effect, making this issue moot for Hua Chin. Since this amended determination we have not received any information which would cause us to reconsider our analysis. Because Hua Chin's final margin is also *de minimis*, this issue continues to be moot.

Verification

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

Interested Party Comments

General Comments

Comment 1: CEP Deductions and COS Adjustments

According to petitioners, the plain language of Section 772(d) of the Act requires the deduction of all selling expenses from CEP in the calculation of USP. Petitioners assert that the CEP deduction is not contingent upon whether circumstance of sale (COS) adjustments or an offset to NV can be made. Moreover, petitioners note that CEP offsets are no longer automatic under the new law. In line with this argument, petitioners claim that no level of trade (LOT) adjustment or CEP offset is warranted in the instant investigation because the record does not demonstrate that NV is at a more advanced LOT than CEP. However, should the Department decide to make an adjustment, petitioners provide their own calculation showing that this should equal 0.096 percent of COM.

Furthermore, petitioners contend that the Department should make COS adjustments for EP sales, and assert that the Department can differentiate between direct and indirect selling expenses in both the United States and surrogate data if certain assumptions are made. However, petitioners maintain that, if the Department believes that it is difficult to segregate all direct from indirect expenses for EP sales, at a minimum the Department should adjust for U.S. commissions.

Respondents argue that no deduction for CEP selling expenses should be made. Respondents state that such a deduction would blatantly disregard the Department's stated policy concerning selling expenses in non-market-economy (NME) cases. Specifically, respondents contend that, as in past cases, the financial statements used to determine surrogate SG&A do not distinguish between direct and indirect selling expenses. Consequently, respondents assert that any adjustment made for purposes of calculating an offset would require an arbitrary division of these expenses among direct and indirect selling, G&A, and manufacturing expenses. As precedent on this issue, respondents cite *Final Determination of Sales at Less Than Fair Value: Oscillating Fans and Ceiling Fans from the People's Republic of China*, 56 FR 55271, (October 25, 1991); *Final Determination of Sales at Less Than Fair Value: Refined Antimony Trioxide From the People's Republic of China*, 57 FR 6801 (Feb. 28, 1992); 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 (Sept. 20, 1993).

However, respondents state that, if a CEP deduction is made, the Department should not add selling expenses to NV. Respondents maintain that the Department has the authority to disregard selling expenses because the language of the NME provision of the statute only requires an addition for *general* expenses. Nonetheless, respondents maintain that, if selling expenses are added to NV, the Department should make a corresponding offset, capped by the amount of the CEP deductions.

Finally, for the same reasons that the data on the record of this case is not suitable for calculating adjustments to NV, respondents contend that this data is likewise unusable for purposes of making COS adjustments.

DOC Position: Regarding the necessity of making CEP deductions, we have reevaluated our practice in this area and have concluded that CEP deductions are required by the plain language of the statute, which states in section 772(c)(2)(d) that CEP "shall be reduced" by the selling expenses associated with economic activity in the United States. The statute provides no exception for cases involving non-market-economy countries. Consequently, we have made deductions to CEP for all selling expenses associated with economic activity in the United States, in accordance with our practice. (*See, e.g., Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Certain Pasta from Italy*, 61 FR 1344, (January 19, 1996)) (*Pasta*). However, we disagree with petitioners that we should deduct those U.S. selling expenses incurred in third country markets which are not associated with selling activity occurring in the United States. The SAA makes it clear that we only adjust for selling expenses associated with economic activity in the United States. SAA at 153.

Regarding making an offset to NV, we disagree with respondents that an offset to NV is required in this case. While the statute requires certain adjustments to USP, corresponding adjustments to NV are only required upon a sufficient showing that differences exist justifying the adjustment. *See* section 773(a)(7). In this case, the only information we have about selling expenses is the financial statements of the Indian producers. These do not specify whether Indian home market sales are at any particular LOT or include any particular selling expenses. Therefore, we do not have any basis upon which to determine whether any adjustment to the surrogate expenses is appropriate.

We disagree with petitioners' argument that COS adjustments are required by the statute. Rather, section 773(a)(6)(C) allows NV to be increased or decreased for differences in circumstances of sale as long as "it has been established to the satisfaction of the administering authority" that such adjustments are warranted. Given the imprecise nature of the information about selling expenses in the record in this case, we have no basis to conclude that such adjustments are warranted in this case.

Finally, regarding respondents' argument that we should not add selling expenses to NV because the statute only references *general* expenses, we disagree. We have always interpreted

the term general expenses to refer to selling, general, and administrative expenses. Accordingly, we included selling expenses in NV, as is our normal practice.

Comment 2: Profit Deduction from CEP Sales

In addition to deducting selling expenses from CEP, petitioners contend that the plain language in section 772(d) of the Act also requires that profit be deducted from CEP. Petitioners suggest that this deduction be based on the profit of the surrogate producers and the ratio of CEP deductions to total U.S. expenses.

The record of this investigation does not contain sufficient information to calculate actual total profit because, according to respondents, there is no information on actual manufacturing costs and overhead. Accordingly, respondents argue that no deduction for profit should be made.

DOC Position: We agree with petitioners. Section 772(d) of the Act requires the Department to make a deduction for profit associated with CEP selling expenses. Section 772(f) of the Act specifies that, in general, this calculation involves both U.S. and home market total sales, costs, and expenses. In making this calculation in market-economy cases, we have included respondent's home market sales, cost, and expense data in this calculation, *See, e.g., Pasta.* However, in this case we have no home market sales upon which to base this calculation. Instead, we only have usable financial statements of four Indian surrogate producers. In attempting to perform this calculation, we found that there were numerous difficulties in accurately combining the total sales, total cost, and total expense data from these financial statements. This is because these data are expressed in different ways on each financial statement, making any attempt to combine them problematic. Given these difficulties, we determined that petitioners' approach is the most reliable and consistent with the manner in which this calculation is performed in market-economy cases. This approach avoids the difficulties in combining data from the financial statements because the variables are consistently and readily identifiable across the four financial statements. See also "Concurrence Memo" for a complete discussion of this issue.

Comment 3: Publicly Ranged Market-Economy Prices

Petitioners agree with the basic methodology used by the Department in the preliminary determination for valuing bicycle components. However, petitioners maintain that the Department's use of average publicly-ranged market-economy prices had the effect of allowing respondents to introduce "distortions" into the factor values in the manner in which the prices were ranged. Petitioners argue that the Department should use prices for valuing bicycle components that allow the most accurate margin calculation possible. Petitioners maintain that no proprietary information will be disclosed as long as the Department releases margin calculations under administrative protective order (APO), as was done for the preliminary determination.

Chitech argues that an adjustment to the publicly ranged market-economy prices would violate confidentiality. The other respondents argue that petitioners' suggestion would violate 19 CFR 353.32(f) because it would result in the unauthorized release of data to companies that did not submit that information. Respondents further argue that parties would be denied their right to disclosure because the Department could not disclose such information to them.

Moreover, respondents contend that the current publicly-ranged market-economy prices used by the Department already penalizes companies. Respondents assert that some companies would purchase a component from a domestic source, rather than a market-economy source, if the domestic source offered the identical component at a lower price. However, for these domestic purchases, the Department, by assigning such prices, *i.e.*, the public versions of presumably higher market-economy prices, as used in the preliminary determination, ascribes to that component a higher price than the companies may actually incur. Respondents maintain that using petitioners suggestion to value Chinese-sourced components would only increase this penalty.

In addition, respondents state that the Department has developed a preference for using PI to derive factor prices. Respondents maintain that they have submitted publicly ranged versions of their proprietary factors of production databases in accordance with the Department's instructions and 19 CFR 353.32(b)(1). Finally, respondents argue that neither the Department nor petitioners claimed that the publicly-ranged prices did not conform to the regulations.

DOC Position: We agree with petitioners that the use of respondents—publicly-ranged prices allows the possibility of distortions caused by the manner in which respondents ranged these prices. Respondents were aware of our intention to use the public versions of these prices in our factor valuations prior to the preliminary determination. We discussed this issue with them when explaining the requirements of our additional request for information related to the special coding instructions for parts and components. We agree with petitioners that it is appropriate to use actual average prices for the margin calculations. However, before determining whether the average of the actual prices could be released publicly, we analyzed the data sources to satisfy ourselves that no proprietary information would be released.

For each input price under analysis, we considered the number of companies reporting a price for that input and whether one or two companies' relative volume of market-economy purchases were significant. These factors allowed us to determine to our satisfaction whether any one company could derive the actual prices reported by other respondents (*i.e.*, proprietary data). In performing this analysis, we considered, among other things, the approach to this issue employed by the International Trade Commission (ITC).[1] However, we modified this approach to fit the unique circumstances of this investigation. We took this approach because there are instances in which proprietary data would be divulged and it would be too burdensome to make public versions of all documents which incorporate the proprietary prices. Accordingly, we classified all the average market-economy price data as proprietary and will release it to the appropriate parties under APO.

Comment 4: Transfer Prices

At verification we discovered that three respondents, Hua Chin, Universal and Overlord, had reported the transfer prices of their affiliates (which included a markup for freight, expenses, and profit) instead of the price paid to the unrelated supplier. Respondents contend that because the transfer prices were always higher then the prices paid to the unrelated supplier, it follows that these prices must be considered by the

[1] According to the ITC approach, generally, it would not be feasible for any one company to determine the actual price as long as three or more respondents purchase the same component from market-economy suppliers. However, in situations where one respondent accounts for 75 percent of the quantity of a given component, the data is considered proprietary. In addition, in situations where two respondents account for 90 percent of the quantity of a given component, that data is considered proprietary. See, memo from analyst to file regarding this practice dated April 8, 1996.

Department to have been made at arm's length and should not be adjusted.

Although three respondents reported transfer prices, petitioners only addressed Overlord. Petitioners argue that the component prices reported by Overlord do not include those general and administrative expenses incurred by Overlord Taiwan and NaiYu, its other affiliate, in purchasing the same components. As such, petitioners maintain that Overlord understated the actual costs of components from these suppliers by not accounting for these expenses. Therefore, petitioners argue that the Department should not adjust these prices downward to account for the mark-up.

DOC Position: We agree with both petitioners and respondents. Hua Chin, Universal, and Overlord each reported the price paid to an affiliate which had purchased certain parts from unaffiliated suppliers. Regarding Hua Chin, it pays its Taiwan affiliate a service fee for certain component purchases to cover freight, expenses, and profit. However, company officials were unable to provide separate freight invoices showing how much of the service fee was attributable to freight, other expenses, or profit. Regarding Universal and Overlord, we found at verification that the prices reported by both companies were conservative, in that they cover the price from the unaffiliated supplier plus the affiliated supplier's freight costs and profit, if applicable. However, we do not know the exact amount of the price that is applicable to freight costs, expenses, and profit. Therefore, we made no adjustment to the transfer prices reported by Hua Chin, Universal, and Overlord, and have used them in our margin calculations.

Comment 5: Third Country Selling, General, and Administrative Expenses (SG&A)

Regarding the SG&A expenses incurred by the Hong Kong and Taiwan affiliates of respondents, petitioners argue that such expenses cannot be used to build NV because their use would result in an understatement of these expenses. Petitioners argue that the respondents also incur significant expenses selling at the factory in the PRC. Because such expenses are incurred in RMB, they cannot be combined with market-economy currency expenses incurred by the affiliates. If the Department used the affiliates' SG&A, it could not also use the PRC-incurred selling expenses. Therefore, petitioners argue that the Department must use the SG&A expenses of the Indian surrogate producers. However, petitioners argue that COS adjustments must be made for particular line items in affiliates' financial statements, such as commissions, which they argue should be considered as direct selling expenses.

Chitech argues that the Department cannot lawfully use the SG&A expenses of the offshore affiliates because these do not fit into the statutory scheme. Chitech argues that the statute requires the Department to value SG&A in a surrogate country.

DOC Position: We agree that the SG&A expenses of the offshore affiliates should not be used for calculating NV. In non-market-economy cases our practice is to value factors of production using the prices actually paid by a respondent for inputs purchased from a market-economy producer and paid for in a market-economy currency. This practice has been used primarily to value material inputs. However, at the outset of this investigation, we considered using the "actual" market-economy expenses of the Hong Kong and Taiwan affiliates to calculate NV. We also considered using the selling portion of the affiliates' SG&A to make COS adjustments to NV in both CEP and EP situations. On September 28, 1995, prior to the preliminary determination, we issued supplemental SG&A questionnaires to the respondents and subsequently verified the information contained in the responses. After analyzing and verifying this SG&A information, we have identified several problems, discussed below, which cause us to conclude that use of such data would not enhance the accuracy or fairness of our calculations.

The first problem involves double counting SG&A. Each of the nine respondents incur SG&A expenses at their factories in the PRC. Therefore, in addition to using the affiliates' market-economy SG&A expenses to construct NV, we would also have to use surrogate data to value the portion of SG&A incurred in the PRC. To do so, we would have to determine the appropriate portion of the surrogate SG&A ratio to use (*i.e.*, that portion concerning the PRC factory incurred selling expenses) to avoid over-valuing the SG&A element in NV. Although we can identify both the SG&A "activities" performed at the respondents' factories and the SG&A "activities" performed by the respondents' affiliates, we are not able to use this information to identify the portion of total surrogate SG&A expenses that should be used to value SG&A expenses incurred at the factories.

The second problem is in finding the appropriate cost of sales over which to allocate SG&A. The Department's practice is to express the SG&A element in NV as a percentage of the cost of sales. In order to derive this percentage from the affiliates, we used the affiliates' cost of goods sold. However, we encountered several problems with this methodology. We were not able to compute an SG&A ratio for one of the affiliates because it did not report any product costs (cost of sales) in its financial statement. In addition, the product costs of the other affiliates include both costs incurred to purchase the product from the factory in China (costs generally denominated in RMB) and costs incurred in market economies. Thus, the SG&A ratios derived from the affiliates are not ratios solely of market-economy expenses and, therefore, it may not be appropriate to use these ratios.

The Department uses actual market-economy inputs wherever possible in NME cases because we believe this enhances the accuracy of our calculations. Given the numerous difficulties described above, we do not believe the use of these expenses would enhance the accuracy of our calculations in this case. Therefore, we did not use the affiliates' SG&A information to construct NV, and instead, used the Indian producers' surrogate data. In addition, we find that the affiliates' data is also not usable for making COS adjustments as suggested by petitioners, for the same reasons discussed above (*See*, Comment 1 above. *See*, also, Concurrence Memorandum, dated April 22, 1996, for further discussion.)

Comment 6: Price Averaging

Respondents state that the Department's preliminary determination limited averaging to an inappropriately narrow range of products. Respondents claim that the illustration cited in the SAA regarding averaging NVs for "each size of television..." demonstrates that the Department's use of control numbers for averaging NV was too narrow of a basis. The Department should calculate average prices over "comparable merchandise" as defined by bicycles of identical type, wheel size, and number of gear speeds. Respondents claim that these factors were identified by the ITC as the most important determinants of price differences among bicycles. Respondents further state that petitioners used the above factors to segregate different classes of bicycles for purposes of alleging dumping margins.

Furthermore, respondents argue that control numbers are not an acceptable method for determining "comparable merchandise" for purposes of averaging

because of the many working components contained on a bicycle. Respondents state that using control numbers to define "comparable merchandise" nullifies the intent of the averaging provision because it limits its application to instances in which prices would not vary in the first place.

Petitioners contend that the SAA language cited by respondents actually expresses concern that televisions of different physical characteristics not be subject to a single average, but rather, be averaged separately. Petitioners state that the proposed regulations identify averaging groups as consisting of "subject merchandise that is identical or virtually identical in all physical characteristics...." Petitioners state that, for the preliminary determination, the Department followed the approach described by the proposed regulations, the statute, and the SAA in averaging products by control numbers.

Further, petitioners suggest that the Department narrow the averaging categories even further for the final determination. Petitioners state that the mass merchandisers should be segregated from the independent bicycle dealers (IBDs) in the averaging groups, based on the customer codes set forth in the computer program, in order to ensure that the sales with the same physical characteristics and same class of customer are averaged together. However, petitioners also state that, by averaging U.S. prices based on a number of discrete, physical characteristics, the Department has to a large extent ensured that it is also comparing bicycles in the same customer class because bicycles sold to mass merchandisers often will be of lower specifications than bicycles sold to IBDs.

DOC Position: We agree with petitioners. It has been long-standing Department practice to average NV using as specific a basis as available (*i.e.*, control numbers). *See, Final Determination of Sales at Less Than Fair Value: Polyvinyl Alcohol from Taiwan*, 61 FR 14065 (March 29, 1996) and *Pasta*. Respondents' argument is that we should ignore differences in material composition and/or quality level of components. Respondents would have us average the prices of a 21-inch bicycle with a chrome-molybdenum frame with the same size bicycle with a carbon steel frame. Similarly, respondents would have us average the price of a bike with an expensive, sophisticated Shimano derailleur with a bike with an inexpensive derailleur. Clearly, the different costs associated with frame material composition and componentry are important to consider in price averaging. Furthermore, we are unable to confirm petitioners' assertion that there is more than one LOT or class of customer due to lack of evidence on the record. Therefore, we averaged NV by control number, as in the preliminary determination.

Comment 7: Initiation of This Investigation

In previous submissions to the Department, respondents' claim that petitioners had access to Indian data and information on export prices of bicycles which was more accurate than the Indonesian data and U.S. retail pricing data provided in the petition. As such, they claim that, pursuant to instructions of the U.S. Court of International Trade, the Department was told to "continue to explore" whether the initiation of this investigation was proper and to develop "a final reviewable record" on this issue.

Respondents state that the Department failed to develop a complete administrative record of the circumstances surrounding the initiation of this antidumping investigation as directed by the U.S. Court of International Trade instructions in *China Bicycle Co. (Holdings) Ltd., et. al.* v. *United States, et. al.* (Ct. No. 95-11-01426). Specifically, respondents state that the Department should have reexamined the retail price calculations alleged in the petition as well as the export price information in the possession of petitioners at the time the petition was filed.

DOC Position: We disagree with respondents. Respondents' requests for termination of this investigation is based on a fundamental misunderstanding of the initiation process in the context of the overall antidumping statutory scheme. The evidentiary standard for initiation is "information reasonably available to the petitioner supporting those allegations." 19 U.S.C. 1673a(b)(1)(1995). Inherent in this standard is the understanding that petitioners generally will have very limited access to foreign firms' pricing practices. As a result, petitioners will not usually be in a position to determine if foreign firms, on an overall weight-averaged basis, are dumping. Pursuant to the statute and regulations, petitioners merely have to support their dumping allegations with evidence that any sale is dumped in order for the Department to initiate an investigation. The statute assigns the task of performing the overall weight-averaged dumping calculations to the Department. The Department has the authority, pursuant to the statute, to request and analyze respondent's actual data to determine if the respondents are dumping. Respondents, in turn, have the opportunity to provide their information to demonstrate that on a weight-averaged basis they are not dumping.

This does not mean, however, that petitioners need merely allege dumping in order for the Department to initiate an antidumping duty investigation. The Department's regulations state that the petition shall contain "[a]ll factual information (particularly documentary evidence) relevant to the calculation of the United States price of the merchandise and for the foreign market value of such or similar merchandise." 19 C.F.R. 353.12(b)(7). We interpret this regulation consistent with the evidentiary standards in the statute, i.e., the petition must contain evidence reasonably available in support of the allegation. Thus, all information "relevant to the calculation of USP and NV" is interpreted to mean evidence supporting each element of the calculation in the petition. This regulation is not interpreted as imposing a stricter evidentiary standard than is provided for in the statute. As discussed below, the petition met that statutory standard. In this case, the Department determined that the information in the petition constituted a reasonable basis upon which to initiate. Moreover, the Department carefully examined respondents' subsequent challenges to the petition data and, as a result, has made some adjustments to the petition calculations. However, none of the respondents' allegations justified termination of the investigation on the basis that the petition was inadequate.

In calculating the export prices contained in the petition, petitioners obtained U.S. retail prices and made adjustments for retailer's gross margin, importer selling expense, and movement charges, to estimate an ex-factory price. Respondents have not provided, and the Department has not encountered, any evidence to indicate that any of the retail prices and subsequent adjustments were in anyway flawed or inaccurate.

Instead, respondents' challenge rests on the fact that petitioners did not include in the petition the actual export price for one of the petitioner's few purchases of Chinese bikes. However, as discussed above, the fact that some sales may not have been sold at LTFV does not invalidate the petition evidence that other sales were. In addition, these purchases were not of the same types of bikes upon which the petition calculations were based and, therefore,

do not challenge the data upon which the dumping allegation was based.

Respondents' further argument that certain FOB Hong Kong prices contained in the petition should have been used instead of the retail price information is not persuasive. As petitioners point out in their submissions, there are significant problems with these figures, not the least of which is that the record does not indicate the models with which those prices are associated.

On the NV side of the margin allegation, the Department examined respondents' allegations that the factors of production were improperly valued. Respondents argued that petitioners should and could have reasonably provided data from India instead of Indonesia because the Indian data was reasonably available, and in respondent's view, India was a more appropriate surrogate. Once again, respondents' argument is unpersuasive. The statute does not require petitioners to investigate and supply in the petition all possible surrogate data from all potential surrogate countries. Petitioners are required to base their factors of production analysis on values in an appropriate surrogate country as defined by the statute. Petitioners selected Indonesia as the primary surrogate based on their analysis that Indonesia was economically comparable and a significant producer of bikes. The Department reviewed their analysis and determined that Indonesia was an appropriate surrogate country for the basis of a petition. In fact, when the Department conducted its own surrogate country analysis, it determined that both Indonesia and India were appropriate surrogate countries. Although the Department did ultimately select India as the primary surrogate (*see*, Factors Valuation Memo dated November 1, 1995), that does not invalidate Indonesia as an appropriate surrogate. Indeed, in this final determination, as in the preliminary determination, the Department resorted to Indonesian values when Indian values were not available.

Respondents also challenged the validity of certain factor values, including the Indonesian depreciation, interest, and profit (value added) figures. During the course of the investigation, updated information demonstrated that the Indonesian depreciation, interest and profit percentage used in the petition was aberrant and, as a result, the Department adjusted these Indonesian figures. The original depreciation, interest, and profit figures in the petition was substantiated by a 1992 Indonesian Survey of the Indonesian bike industry. The updated figures for 1993, which demonstrated that the 1992 figure was aberrational, were not available at the time of filing. Thus, the 1992 figure was relevant information reasonably available to the petitioner at the time of filing and provided a valid basis upon which to initiate. We further note that the adjustment to the depreciation, interest and profit figures did not eliminate the petition margins. The Department was able to corroborate the other petition data challenged by the respondents and, thus, made no adjustment to them. *See, Facts Available* section above.

Finally, contrary to respondents' argument, the Department's actions have been consistent with its statutory obligations as noted by the Court during the hearing for respondents' interlocutory appeal of the initiation issue. In reaching its final determination, the Department has examined all of the submissions of both respondents and petitioners on this subject and determined that none of the information or arguments submitted by respondents provide a basis upon which the Department should initiate a further investigation of the petition or terminate the investigation.

Comment 8: China-Wide Rate—Adverse Facts Available

Respondents argue that the Department resorted to sampling in this investigation and, therefore, the Department should apply the provisions of Section 735(c)(5) of Act to calculate an antidumping duty rate for all uninvestigated firms. Section 735(c)(5) of the Act, "Method for determining all other rate," provides that this rate should be the weighted average of margins established for exporters and producers investigated individually, excluding margins that are *de minimis* and margins that are based on "facts available." Respondents assert that the law precludes the Department from applying punitive rates to uninvestigated firms, except in certain limited circumstances that are not applicable in this investigation. According to respondents, the Department's preliminary determination violated Section 735(c) of the Act because it based the "all others" rate for uninvestigated firms on adverse information from the petition.

Furthermore, respondents contend that the fact that this investigation involves a non-market economy does not change the prohibition against the use of punitive rates for uninvestigated firms. Respondents argue that the Department has never informed the Chinese government, industry representatives or any uninvestigated exporters that they have failed to cooperate. According to respondents, uninvestigated firms in non-market-economy cases are entitled to the same fair treatment as uninvestigated firms in market-economy cases. Respondents state that neither the sampling provision of the Act nor Section 735(c) provides an exception for non-market economies. Moreover, respondents argue that the Court of International Trade has directed in *UCF America, Inc.* v. United States (No. 92–01–00049, Feb. 27, 1996) (*UCF*) that the "all others" calculation be applied without distinction to market or non-market-economy investigations.

Petitioners argue that, contrary to respondents' claim, the Department did not apply an "all others" rate. Rather, petitioners note that the Department applied a "China-wide" rate, in accordance with its well-established methodology in NME cases, including basing the rate on adverse facts available.

DOC Position: We disagree with respondents. Respondents' statement with respect to the Department's method of respondent selection is incorrect. As noted in the respondent selection memorandum (*see* the June 30, 1995, Memorandum to Barbara R. Stafford), the Department did not resort to sampling when choosing mandatory respondents for this investigation. Accordingly, the sampling provision of the Act regarding uninvestigated firms does not apply here.

The Department acknowledges a recent decision of the Court of International Trade, *UCF America Inc.* v. *United States*, Slip Op. 96–42 (CIT February 27, 1996), in which the Court affirmed the Department's remand results for reinstatement of the relevant cash deposit rate, but expressed disagreement with use of the "PRC-wide" rate as the underlying basis for reinstatement.

The Court suggested that the Department lacks authority for applying a "PRC-wide" rate in lieu of an "all others" rate. We note, however, that section 777(A)(c) requires the Department to determine individual dumping margins for each known exporter or producer. Pursuant to this authority, the Department implements a policy in NME cases whereby all exporters or producers are rebuttably presumed to comprise a single exporter under common government control, the "NME entity." The Court has upheld our NME policy in previous cases. *See e.g., UCF America, Inc.* v. United States, 870 F. Supp. 1120, 1126 (CIT 1994); *Sigma Corp. V. United States*, 841 F.

Supp. 1255, 1266–67 (CIT 1993); *Tianjin Machinery Import & Export Corp. V. United States*, 806 F. Supp. 1008, 1013–15 (CIT 1992).

The "NME-wide" rate is consistent with section 735(c)(1)(B)(i)(I). This provision directs the agency to assign a dumping margin for each exporter or producer individually investigated. As discussed above, in NME cases, all producers and exporters comprise a single exporter. Thus, we assign a single NME rate to the NME entity just as we assign a single rate to exporters or producer in a market economy that are deemed to comprise a single enterprise. Also, as in all cases in which multiple exporters are treated as a single entity, the response normally must include data for all companies that comprise the collapsed entity. If any company fails to respond, the entire entity receives a rate based on facts available.

To qualify for a separate rate, an NME exporter or producer must provide a complete questionnaire response, including evidence showing both *de jure* and *de facto* absence of government control. *See Silicon Carbide.* Until such evidence is presented, a company is presumed to be part of the NME entity and receives the "NME-wide" rate. Consequently, whenever the NME enterprise has been investigated or reviewed, calculation of an "all others" rate under section 735(c)(1)(B)(i)(II) is unnecessary because all exporters or producers either qualify for a separate company-specific rate, or are part of the NME enterprise, and receive the "NME-wide" rate. Thus, normally in an NME case, there can be no exporters or producers who have not been investigated or reviewed. Only when the respondents in an investigation account for all exports and all respondents qualify for a separate rate is an "all others" rate required. *See PVA.* Under those circumstances, the NME entity has not been investigated and, pursuant to the statute, would be entitled to an "all others rate."

Application of our NME policy to the instant investigation is consistent with the Department's standard practice in NME cases. The official copy of the questionnaire was sent to MOFTEC, an agency of the PRC government. The cover letter of the questionnaire stated our long-standing policy that the Department presumes that a single antidumping margin is appropriate for all exporters in an NME country. However, because of the large number of companies potentially comprising the NME entity, we requested that the response include only the nine largest companies. We issued the questionnaire to those nine largest exporters. We also notified the government that we might be able to investigate a limited number of voluntary respondents wishing to claim separate rates treatment, but only if they submitted complete questionnaire responses. We provided courtesy copies of the questionnaire to law firms and companies who contacted us. In addition, the cover letter also laid out our policy on voluntary respondents (see below), and we enclosed with the questionnaire a copy of our respondent-selection memorandum.

Regarding our position on voluntary respondents, the Department informed respondents at the onset of this investigation that due to a lack of resources, we would only be able to investigate nine individual producers/exporters. We addressed the issue of voluntary responses in our respondent-selection memorandum, stating we would investigate and verify voluntary responses on a "space available" basis, up to the number of any non-responding firms from the list of the nine mandatory respondents. We further indicated that if the number of voluntary respondents was larger than the Department could investigate, we would select randomly from the pool of voluntary respondents the additional exporters to be investigated.

On August 7, we received responses from only three of the nine exporters named as mandatory respondents. We also received only six full voluntary questionnaire responses. All of the participating companies established that they qualified for separate rates and have received their own dumping margins for purposes of the final determination. Because the six non-responding mandatory respondents are presumed to be part of the single NME enterprise, that entire NME enterprise is deemed to be uncooperative and it received a rate based on adverse facts available. Any company that did not submit a full questionnaire response, including information establishing entitlement to a separate rate, is also deemed to be part of the NME enterprise and, therefore, is subject to that rate.

Comment 9: *China-Wide Rate—Submission of Section A by Exporters*

Respondents contend that, even if the Department finds that the amendment of Section 735(c) of the Act does not change the Department's practice in NME cases, the presumption of control has been rebutted successfully by a group of 12 uninvestigated Chinese exporters. They argue that these 12 exporters have cooperated with the Department, and have expressed their intention to provide any information the Department requires in order to determine a separate rate for them. Respondents believe that it would be unfair and contrary to law for the Department to apply punitive margins against the 12 uninvestigated companies.

In addition, respondents argue that the Department should accept as timely submissions made by the 12 exporters showing their entitlement to a separate rate. According to respondents, these submissions were timely because the Department did not establish any specific deadline for the submissions and, therefore, the general deadlines of 19 C.F.R.353.31 should apply.

Even assuming the 12 exporters' voluntary submissions were untimely, respondents argue that the Department has no grounds to use adverse information against these companies. Respondents assert that Section 735(c)(5) of the Act does not require a company to request to be a voluntary respondent in order to avoid the application of an adverse rate. Furthermore, respondents argue that Section 735(c) of the Act and the Court's ruling in *UCF* require that these exporters receive a rate based on the weighted-average margin of investigated companies.

Finally, respondents argue that the lack of guidance in this investigation stands in contrast to the instructions issued in the antidumping duty investigation on honey from the PRC (*see, Preliminary Determination of Sales at Less Than Fair Value: Honey from the PRC*, 60 FR 14725, March 20, 1995, (*Honey*)) where the Department requested MOFTEC to transmit the questionnaire to "all companies that process honey for export to the United States and to all companies that were engaged in exporting honey to the United States during the period of investigation. . . ." Respondents claim that the Department did not issue these instructions in the instant investigation.

Petitioners assert that, contrary to respondents' claim, the 12 exporters have not cooperated in this investigation because they ignored the Department's clear directive and submitted only partial and untimely questionnaire responses. In addition, petitioners assert that respondents have mischaracterized the Court's decision in *UCF*, stating that the Court in that case did not rule on the issue of whether the Department is allowed to use an adverse "PRC-wide" rate in an investigation, but rather whether, in the course of an administrative review, the Department was required to apply to unreviewed PRC exporters the "all others" rate established in the original investigation. In addition, petitioners note that *UCF*

concerned pre-URAA law. Petitioners assert that under the URAA, the Department may apply a China-wide rate to companies that have not established their entitlement to separate rates in an investigation.

DOC Position: We disagree with respondents. The information submitted by the 12 exporters at issue was not a sufficient basis upon which the Department could determine that these companies should receive rates separate from the China-wide rate. The companies merely provided volume and value data through a China Chamber of Commerce. This submission did not include a request for separate rates treatment from any of these exporters, nor did it provide information sufficient to demonstrate that they were entitled to separate rates. Moreover, although these exporters subsequently filed full Section A questionnaire responses which included explicit claims for separate rates treatment, these Section A responses were submitted two months late. The cover letter to the questionnaire clearly identified the deadline for submission of section A responses from any party wishing to participate in the investigation as August 7, 1995. Because no request for extension of this deadline was made by these parties, their Section A responses were untimely under 19 C.F.R. 353.31.

Furthermore, in order to perform a separate rates analysis, the Department needs to have not only the Section A separate rates questionnaire response but also complete pricing data from each exporter. The separate rates analysis focuses on the relationships between exporters and the government, export prices and who sets them, and control over export revenue. While the Section A response may contain information on the ownership and control structures of the entities being examined, the Department must also have complete pricing data in order to analyze whether export pricing and business decisions of a NME exporter are being made at the direction of the NME government. As we stated above, the Department has never granted a separate rate to any exporter without first receiving a full questionnaire response. *See e.g., Honey.*

Therefore, by not submitting complete questionnaire responses in a timely manner, these exporters failed to provide the Department with the information necessary to perform a separate rates analysis. In addition, by not placing the necessary pricing information on the record, petitioners were denied the opportunity to examine the responses and comment on whether it was appropriate for these exporters to obtain separate rates. As a result, the 12 companies at issue do not qualify for separate rates and therefore are considered to be part of the single NME enterprise.

Similarly, the exporters' argument that the Department should base their margin on a weighted-average of the margins calculated for the responding companies is without merit. *See* Comment 8. The only situation where the Department would apply a weighted-average margin to an NME exporter not specifically investigated is one in which the exporter provides a complete questionnaire response and makes a claim, and establishes eligibility, for separate rates. (*See e.g., Honey.*) In *Honey*, unlike in this case, the Department received 28 *complete* questionnaire responses. The Department only had the resources to fully analyze and verify four of those companies selected from the pool of exporters which submitted complete responses. Thus, petitioners had the opportunity to comment on all 28 responses. The Department applied the weighted-average rate calculated for the four selected respondents to the other 24 exporters which the Department did not have the resources to fully investigate. The Department explained that:

> This change in methodology was necessitated by the particular circumstances of this case. The parties who responded but were not analyzed have applied for separate rates, and provided materials for the Department to consider in this request. Although the Department is unable, due to administrative constraints, to consider the request for separate rates status, and to calculate a separate rate for each of these named parties, there has been no failure on the part of these firms to provide requested information. Because it would not be appropriate for the Department to refuse to consider an affirmative documented request for an examination of whether these companies were independent of any non-respondent firms and then assign to the cooperative firms the rate for the noncooperative firms, which in this case is an adverse margin based on best information available, the Department has assigned a special single rate for these firms." *See, Honey* at 14729.

In this case, as discussed above, the 12 companies at issue did not provide complete questionnaire responses and therefore do not qualify for separate rates.

Regarding the exporters' arguments that the Department did not provide sufficient guidance on this issue, we find that this argument is contrary to the evidence in the record. In the cover letter to the questionnaire and respondent selection memorandum, we stated explicitly the Department's long-standing practice of treating all NME exporters or producers as part of the NME government unless otherwise demonstrated. In addition, all communications from the Department to the PRC government and counsel for respondents clearly states all deadlines and instructs respondents to contact the Department if they have any questions regarding deadlines or any data requested. Courtesy copies of the questionnaire, the cover letter, and the respondent selection memorandum were provided to counsel for the 12 exporters. The Department, with the *Honey* case in mind, further indicated in the respondent selection memorandum that, even though we did not have the resources to investigate more than nine companies, if mandatory respondents did not respond we would be able to examine additional exporters randomly selected from the voluntary responses received. In the respondent selection memorandum we clearly stated that if we received more responses than we could reasonably investigate and verify we would have to address the issue of what rate to apply to the responses we were unable to investigate. However, in this case, we were able to investigate and verify all of the responses received and, accordingly, did not have to address this issue.

By not providing complete questionnaire responses, the 12 exporters did not make themselves available for analysis in the event that a mandatory respondent did not respond. It was not reasonable for those exporters at issue to assume that they should receive special treatment separate from other companies presumed to be part of the NME entity when the record demonstrates that they were informed of the consequences of not requesting a separate rate in a timely manner.

Finally, the exporters' assertion that they provided all the information requested by the Department and thus qualify for a rate other than the country-wide rate misinterprets the Department's non-market economy single entity presumption. As explained above, the Department assumes that all companies are part of the NME entity unless the companies satisfy the Department that they qualify for a separate rate. The burden is on the exporters to come forward and demonstrate that they are entitled to separate rates. It is not incumbent upon the Department to ask for separate rates responses, as these exporters' arguments seem to suggest. It is up to each company to decide whether it wishes to seek a separate rate. In this case, these

companies did not submit a separate rates claim until well after the deadline for doing so had passed. Based on the above analysis, we are treating these exporters as part of the government controlled entity.

Comment 10: Calculation of Antidumping Rate for Uninvestigated Exporters on Facts Available in the Petition

If the Department bases the antidumping rate for uninvestigated exporters on facts available in the petition, respondents assert it should use only Indian surrogate values for overhead, SG&A, and profit. Respondents argue that the Department should not use any of the Indonesian surrogate values used in the petition because the Department has rejected Indonesian in favor of Indian surrogate values. Respondents argue that the Department had no justification for using the rejected Indonesian information for these cooperating exporters, and that for purposes of the final determination the Department should apply the most recent Indian data in any calculations based on facts available for other uninvestigated shippers.

Petitioners agree with respondents that in the event the Department does apply facts available to these exporters, it should use only Indian surrogate values for overhead, SG&A, and profit.

DOC Position: As discussed above in the *Facts Available* section, Indonesia is an appropriate surrogate and, with the exception of depreciation, interest and profit, the Indonesian factor values in the petition have been corroborated. Therefore, the petition rate, as adjusted, is appropriate for use as adverse facts available.

Comment 11: Business Taxes Paid on Exports

At verification, we found that Tandem Hong Kong (Tandem HK), Chitech's Hong Kong affiliate, pays a fee to the Shunde government for operating within the Shunde township. This fee is based on a percentage of the value of all sales.

According to petitioners, this fee should be considered an export tax and deducted from USP, in accordance with 772(a)(2)(B) of the Act.

Chitech maintains that the Department should make no adjustment for this fee because the statute requires the Department to disregard the costs of goods and services provided by NME suppliers. In addition, Chitech points out that the Department has never treated payments to the PRC government as selling expenses.

DOC Position: We disagree with petitioners that this fee should be considered an export tax or that it should be deducted. In fact, our analysis of Chitech's questionnaire response and review of this expense at verification suggests that this fee is more analogous to a business license fee or an income tax, rather than a tax levied solely on exports. We do not adjust for intra-NME transfers.

Factor Valuations

Comment 12: Indian Producer Financial Statements

Petitioners argue that the Department should not use the financial reports of Hero or Atlas because, according to the publication *Cycle Press*, Hero and Atlas produce primarily roadster-type bicycles rather than the MTB and ATB bicycles which PRC producers ship overwhelmingly to the United States. In addition, Hero and Atlas only export 10 and 13 percent of their production, respectively. Petitioners point out that under the Statute and Department's proposed antidumping regulations, the Department is required to use surrogate value data from only those market-economy firms that are significant producers of merchandise that is identical or the most similar to that produced by the respondents under investigation. Therefore, petitioners maintain that the Department should use only the financial reports of Gujarat, TI Cycles (TI) and Roadmaster because these companies are largely export-oriented companies and predominately manufacture MTB and ATB bicycles.

Respondents maintain that the Department should use the combined financial reports of Hero, Atlas and Gujurat. Respondents point out that the Department cannot use the financial data of Gujurat without using the data of Hero and Atlas because Gujurat (1) is considered a "sick industrial" company by the Indian government; (2) receives subsidies from the Indian government; and (3) is not representative of the Indian industry as a whole.

Respondents contend that the Department should reject TI's financial report because TI only receives 50 percent of its income from the sale of bicycles and because it produces a wide range of other products, notably steel tubes. Respondents also maintain that the Department should not rely on Roadmaster's financial report because the report is not contemporaneous with the POI and because the Department has financial reports it can use which are contemporaneous with the POI. Respondents also argue that the Department should ignore the submitted statement of a Hero company official because (1) it is not public information; (2) it lacks credibility; and (3) it is self-serving.

DOC Position: We disagree with respondents and petitioners and have used the financial statements of the four Indian producers which are contemporaneous with the POI—Atlas, Hero, Gujurat, and TI. This case is unique in that there is a wealth of high-quality surrogate data, particularly with respect to factory overhead, SG&A and profit. The parties have argued, for a variety of reasons, that we should reject certain companies' from consideration. However, we find that on balance, the financial statements of four of the India surrogate producers are usable for our factor valuations. We rejected the fifth company's report, Roadmaster, because it was not contemporaneous with the POI and because we already have four good sources which contain data within the POI.

Regarding similarity of the merchandise produced by the Indian producers to that of the PRC respondents, we find insufficient evidence that any producer *clearly* produces the most comparable merchandise. It is possible that the Hero, Atlas and Gujurat models shown in *Bicycle Guide* may not be of as high a quality as those models produced by TI (as alleged by petitioners). However, these models do contain basic components, designs and features associated with BMX and ATB models which resemble, or are exactly the same, as those in the PRC models produced by respondents. Therefore, based on data in *Cycle Press* and *Bicycle Guide*, we conclude that all five companies to some extent manufacture the type and quality of bicycles produced by the respondents during the POI.

With regard to the issue of who exports the highest percentage of its merchandise, we disagree with petitioners that the amount of exported production of each Indian producer is a clear indication of which company is a significant producer of the merchandise under investigation. The information in *Cycle Press* does not allow the identification of the specific quantity of bicycle types exported by each Indian producer for overseas sale. However, we can establish from this publication that each of the five companies exports its full line of products to foreign markets. Although we do not know for certain whether these companies export all of the BMX, ATB, and/or MTB bicycles that they produce, it is reasonable to conclude that these models produced in India are designed primarily and/or exclusively for export markets and that the number of these bicycles sold in

India's domestic market is minimal. Therefore, there is no basis in the record to conclude that one company produces more comparable merchandise. As such, this data is not relevant to our choice of surrogate values.

With regard to the financial condition of the companies, Gujurat was not profitable during the POI based on its financial report. We know that the other Indian producers were profitable based on their financial reports. Whether or not a company is profitable, however, is not necessarily a reason for rejecting that company's data for purposes of surrogate valuations for factory overhead and SG&A expenses. *See, also* Comment 16.

In addition, we disagree with respondents that TI's data is unusable because it produces some non-subject merchandise. The other Indian producers also produce non-subject merchandise, albeit to a lesser extent. Most Indian producers, like TI, produce steel tubes (a bicycle input). Given these facts, we cannot conclude that the use of TI's data is inappropriate.

Based on the above analysis, we have used the 1994–1995 financial data of Hero, Atlas, TI, and Gujurat. We have excluded from our analysis Roadmaster's data because it is not contemporaneous with the POI and other contemporaneous data is available.

Comment 13: Average Method for Calculating Surrogate Percentages

Respondents claim that the Department should calculate a weighted-average factory overhead, SG&A and profit of each Indian producer. Respondents contend that, unlike in *PVA*, there is a clear correlation between the costs and production quantities for all of the Indian bicycle producers.

Petitioners maintain that using a weighted- average method would imply that the production experience of larger producers like Hero and Atlas would be more relevant than that of smaller producers like Gujurat or Roadmaster. Instead, petitioners claim that it is the experience of the smaller producers that is more representative of, and better reflects, the factors of production for the products made by the PRC respondents. Petitioners also point out that in *PVA*, the Department found no indication that one factor (*i.e.*, sales volume or production) was so important that it would require the use of weighted-average methodology.

DOC Position: We agree in part with petitioners. The use of production quantities from the financial data to derive weighted-average percentages will take into account the differences between the production capacity and sales associated with the largest Indian producers (Hero, Atlas and TI) and the capacity and sales of significantly smaller operations such as Gujurat. The respondents show data suggesting the factory overhead percentages for the largest producers, Hero and Atlas, are measurably lower than the percentages for the significantly smaller producer (Gujurat) and that there may be inverse relationship between the factory overhead, SG&A and profit ratios and production. However, a myriad of other factors could also be affecting these ratios. For example, the age of the factory, the quality of the merchandise being produced, and the relative capital intensivity of the manufacturing process could all affect the ratios under consideration. Moreover, not all of the PRC respondents are large-scale producers like the Indian producers Hero and Atlas. In fact, we find that the total production of the largest PRC producer is significantly less than the total production amount of either Hero or Atlas.

Finally, we do not know the relative amount of MTB or ATB production included in each Indian producer's total bicycle production, as compared with the production of utilitarian roadsters. This is important because the PRC respondents produce predominantly MTB or ATB bicycles for export to the United States.

Given these facts, there is no basis to conclude that a weighted-average calculation would be a more accurate measure of the costs of Indian surrogate producers of comparable merchandise. Therefore, we used a simple average of these financial statements consistent with our normal practice because, barring evidence to the contrary, we assume that all of these surrogate values are equally representative of the surrogate experience.

Comment 14: Calculating Surrogate Percentages from TI's Financial Data

Respondents maintain that the Department should exclude from TI's financial report the expense data separately reported for two TI subsidiaries which do not produce bicycles and which are consolidated into TI's report. Alternatively, respondents argue that the Department should use a ratio based on the amount of bicycle sales in terms of total sales to determine the allocable factory overhead, SG&A, and profit associated with bicycles exclusively. Finally, respondents urge the Department to remove the excise duty amounts from TI's SG&A expense calculation because the tax is a neutral item, bicycles are exempt from the tax, and Indian law allows any Indian producer to recover this duty amount.

Petitioners maintain that TI's financial data reasonably reflects the performance of its bicycle division and is corroborated by the similar financial experience of other Indian producers such as Gujurat and Roadmaster. Moreover, petitioners maintain that the Department should not make an adjustment to the expense data in TI's financial report because TI's report is unconsolidated and therefore does not include expense data from its two subsidiaries. Finally, petitioners maintain that the Department should not exclude the excise duty from the factory overhead or SG&A calculation because TI records this expense in its financial report as an expense and that other Indian producers such as Hero, Roadmaster and Gujurat account for the excise duty liability in their financial reports by treating the duty as an expense.

DOC Position: Respondents' claim that we should deduct the "separately reported" expenses of TI's subsidiaries is unsupported. We examined the financial statements for TI's two subsidiaries and found that expenses of TI's subsidiaries are not provided separately. In addition, there is no evidence establishing that TI's report is a consolidated statement that includes the subsidiaries. Indian Generally Accepted Accounting Principles (GAAP) do not require Indian companies to consolidate financial reports. Moreover, it appears from PI we obtained that, in general, Indian companies do not prepare consolidated financial statements (*See World Accounting* (1995) (page 44) and *International Accounting Summaries* (1993) (page 5)). Therefore, we are using the data in TI's financial report without any adjustment for the subsidiaries' expenses.

Regarding the excise tax amount, we are removing the duty and/or tax amount listed in TI's financial report when calculating its surrogate percentages because it is the Department's practice to use, if possible, tax exclusive values as surrogates in NME cases (*See, Final Determination of Sales At Less Than Fair Value: Disposable Pocket Lighters from the PRC*, 60 FR 22359 (May 5,1995) and *Final Determination of Sales At Less Than Fair Value: Sebacic Acid from the PRC*, 59 FR 280053 (May 31, 1994)). Moreover, we have found in previous cases involving products from India that excise duties and/or taxes paid by Indian producers were refundable to the

producer by the Indian government (*See, Final Determination of Sales at Less Than Fair Value: Stainless Steel Bar from India*, 59 FR 66915 (December 28, 1994)). Therefore, we have not only removed the amount of excise duty and/or tax from TI's financial data, but also from the financial data of the other Indian producers, where possible, which we have used to calculate surrogate percentages.

Comment 15: Gujurat's Profit Percentage

Petitioners maintain that the Department should not use the profit percentage derived from Gujurat's financial data in the overall profit percentage calculation because Gujurat's profit percentage is negative.

Respondents assert that the Department should calculate a weighted average profit percentage using Gujurat's actual financial data.

DOC Position: Consistent with how constructed value (CV) is calculated in market-economy cases, we conclude that in selecting a surrogate value for profit under section 773(c)(1), it is inappropriate to use data from sales made below the cost of production. Gujurat's negative profit indicates that the company may be selling its product below the cost of production. Therefore, we have treated Gujurat's negative profit ratio as zero, but have included the zero amount when calculating the overall surrogate profit average.

Comment 16: Treatment of Pre-Painting Chemicals

In the preliminary determination, we valued all chemicals used to produce the subject merchandise because we considered such materials to be direct inputs and not part of factory overhead. Respondents argue that the chemicals it uses to pre-treat parts prior to painting are not material inputs, but rather factory overhead costs (i.e., consumables). Respondents point out that it is Department practice to treat such chemicals, which act as a cleaning detergent, as part of factory overhead because these chemicals are not physically incorporated into the subject merchandise (*see Final Results of Administrative Review: Heavy Forged Handtools, Finished or Unfinished, With or Without Handles, from the People's Republic of China*, 60 FR 49251 (September 22, 1995)(*Hand Tools*). Alternatively, respondents state that an amount for "consumables" is noted in the financial reports of the Indian producers used to calculate percentages for factory overhead, SG&A and profit and that if the Department includes the "consumables" amount in its factory overhead calculation, then the Department should not value the chemical inputs reported in the Section D database because it would be double-counting.

Petitioners maintain that the chemicals the respondents use are not detergents applied to the parts to remove oxidation or dirt but chemicals used to pre-treat parts prior to painting which are incorporated into the subject merchandise. Therefore, petitioners maintain that these chemicals are direct materials and should be valued accordingly. Petitioners are silent on whether valuing the chemicals would be double-counting if the Department included in its factory overhead calculation an amount for "consumables."

DOC Position: We agree with petitioners. We examined all of the respondents' production processes at verification and found that the chemicals in question are essential for producing the finished product and are incorporated into the product (*i.e.*, in pre-treating the components, the chemicals permeate the components and are not completely washed off). These chemicals appear to be significant inputs into the manufacturing process rather than miscellaneous or occasionally used materials, *i.e.*, cleaning supplies which might normally be included in consumables. Moreover, the chemicals which we would be valuing are chemicals such as hydrochloric acid, sulfuric acid, and caustic soda (to name a few) which we have routinely valued in prior NME cases involving the production of non-chemical finished products (*e.g.*, lock-washers). Therefore, we treated these chemicals as direct material inputs. We considered that such significant material inputs would not normally be considered consumables and, therefore, no double counting would occur.

Comment 17: Fasteners and Chainguard Screws

In the preliminary determination, we valued fasteners and chainguard screws using an average import value from the HTS subcategory "other screws and bolts with nuts or washers threaded" from *Monthly Statistics* (April 1993–March 1994).

Respondents claim that the average value we used from *Monthly Statistics* was aberrational as it is based on a basket category of import statistics which includes other products. Therefore, respondents urge the Department to use Indonesian surrogate values for nuts and bolts. The respondents cite *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, 54477 (October 24, 1995) (*Drawer Slides*) and the *Final Determination of Sales at Less Than Fair Value: Sulfur Dyes, Including Sulfur Vat Dyes, from the PRC*, 58 FR 7537, 7540 (1993) in support of their argument.

Petitioners claim that the respondents have not demonstrated that the average value the Department used from *Monthly Statistics* is aberrational, or why the statistical category for "other screws and bolts with nuts or washers threaded" is not the best information available. Moreover, petitioners assert that the per kilogram average price of the material to value the chainguard screws and fasteners should not be used without accounting for the labor, overhead, and other costs necessary to produce the finished part, *e.g.*, a screw. Therefore, petitioners contend that the Department should continue to use the value from *Monthly Statistics* to value chainguard screws and fasteners.

DOC Position: We agree with respondents that the value used in the preliminary determination was a basket category. We have recently found two sources of Indonesian PI which are more specific to these two different inputs, fasteners and screws. These sources are contemporaneous with the POI and are more specific to the factor inputs we are trying to value. Accordingly, we used these sources to value fasteners and screws for purposes of the final determination. *See*, Factor Valuation Memo dated April 22, 1996.

Comment 18: Labor

In the preliminary determination, we used a 1990 labor rate applicable for laborers working in the Indian transport equipment sector noted in *Yearbook of Labor Statistics (YLS)* to value skilled, unskilled and indirect labor. Respondents claim that the Department should use instead the labor rate applicable for Indian laborers working in the sector called "manufacture of fabricated metal products, except machinery and equipment."

DOC Position: We disagree with respondents. We have no reason to believe that the Indian transport equipment sector does not include bicycle production and, therefore, that the rate we used in the preliminary determination does not capture the wages paid to the laborers in the Indian bicycle industry.

Fabricated metal products could include a host of products other than bicycles. Moreover, since the respondents have not provided concrete evidence that bicycle production is included in the fabricated metal

products sector or not included in the transport equipment sector, there is no basis to change our calculation.

Common Company-Specific Comments

Unreported Sales

Comment 19: Unreported EP Sales—CBC

At verification, we discovered that CBC failed to report a small number of EP sales to the United States. Petitioners argue that the Department should base the final margin for these sales on facts available. They state that CBC had sufficient time to amend the U.S. sales listing, but did not do so. As facts available, they advocate using the highest reported amounts for charges and expenses contained in CBC's EP sales listing. (The price information is contained in a verification exhibit.)

CBC agrees that the Department should apply facts available to these sales. However, CBC maintains that the Department should use the average, rather than the highest, amount for charges and expenses that CBC reported for its other EP sales. CBC states that the sales in question were omitted from the sales listing because the company had to file its response prior to their shipment. Therefore, CBC characterizes this omission as attributable more to the company's attempt to comply with the response deadline rather than as a deliberate failure to respond to a Departmental request.

DOC Position: We disagree with both parties. In an investigation, the Department is not required to examine every sale made during the POI. In this case, the sales at issue represent an insignificant portion of CBC's total sales by volume and value. Consequently, we have excluded them for purposes of our final determination.

Comment 20: Unreported EP Sales—Chitech

The petitioners argue that the Department should assign the highest margins to EP sales not included in the sales database because of Chitech's date of sale methodology. The petitioners argue that these unreported sales are subject to this investigation because even though the invoice date is outside the POI, the sales were actually confirmed and booked during the POI.

The respondent points out that it consistently applied its date of sale methodology to report its POI sales of subject merchandise. In addition, the respondent points to its submissions showing where the terms of sale changed from the order up to the invoice. Respondents note that the alternative date of sale proposed by the petitioners is merely the date that the respondent receives payment from its bank.

DOC Position: We disagree with petitioners that there were any unreported EP sales. Chitech consistently applied our date of sale methodology for reporting its U.S. sales of subject merchandise during the POI. Chitech used the invoice date to report its POI sales because the terms of sale can and do change up to the invoice date. We examined Chitech's date of sale methodology at verification and found no discrepancies.

Comment 21: Unreported CEP Sales—Dynacraft

The petitioners argue that Dynacraft should not be rewarded for its failure to report these sales and suggest that these sales should be based on adverse facts available.

The respondent points out that the Department's practice is to generally disregard an inadvertent omission of a minor amount of sales. Alternatively, if the Department elects to calculate margins on these sales, the Department has all of the required information (except for credit expenses) to calculate margins using actual and verified expense data for these sales.

DOC Position: Dynacraft inadvertently omitted these sales from its U.S. sales database because it had incorrectly considered this group of sales as being non-subject merchandise produced in Taiwan. We did not collect the sales invoices for these unreported sales at verification. The sales were all for one specific model sold at the same price. This model also happens to be one of the higher priced models reported by Chitech. We determined that including these sales in our calculations would have no effect, or a negligible effect, on the margin calculated for Chitech. Moreover, this situation does not appear to warrant the use of adverse facts available. Therefore, we have not included these sales in our analysis.

Warranty and Bad Debt Expenses

Comment 22: Accrued vs. Actual Warranty and Bad Debt Expenses

Giant USA (GUSA) sets aside a budgeted amount for warranty and bad debt expenses each fiscal year and reported the actual amount in its section C database. The petitioners argue that the Department should use these accrued amounts as the basis for calculating these expenses rather than the actual expenses GUSA incurred in warranty and bad debt expenses during the POI because the accrued amounts are based on the historical experience of the company and are not influenced by distortions such as fluctuations in volumes of sales.

Giant argues it is Department practice to deduct actual, rather than accrued, expenses from USP. The respondent cites to *Final Results of Administrative Review: AFBs (Other Than TRBs) and Parts Thereof From France*, 60 FR 10900, 10917 (February 28, 1995) and *Final Results of Administrative Reviews: Roller Chain, Other Than Bicycle, From Japan*, 57 FR 46535 (October 9, 1992) in support of its argument. In addition, respondent contends that the Department should treat GUSA's bad debt expenses as indirect selling expenses, in accordance with its normal practice. In support, respondent cites *Certain Cut-to-Length Carbon Steel Plate From Germany; Final Results of Antidumping Administrative Review*, 61 FR 13834 (Mar. 28, 1996).

DOC Position: With respect to warranty expenses, we disagree with respondents that we always use actual expenses. Our practice is normally to use historical expenses unless our analysis of the actual expenses suggests that historical expenses are inappropriate. (*See, Final Determination of Sales at Less Than Fair Value: Color Picture Tubes from Japan*, 52 FR 44171 (November 18, 1987)). Giant's accrued amounts are reflective of historical experience. As such, we used the accrued amounts. The actual POI amounts only reflected a short period of GUSA's warranty experience, whereas the accrued expenses were reflective of Giant's actual historical experience. Regarding the issue of whether bad debt should be classified as a direct or indirect expense, we agree with respondent. Accordingly, we have classified bad debt as an indirect selling expense and have treated it as such for purposes of the final determination.

Comment 23: Warranty Expenses

Petitioners argue that the Department should use the historical average warranty costs incurred by Motiv, CATIC's affiliated reseller in the United States, rather than the reported POI costs as the basis for its warranty expense adjustment. Petitioners assert that Motiv's POI warranty costs may be aberrational and historical warranty costs take into account fluctuations in sales volume.

Respondent argues that because petitioners use a historical average warranty amount reported as a dollar amount per bicycle, and the reported POI warranty costs are reported as a percentage of each gross sales dollar, they are making an apples to oranges comparison. Respondent states that,

although Motiv's total warranty costs change from year to year, there is nothing on the record to suggest that there is any fluctuation in Motiv's historical warranty costs as a percentage of gross sales dollars. Moreover, respondent argues that to impute to each bicycle the same per-unit cost would create distortions because Motiv's other expenses are allocated by value, not by volume.

DOC Position: We agree with petitioners. Our examination of Motiv's historical warranty costs indicate that the reported POI warranty costs may not be reflective of what Motiv's true warranty expenses will be on its POI sales. Accordingly, we used the historical warranty expenses.

Findings at Verification

Comment 24: Discrepancies in Weights and Distances

At verification, we found a number of discrepancies in the weights and distances reported by Overlord and used in the calculation of surrogate freight on components. Petitioners assert that the Department should correct the reported data, based on the findings at verification. In addition, petitioners argue that the Department should impute these findings to all of Overlord's components not examined at verification by adjusting the reported weights and distances by the average percentage difference observed at verification.

Overlord maintains that the Department should only correct for the errors found at verification.

DOC Position: We agree with respondent. At verification, we found no consistent pattern of under-reporting. For example, we found that the weight differences ranged from an over-reporting of 200 percent to an under-reporting of 23 percent. Given the wide range of observed differences, adjusting the weights and distances of unexamined components would only affect the margin several points to the right of the decimal. Consequently, we corrected Overlord's database to account only for errors found at verification.

Comment 25: Unreported Market-Economy Movement Expenses

Petitioners maintain that Universal was not forthcoming in providing to the Department prior to verification a clear picture of how it incurred its movement expenses in Hong Kong. Because these expenses were not reported, the petitioners insist that the Department should now assign adverse amounts to each of the Hong Kong incurred movement expenses rather than rely on the actual expense data noted in the verification report. Petitioners recommend that the Department use the highest rates found for any respondent for each movement expense or use the highest rates from the data examined at verification and apply them on a container basis, using the lowest quantity figure per container provided by Universal.

Respondent claims that the Department's practice is to not use the movement expenses incurred by a PRC respondent if it sourced its transportation services from a company that was located in the PRC and affiliated with a Hong Kong company. The respondent cites to *Drawer Slides* and *Final Determination of Sales at Less Than Fair Value: Ferrovanadium and Nitrided Vanadium from the Russian Federation*, 60 FR 27957, 27962 (May 26, 1995) (*Ferrovanadium*) in support of its argument. In addition, the respondent states that if the Department intends to use expenses incurred in Hong Kong, then the Department should not apply adverse facts available in this situation because it has the actual expenses.

DOC Position: At verification, we found that Universal pays its customs broker in Hong Kong, in Hong Kong dollars, for five services: (1) terminal handling charges; (2) handling fees; (3) document fees; (4) courier fees; and (5) import and export fees. Universal did not report these expenses because the Hong Kong broker is a subsidiary of a PRC company. Universal assumed that this data could not be used by Department. The NME questionnaire requests a respondent to report all movement expenses paid to a market-economy supplier.

We used the average rates established at verification for each expense noted above and the quantity amounts per container for each U.S. model provided in the October 2, 1995, submission to calculate the Hong Kong incurred model-specific expenses for those expenses that are incurred on a container basis. For Hong Kong import & export fees, we used the rate found among the other respondents. The fact that Universal failed to report these expenses is not a basis for adverse inference because Universal's interpretation of the questionnaire instructions, although in error, was not unreasonable.

Other Company-Specific Comments

Petitioners made several arguments that certain expenses incurred by the Hong Kong and Taiwan affiliates of the PRC bike producers should be treated as direct selling expenses and be subject to COS adjustments. Because we are not making COS adjustments in this case, these issues are moot. *See* Comment 1 in *General Comments* section above.

Bo An

Comment 26: Market-Economy Based Movement Charges

Petitioners have stated that the Department should assign adverse facts available to Bo An's movement charges because Bo An has been less than forthcoming concerning movement charges purchased from market-economy suppliers and paid for in market-economy currency. Moreover, according to petitioners, the verification exhibits contradict Bo An's statement in its Section C response that "Bo An did not use any market-economy suppliers for shipment of the goods." Petitioners agree that this information should clearly have been reported earlier in the investigation and that the Department should now assume that Bo An made full use of all potential market-economy based movement and handling services between the PRC factory and the loading of the ocean-going vessel in Hong Kong. Accordingly, the Department should apply the highest calculated freight rates found for any respondent in this investigation to all Bo An's movement and handling expenses.

Bo An contends that the Department should not assign market-economy values to goods and services obtained through a non-market-economy transaction. Bo An points out that it has already certified for the record that it arranges for transportation through the PRC affiliates of Hong Kong transportation companies and that the Department found no evidence at verification to contradict this information. Finally, respondent cites *Drawer Slides* and *Ferrovanadium* as evidence that the Department's practice has been to determine whether a good or service obtained through a market-economy transaction is sourced from a market economy rather than merely purchased in it.

DOC Position: We agree with respondent. Because these movement and handling services were provided by a company located in the PRC, we conclude that these charges do not reflect a market-economy based price. Therefore, in our final determination we have continued to apply a surrogate country cost to value these charges.

CBC

Comment 27: Brokerage and Handling Expenses

Petitioners argue that the Department should base brokerage and handling

expenses for CBC's CEP sales on facts available because CBC failed to provide any support for its claimed amount at verification. As facts available, petitioners assert that the Department should use the amount that it calculated during verification based on an examination of CBC's sales information.

DOC Position: We agree. Accordingly, we have based brokerage and handling for CEP sales on the information reviewed at verification.

Comment 28: Interest Expense and Interest Revenue

At verification, we found that CBC received interest revenue on EP sales although it did not report this revenue in its sales listing. In addition, we also noted that CBC incurred sales-specific interest expenses, which likewise had not been reported. CBC requests that the Department add interest revenue to its USPs. Moreover, CBC argues that the Department should ignore the interest expenses observed at verification because they represent affiliated party transactions, as evidenced by intra-company invoices between CBC and its Hong Kong affiliate.

Contrary to CBC's assertions, petitioners maintain that the interest expenses in question are similar to movement expenses because they were actually paid by CBC on every sale. They state that CBC failed to provide any credible evidence supporting its claim that these payments are intra-company transfers. Moreover, they state that failure to report these expenses should lead to the application of adverse inferences against CBC. Specifically, they argue that the Department should subtract from CBC's reported EP sales prices interest expenses equal to the highest expenses (as a percentage of invoice price) observed during verification. Regarding interest revenue, petitioners state that the Department should ignore the amounts collected at verification because CBC failed to provide complete information in a timely fashion.

DOC Position: Regarding interest expenses, we disagree with CBC that these expenses represent affiliated party transactions. At verification, we reviewed actual payment advices issued by the unaffiliated bank. These payment advices showed that interest expenses were actually charged by the bank on each transaction, independent of any affiliated party transfers that may have occurred. However, we have not made an adjustment for these expenses, because we are not making COS adjustments on EP sales. *See*, Comment 1 in *General Comments* section above.

Regarding interest revenue, we found at verification that CBC charged this revenue in order to cover the actual interest expenses that it incurred on each sale. Therefore, adjusting for interest revenue without making the corresponding adjustment for interest expenses would result in an EP that is overstated. Accordingly, we also have made no adjustment for interest revenue for purposes of the final determination.

Comment 29: Freight Rebates

At verification, we found that Western States Importers (WSI), CBC's U.S. affiliate, did not use the eligibility criteria specified in its freight rebate program when calculating the freight rebates reported in its CEP sales listing. According to petitioners, the Department should recalculate these rebates by applying the eligibility criteria set forth in WSI's program brochures.

According to CBC, no adjustment is warranted. CBC states that these rebates operate as a customer-specific price allowance and as a general expense to WSI, as evidenced by the fact that WSI's accounting system does not track freight rebates on a transaction-specific basis. CBC asserts that, indeed, given the limitations of WSI's accounting system, reporting freight rebates on a customer-specific basis was the only feasible way to capture these costs. Moreover, CBC argues that there is no evidence on the record to support the contention that allocating these rebates on a customer-specific basis is distortive.

DOC Position: We do not have sufficient information on the record to reallocate WSI's freight rebates according to the eligibility criteria specified in the rebate program brochures, as requested by petitioners. Moreover, we agree with CBC that it would not be distortive to allow these rebates on a customer-specific basis, based on our finding at verification that they operate as a customer-specific price allowance, rather than as a transaction-specific expense. Therefore, we have accepted the expenses as reported for purposes of the final determination.

Comment 30: Different Control Numbers for Identical Products

At verification, we found CBC had assigned different control numbers to a small number of products which appeared to have identical physical characteristics; however, CBC reported different factors of production for these products. In addition, we found that CBC assigned the same control number (and same factors of production) to a small number of products which appeared to be physically different.

Petitioners assert that the Department should resort to facts available to calculate the factors of production for each of the products in question. As facts available for the physically identical products, petitioners maintain that we should use the highest COM calculated for any of the products which are within the identical grouping. As facts available for the non-identical products, petitioners assert that the Department should calculate separate production costs using ratios derived from the different prices reported for the different models.

According to CBC, the Department should not make adverse inferences as to the COM of the bicycles in question. CBC states that it explained all of the discrepancies at verification and that it documented most of these explanations.

DOC Position: Regarding the different control numbers reported for physically identical products, we agree with petitioners. Contrary to its assertion, at verification CBC could not explain why the factors of production for these models differed. Moreover, it is difficult to imagine how models sharing the same control number could have different production costs. Because CBC failed to report its data in a consistent fashion, we find that applying an adverse inference to facts available is reasonable and appropriate in this case. Therefore, we have used the highest COM calculated for any of the products which are within the identical grouping to the products in question.

Regarding the same control numbers reported for potentially non-identical products, we agree with CBC. The documents reviewed at verification support CBC's assertion that the control numbers in question were assigned correctly to identical products. Accordingly, we find no basis to adjust the costs reported for these products, as suggested by petitioners.

Comment 31: Component Sourcing

At verification, we found that CBC sourced certain components in both a market and non-market economy. Petitioners argue that the Department should rely exclusively on the prices paid to the market-economy suppliers.

DOC Position: We agree and we have made the appropriate corrections for purposes of the final determination.

CATIC

Comment 32: Treatment of handling charges incurred by Motiv and classification of Motiv's selling expenses

Petitioners argue that the Department should treat handling charges incurred

by Motiv for returns of bicycles during the POI as a direct selling expense. At verification we found that Motiv did not report handling charges incurred for bicycles that were returned by a certain customer. Petitioners argue that this expense is a direct selling expenses because it was incurred to return subject merchandise during the POI, and that the Department should treat it as such for purposes of the final determination.

Respondent claims that this expense is properly categorized as indirect because there were no sales associated with the returns.

Petitioners also argue that certain advertising, after-market telephone support, and bad debt expenses reported by Motiv as indirect selling expenses should be classified as direct selling expenses.

Respondent contends that each of those expenses were properly classified as indirect selling expenses.

DOC Position: These expenses has been deducted from U.S. price as part of the CEP deductions. Because we are not making a corresponding CEP offset (*See*, Comment 1), the classification of these expenses as direct or indirect is moot.

Comment 33: Commission Expenses

Petitioners urge the Department to ensure that the commission expense adjustment includes all payments by Motiv to outside sales representatives during the POI. Motiv's questionnaire responses state that its independent sales representatives perform various functions in facilitating customer orders for Motiv. Petitioners state that the record is unclear as to whether Motiv's reported commission amounts cover its payments for all the services provided by its outside sales representatives. Respondent did not comment on this issue.

DOC Position: We verified that the payments to Motiv's outside sales representatives covered all services performed by these sales representatives.

Comment 34: Finance Expense

Petitioners use information from Motiv's and CATIC's financial statements to demonstrate that CATIC may have incurred a certain finance expense on behalf of Motiv. Petitioners contend that the Department should either include this finance expense in Motiv's U.S. selling expenses or should add the expense to the NV for bicycles produced by CATIC.

Respondent claims that imputing this finance expense is at odds with the Department's established practice and would result in double-counting. Respondent states that since CATIC and Motiv are affiliated companies, any interest expense would be an intra-company charge. Respondent cites to *Frozen Concentrated Orange Juice from Brazil: Final Determination of Sales at Less Than Fair Value*, 52 Fed. Reg. 8324 (March 17, 1987) and *Certain Tapered Journal Roller Bearings and Parts Thereof from Japan: Final Determination of Sales at Less Than Fair Value*, 49 Fed. Reg. 2285 (January 19, 1984) as cases in which the Department excluded intra-company interest expenses from the margin calculations. Respondent also states that the Department already will have accounted for the costs of financing inventory and receivables in its imputed calculations of inventory carrying costs and credit costs.

DOC Position: We agree with respondent. The expense identified by petitioners is an intra-company expense and should not be included in our calculations.

Giant

Comment 35: Interest Charge Giant USA Pays its Taiwan Affiliate

The respondent maintains that the fees GUSA pays its Taiwan parent GMC to cover interest charges on letters of credit opened by GMC to finance GUSA's purchases from GMC should not be deducted from USP if the Department also deducts inventory carrying expenses and imputed credit costs. The respondent states that deducting both the actual fees and the imputed expenses would double-count the expenses associated with financing shipment, inventory and receivables on U.S. sales.

The petitioners argue that the Department's verification report makes no mention that the letter of credit fees are actual interest expenses or the nature of the fees. Therefore, the petitioners maintain that there in insufficient evidence to support Giant's claim that its interest expenses will be double-counted if both letter of credit fees and imputed credit expenses are deducted from the USP. Moreover, the petitioners state that the letter of credit fees appear to be indirect rather than direct selling expenses, since these fees were first paid by GMC in opening bank accounts from which GUSA could draw funds to finance inventory and accounts receivables. As such, the petitioners argue that the Department should revise GUSA's reported indirect selling expenses by including the amount of letter of credit fees.

DOC Position: We did not separately deduct the interest expense from the USP because deducting both the actual fees and the imputed costs (which include these fees) would be double-counting. In addition, we did not treat the letter of credit fees as indirect selling expenses since they have been accounted for in the calculation of inventory carrying expenses.

Comment 36: Errors in Giant's Data

Petitioners argue that the Department should apply facts available to Giant in its final margin analysis. Petitioners assert that the Department found numerous errors in Giant's data during verification which company officials were unable to explain. Petitioners cite examples related to the price and usage data reported for Giant's factors of production, as well as discounts reported for CEP sales.

Giant asserts that the Department should use its data for purposes of the final determination, after correcting it for errors discovered at verification. Respondent argues that petitioners misunderstood both the verification reports and Giant's responses, leading to a number of incorrect assumptions regarding the significance of the errors found.

DOC Position: We agree with Giant. The majority of the errors discovered at verification resulted from data input problems or calculation errors. Because these errors were minor in nature, we find that the use of facts available is not warranted. Therefore, we have corrected the errors found at verification and used the data reported by Giant for purposes of the final determination.

Comment 37: Interest Revenue

Petitioners argue that the Department should deny Giant's claim for interest revenue for purposes of the final determination. According to petitioners, Giant did not collect all of the interest revenue that it actually invoiced. In addition, petitioners assert that Giant misapplied these revenues in its sales listing because it reported revenue for sales for which the customer paid on a timely basis and for which no revenue was due.

Respondent asserts that the Department should allow the revenue amounts reported in its sales listing. Respondent notes that petitioners do not dispute the fact that the company received interest revenue, but rather disagree with the methodology used to allocate this revenue to specific sales. Respondent maintains that, not only is its allocation methodology consistent with the methodology used to allocate other adjustments (*e.g.*, credit expenses), but also petitioners failed to object to this methodology prior to the submission of their case brief. Moreover,

respondent asserts that its allocation methodology is not distortive or inaccurate. Finally, respondent notes that the Department reviewed Giant's interest revenue calculation at verification and found no discrepancies.

DOC Position: We found that Giant's record keeping system does not readily allow Giant's to report transaction-specific interest revenue. Therefore, we are allocating interest revenue only to those sales with no early payment discounts. Regarding bad debt expense, we agree with respondents that it was correctly reported as an indirect selling expense. We recommend making no adjustment to bad debt.

Overlord

Comment 38: Declaration Fees

At verification, we found that Overlord under-reported declaration fees paid to the Hong Kong government on U.S. shipments of bicycles through Hong Kong. Petitioners contend that the Department should increase the reported expenses by the average percentage by which the fees were under-reported.

DOC Position: We agree and have made the appropriate calculations for purposes of the final determination.

Universal

Comment 39: Methodology for Reporting Prices of Market-Economy Inputs

According to the petitioners, Universal's price reporting methodology is unacceptable. Based on Universal's unwillingness to provide information prior to the verification regarding the methodology it used to derive market-economy prices, and the inaccuracies discovered during the Department's price variation tests and component traces, the petitioners propose that, as facts available, the Department increase prices for all market-sourced components by the greatest disparity between reported and verified prices in the price variation tests.

Universal argues that the Department should not increase the prices reported for market-economy inputs because the majority of the input prices examined by the Department were accurately reported and the few discrepancies noted by the Department were only minor errors. Additionally, Universal contends that its reported prices are already overstated because these prices are charged by Universal's affiliated supplier. Universal maintains the Department verified that reported component prices, which are charged by Universal's affiliated supplier, are more than the prices the affiliated supplier pays to purchase those components from unrelated suppliers.

DOC Position: Universal failed to report the weight-average price of market-economy inputs purchased during the POI. Rather, Universal reported market-economy prices based on selected invoices which company officials considered to be representative of the prices paid during the POI. According to Universal officials, the company employed this reporting methodology because during the POI prices for most components remained stable. We tested ten components and found that four were under-reported by a small percentage. We disagree with petitioners that we should increase all of Universal's prices by the largest observed variation. This situation does not warrant the use of adverse acts available. Rather, as facts available, we applied the average variance to all purchases. *See,* Concurrence Memo for Final Determination.

Continuation of Suspension of Liquidation

For Bo An, Giant, Hua Chin, and Overlord, we calculated a zero or *de minimis* margin. Consistent the with *Pencils,* merchandise that is sold by these producers but manufactured by other producers will not receive the zero margin. Instead, such entries will be subject to the "PRC-wide" margin.

In accordance with section 733(d)(1) of the Act and 735(c)(1), we are directing the Customs Service to continue to suspend liquidation of all entries of bicycles from the PRC, that are entered, or withdrawn from warehouse for consumption, on or after the date of publication of this notice in the Federal Register. The Customs Service shall require a cash deposit or posting of a bond equal to the estimated amount by which the NV exceeds the export price as shown below. These suspension of liquidation instructions will remain in effect until May 7, 1996. The weighted-average dumping margins are as follows:

Manufacturer/producer/exporter	Margin percentage
Bo An	0.00
CBC	3.25
CATIC	13.67
Giant	0.97
Hua Chin	0.00
Merida	7.44
Overlord	0.00
Chitech	2.05
Universal	11.06
PRC-wide rate	61.67

PRC-Wide Rate

The PRC-Wide rate applies to all entries of subject merchandise except for entries from exporters that are identified individually above.

ITC Notification

In accordance with section 735(d) of the Act, we have notified the ITC of our determination. As our final determination is affirmative, the ITC will, within 45 days, determine whether these imports are materially injuring, or threaten material injury to, the U.S. industry. If the ITC determines that material injury, or threat of material injury does not exist, the proceeding will be terminated and all securities posted will be refunded or canceled. If the ITC determines that such injury does exist, the Department will issue an antidumping duty order directing Customs officials to assess antidumping duties on all imports of the subject merchandise entered for consumption on or after the effective date of the suspension of liquidation. This determination is published pursuant to section 735(d) of the Act.

Dated: April 22, 1996.

Susan G. Esserman,

Assistant Secretary for Import Administration.

[FR Doc. 96-10555 Filed 4-29-96; 8:45 am]

BILLING CODE 3510-DS-P

APPENDIX B

PARTICIPANTS AT THE HEARING

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission hearing:

Subject:	**BICYCLES FROM CHINA**
Inv.	**731-TA-731 (Final)**
Date and Time:	**April 24, 1996 - 9:30 a.m.**

Sessions were held in connection with the investigation in the Main hearing room 101, 500 E Street, S.W. , Washington, D.C.

OPENING REMARKS

Petitioners (Paul C. Rosenthal, Collier, Shannon, Rill and Scott)
Respondents (Brock R. Landry, Jenner and Block)
(Warren Maruyama, Hogan and Hartson)

In Support of Imposition of Antidumping Duties:

Collier, Shannon, Rill and Scott
Washington, D.C.
on behalf of

Huffy Bicycle Company
Murray, Incorporated
Roadmaster Corporation

Chris Snyder, President and General Manager, Huffy Bicycle Company

J. Reid Roney, Vice President of Sales, Huffy Bicycle Company

Terry Collins, Sales and Planning Manager, Huffy Bicycle Company

-MORE-

In Support of Imposition of Antidumping Duties--Continued:

John Comer, Vice President of Sales, Murray, Incorporated

Edward Shake, President, Roadmaster Corporation

Tim Voss, Senior Vice President of Marketing, Bicycles and Toys, Roadmaster Corporation

Patrick J. McGrath, Economic Consultant, Georgetown Economic Services

Gina E. Beck, Economic Consultant, Georgetown Economic Services

Paul C. Rosenthal)
Michael R. Kershow)--OF COUNSEL
Robin H. Gilbert)
Kathleen Weaver Cannon)

In Opposition to the Imposition of Antidumping Duties:

PANEL 1

Jenner and Block
Washington, D.C.
on behalf of

Coalition for Fair Bicycle Trade

Jay C. Townley, President, Jay C. Townley and Associates

Kenneth Segerberg, President, National Bicycle Dealers Association

John G. Reilly, Vice President, Nathan and Associates, Inc.

Brock R. Landry--OF COUNSEL

-MORE-

In Opposition to the Imposition of Antidumping Duties--Continued:

PANEL 2

Grunsfeld, Desiderio, Lebowitz and Silverman
Washington, D.C.
on behalf of

Dynacraft Industries, Incorporated
Shun Lu Bicycle Company

Larry Stein, former Buyer for the Toy Works division of Kay Bee Corporation

Dr. Seth T. Kaplan, Economic Consultant, Trade Resources Company

Richard D. Boltuck, Economic Consultant, Trade Resources Company

Bruce M. Mitchell)
David L. Simon)--OF COUNSEL
Jeffrey S. Grimson)

Hogan and Hartson
Washington, D.C.
on behalf of

Toys "R" Us

Jim Pollock, Bicycle Buyer, Toys "R" Us

Warren H. Maruyama--OF COUNSEL

-MORE-

In Opposition to the Imposition of Antidumping Duties--Continued:

PANEL 2--Continued:

Neville, Peterson and Williams
Washington, D.C.
on behalf of

Target Stores, a division of Dayton-Hudson Corporation

Stephen Eastman, Senior Buyer, Target Stores

George W. Thompson)--OF COUNSEL
Arthur Purcell)

-END-

APPENDIX C

SUMMARY DATA

Table C-1
Bicycles: Summary data concerning the U.S. market, 1992-95

(Quantity=*1,000 units*; value=*1,000 dollars*; unit values and unit labor costs are *per unit*; period changes=*percent, except where noted*)

Item	Reported data				Period changes			
	1992	1993	1994	1995	1992-95	1992-93	1993-94	1994-95
U.S. consumption quantity:								
Amount	15,399	16,803	16,703	16,186	5.1	9.1	-0.6	-3.1
Producers' share[1]	59.1	57.8	58.0	55.7	-3.4	-1.3	0.2	-2.3
Importers' share:[1]								
China (LTFV)	11.3	14.9	15.2	10.2	-1.2	3.5	0.4	-5.0
Hong Kong	0.7	0.7	0.5	0.6	-0.1	-0.0	-0.1	0.0
Subtotal	12.0	15.6	15.8	10.8	-1.2	3.5	0.2	-5.0
China (fairly traded)	2.6	5.7	7.9	13.1	10.5	3.2	2.2	5.1
Taiwan	24.2	20.2	17.6	18.6	-5.5	-4.0	-2.6	1.0
Other sources	2.2	0.7	0.7	1.9	-0.3	-1.5	-0.0	1.2
Total	40.9	42.2	42.0	44.3	3.4	1.3	-0.2	2.3
U.S. consumption value:								
Amount	1,300,301	1,437,918	1,445,636	1,512,434	16.3	10.6	0.5	4.6
Producers' share[1]	58.3	57.1	57.9	54.1	-4.2	-1.2	0.9	-3.8
Importers' share:[1]								
China (LTFV)	5.7	8.7	9.0	7.2	1.5	3.0	0.2	-1.8
Hong Kong	0.7	0.6	0.4	0.5	-0.2	-0.0	-0.2	0.0
Subtotal	6.4	9.4	9.4	7.7	1.3	3.0	0.0	-1.8
China (fairly traded)	1.9	4.1	5.9	8.0	6.1	2.2	1.8	2.1
Taiwan	30.0	27.8	25.7	28.5	-1.5	-2.2	-2.2	2.8
Other sources	3.4	1.6	1.1	1.7	-1.7	-1.8	-0.5	0.6
Total	41.7	42.9	42.1	45.9	4.2	1.2	-0.9	3.8
U.S. imports from--								
China (LTFV):								
Quantity	1,747	2,501	2,546	1,650	-5.6	43.1	1.8	-35.2
Value	74,693	125,762	130,041	109,067	46.0	68.4	3.4	-16.1
Unit value	$42.74	$50.28	$51.07	$66.08	54.6	17.6	1.6	29.4
Ending inventory quantity	233	279	284	251	7.7	20.0	1.6	-11.6
Hong Kong:								
Quantity	104	112	91	95	-8.7	7.6	-19.4	5.2
Value	8,516	9,315	6,381	7,084	-16.8	9.4	-31.5	11.0
Unit value	$81.56	$82.91	$70.43	$74.30	-8.9	1.7	-15.1	5.5
Ending inventory quantity	0	0	0	0	(2)	(2)	(2)	(2)
Subject sources:								
Quantity	1,852	2,614	2,637	1,746	-5.7	41.1	0.9	-33.8
Value	83,209	135,078	136,422	116,151	39.6	62.3	1.0	-14.9
Unit value	$44.93	$51.68	$51.73	$66.53	48.1	15.0	0.1	28.6
Ending inventory quantity	233	279	284	251	7.7	20.0	1.6	-11.6
China (fairly traded):								
Quantity	393	964	1,323	2,113	437.5	145.2	37.3	59.7
Value	25,134	59,012	84,881	121,236	382.4	134.8	43.8	42.8
Unit value	$63.92	$61.21	$64.14	$57.37	-10.3	-4.3	4.8	-10.6
Ending inventory quantity	57	68	87	64	12.1	19.3	27.4	-26.2
Taiwan:								
Quantity	3,721	3,395	2,944	3,014	-19.0	-8.8	-13.3	2.4
Value	390,201	400,381	371,412	430,427	10.3	2.6	-7.2	15.9
Unit value	$104.85	$117.94	$126.15	$142.83	36.2	12.5	7.0	13.2
Ending inventory quantity	571	741	461	529	-7.4	29.8	-37.7	14.6
Other sources:								
Quantity	337	122	116	301	-10.6	-63.8	-5.2	160.2
Value	43,810	22,778	15,428	25,771	-41.2	-48.0	-32.3	67.0
Unit value	$129.98	$186.43	$133.23	$85.52	-34.2	43.4	-28.5	-35.8
Ending inventory quantity	24	16	12	39	57.9	-34.5	-28.0	235.1

Table C-1--Continued
Bicycles: Summary data concerning the U.S. market, 1992-95

(Quantity=*1,000 units*, value=*1,000 dollars*, unit values and unit labor costs are *per unit*, period changes=*percent, except where noted*)

Item	Reported data				Period changes			
	1992	1993	1994	1995	1992-95	1992-93	1993-94	1994-95
U.S. imports from--								
All sources:								
Quantity	6,304	7,095	7,021	7,174	13.8	12.6	-1.0	2.2
Value	542,355	617,249	608,142	693,585	27.9	13.8	-1.5	14.0
Unit value	$86.04	$87.00	$86.62	$96.68	12.4	1.1	-0.4	11.6
Ending inventory quantity	885	1,104	843	882	-0.4	24.8	-23.6	4.6
U.S. producers--								
Average capacity quantity	10,286	11,964	12,856	13,824	34.4	16.3	7.5	7.5
Production quantity	9,333	10,555	9,666	9,277	-0.6	13.1	-8.4	-4.0
Capacity utilization[1]	90.7	88.2	75.2	67.1	-23.6	-2.5	-13.0	-8.1
U.S. shipments:								
Quantity	9,096	9,708	9,682	9,012	-0.9	6.7	-0.3	-6.9
Value	757,946	820,669	837,494	818,849	8.0	8.3	2.1	-2.2
Unit value	$83.33	$84.54	$86.50	$90.87	9.0	1.5	2.3	5.1
Export shipments:								
Quantity	253	359	302	308	22.0	41.9	-15.7	2.0
Exports/shipments[1]	2.7	3.6	3.0	3.3	0.6	0.9	-0.5	0.3
Value	64,482	71,159	77,087	80,970	25.6	10.4	8.3	5.0
Unit value	$255.06	$198.31	$254.94	$262.51	2.9	-22.2	28.6	3.0
Ending inventory quantity	533	1,005	707	669	25.6	88.8	-29.7	-5.3
Inventory/shipments[1]	5.7	10.0	7.1	7.2	1.5	4.3	-2.9	0.1
Production workers	5,076	5,920	6,313	5,887	16.0	16.6	6.6	-6.7
Hours worked (*1,000s*)	10,375	12,173	12,319	12,446	20.0	17.3	1.2	1.0
Wages paid (*1,000*)	109,457	124,223	123,843	117,590	7.4	13.5	-0.3	-5.0
Hourly wages	$10.55	$10.20	$10.05	$9.45	-10.4	-3.3	-1.5	-6.0
Productivity (*unit per 1,000 hours*)	899.6	867.1	784.6	745.4	-17.1	-3.6	-9.5	-5.0
Unit labor costs	$11.73	$11.77	$12.81	$12.68	8.1	0.4	8.9	-1.1
Net sales--								
Quantity	9,148	10,291	10,031	9,861	7.8	12.5	-2.5	-1.7
Value	798,606	902,714	913,781	914,122	14.5	13.0	1.2	0.0
Unit sales value	$87.30	$87.72	$91.10	$92.70	6.2	0.5	3.9	1.8
Cost of goods sold (COGS)	672,342	746,140	782,214	797,849	18.7	11.0	4.8	2.0
Gross profit (loss)	126,264	156,574	131,567	116,273	-7.9	24.0	-16.0	-11.6
SG&A expenses	85,519	91,454	100,136	102,879	20.3	6.9	9.5	2.7
Operating income or (loss)	40,745	65,120	31,431	13,394	-67.1	59.8	-51.7	-57.4
Capital expenditures	22,973	23,129	37,013	25,007	8.9	0.7	60.0	-32.4
Research expenditures	5,309	5,653	6,909	6,076	14.4	6.5	22.2	-12.1
Unit COGS	$73.50	$72.50	$77.98	$80.91	10.1	-1.3	7.6	3.8
Unit SG&A expenses	$9.35	$8.89	$9.98	$10.43	11.6	-4.9	12.3	4.5
Unit operating income or (loss)	$4.45	$6.33	$3.13	$1.36	-69.5	42.1	-50.5	-56.7
COGS/sales[1]	84.2	82.7	85.6	87.3	3.1	-1.5	2.9	1.7
Operating income or (loss)/sales[1]	5.1	7.2	3.4	1.5	-3.6	2.1	-3.8	-2.0

[1] "Reported data" are in percent and "period changes" are in percentage points.
[2] Not applicable.

Note.--Period changes are derived from the unrounded data. Because of rounding, figures may not add to the totals shown. All data reported are on a calendar-year basis with the exception of financial data which are on a fiscal-year basis.

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

Table C-2
Bicycles shipped to mass merchandisers: Summary data concerning the U.S. market, 1992-95

(Quantity=*1,000 units*; value=*1,000 dollars*; unit values and unit labor costs are *per unit*; period changes=*percent, except where noted*)

Item	Reported data				Period changes			
	1992	1993	1994	1995	1992-95	1992-93	1993-94	1994-95
U.S. producers'--								
Average capacity quantity	9,672	11,302	12,114	12,906	33.4	16.9	7.2	6.5
Production quantity	8,886	10,073	9,087	8,447	-4.9	13.4	-9.8	-7.0
Capacity utilization[1]	91.9	89.1	75.0	65.4	-26.4	-2.8	-14.1	-9.6
U.S. shipments:								
Quantity	8,805	9,376	9,247	8,363	-5.0	6.5	-1.4	-9.6
Value	633,594	689,908	669,704	586,313	-7.5	8.9	-2.9	-12.5
Unit value	$71.96	$73.58	$72.43	$70.11	-2.6	2.3	-1.6	-3.2
Export shipments:								
Quantity	145	226	132	128	-11.8	55.9	-41.6	-3.2
Exports/shipments[1]	1.6	2.4	1.4	1.5	-0.1	0.7	-0.9	0.1
Value	12,858	16,295	10,145	8,892	-30.8	26.7	-37.7	-12.4
Unit value	$88.77	$72.14	$76.90	$69.63	-21.6	-18.7	6.6	-9.5
Ending inventory quantity	441	912	620	577	30.7	106.7	-32.0	-7.1
Inventory/shipments[1]	4.9	9.5	6.6	6.8	1.9	4.6	-2.9	0.2
Production workers	4,125	4,934	5,193	4,549	10.3	19.6	5.2	-12.4
Hours worked (*1,000s*)	8,319	10,082	10,123	9,844	18.3	21.2	0.4	-2.8
Wages paid (*1,000*)	93,406	107,180	105,826	95,434	2.2	14.7	-1.3	-9.8
Hourly wages	$11.23	$10.63	$10.45	$9.69	-13.7	-5.3	-1.7	-7.3
Productivity (*unit per 1,000 hours*)	1,068.2	999.1	897.7	858.1	-19.7	-6.5	-10.1	-4.4
Unit labor costs	$10.51	$10.64	$11.65	$11.30	7.5	1.2	9.4	-3.0
Net sales--								
Quantity	8,732	9,847	9,470	9,067	3.8	12.8	-3.8	-4.3
Value	621,018	717,427	683,766	625,455	0.7	15.5	-4.7	-8.5
Unit sales value	$71.12	$72.85	$72.20	$68.98	-3.0	2.4	-0.9	-4.5
Cost of goods sold (COGS)	530,800	602,891	603,995	580,559	9.4	13.6	0.2	-3.9
Gross profit (loss)	90,218	114,536	79,771	44,896	-50.2	27.0	-30.4	-43.7
SG&A expenses	49,602	56,388	56,340	55,590	12.1	13.7	-0.1	1.3
Operating income or (loss)	40,616	58,148	23,431	(10,694)	-126.3	43.2	-59.7	-145.6
Capital expenditures	***	***	***	***	25.4	13.6	71.3	-35.6
Research expenditures	***	***	***	***	3.3	11.5	6.1	-12.7
Unit COGS	$60.78	$61.22	$63.78	$64.03	5.3	0.7	4.2	0.4
Unit SG&A expenses	$5.68	$5.73	$5.95	$6.13	7.9	0.8	3.9	3.1
Unit operating income or (loss)	$4.65	$5.90	$2.47	($1.18)	-125.4	27.0	-58.1	-147.7
COGS/sales[1]	85.5	84.0	88.3	92.8	7.3	-1.4	4.3	4.5
Operating income or (loss)/sales[1]	6.5	8.1	3.4	(1.7)	-8.3	1.6	-4.7	-5.1

[1] "Reported data" are in percent and "period changes" are in percentage points.

Note.--Period changes are derived from the unrounded data. Because of rounding, figures may not add to the totals shown. All data reported are on a calendar-year basis with the exception of financial data which are on a fiscal-year basis.

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

Table C-3
Bicycles shipped to IBDs: Summary data concerning the U.S. market, 1992-95

(Quantity=*1,000 units*, value=*1,000 dollars*, unit values and unit labor costs are *per unit*, period changes=*percent, except where noted*)

Item	Reported data				Period changes			
	1992	1993	1994	1995	1992-95	1992-93	1993-94	1994-95
U.S. producers'--								
Average capacity quantity	614	662	742	918	49.6	7.9	12.1	23.7
Production quantity	447	482	578	830	85.6	7.8	20.0	43.5
Capacity utilization[1]	72.9	72.8	78.0	90.4	17.6	-0.1	5.1	12.5
U.S. shipments:								
Quantity	291	332	436	648	122.9	14.0	31.3	48.8
Value	124,352	130,761	167,790	232,536	87.0	5.2	28.3	38.6
Unit value	$427.52	$394.20	$385.14	$358.59	-16.1	-7.8	-2.3	-6.9
Export shipments:								
Quantity	108	133	170	181	67.4	23.1	28.2	6.0
Exports/shipments[1]	27.1	28.6	28.1	21.8	-5.3	1.5	-0.5	-6.3
Value	51,624	54,864	66,942	72,078	39.6	6.3	22.0	7.7
Unit value	$478.16	$412.66	$392.75	$398.79	-16.6	-13.7	-4.8	1.5
Ending inventory quantity	92	94	87	93	1.1	2.4	-7.7	7.1
Inventory/shipments[1]	23.0	20.2	14.3	11.2	-11.8	-2.8	-5.9	-3.1
Production workers	951	986	1,120	1,338	40.7	3.7	13.6	19.5
Hours worked (*1,000s*)	2,056	2,091	2,196	2,602	26.6	1.7	5.0	18.5
Wages paid (*1,000*)	16,051	17,043	18,017	22,156	38.0	6.2	5.7	23.0
Hourly wages	$7.81	$8.15	$8.20	$8.51	9.1	4.4	0.7	3.8
Productivity (*unit per 1,000 hours*)	217.5	230.6	263.4	319.1	46.7	6.0	14.2	21.1
Unit labor costs	$35.89	$35.35	$31.15	$26.68	-25.6	-1.5	-11.9	-14.3
Net sales--								
Quantity	416	444	561	794	91.0	6.8	26.3	41.6
Value	177,588	185,287	230,015	288,667	62.5	4.3	24.1	25.5
Unit sales value	$427.31	$417.45	$410.22	$363.60	-14.9	-2.3	-1.7	-11.4
Cost of goods sold (COGS)	141,542	143,249	178,219	217,290	53.5	1.2	24.4	21.9
Gross profit (loss)	36,046	42,038	51,796	71,377	98.0	16.6	23.2	37.8
SG&A expenses	35,917	35,066	43,796	47,289	31.7	-2.4	24.9	8.0
Operating income or (loss)	129	6,972	8,000	24,088	18,572.9	5,304.7	14.7	201.1
Capital expenditures	***	***	***	***	-35.2	-33.9	8.3	-9.6
Research expenditures	***	***	***	***	39.2	-4.7	64.1	-11.0
Unit COGS	$340.58	$322.74	$317.84	$273.69	-19.6	-5.2	-1.5	-13.9
Unit SG&A expenses	$86.42	$79.00	$78.11	$59.56	-31.1	-8.6	-1.1	-23.7
Unit operating income or (loss)	$0.31	$15.71	$14.27	$30.34	9,674.8	4,960.5	-9.2	112.7
COGS/sales[1]	79.7	77.3	77.5	75.3	-4.4	-2.4	0.2	-2.2
Operating income or (loss)/sales[1]	0.1	3.8	3.5	8.3	8.3	3.7	-0.3	4.9

[1] "Reported data" are in percent and "period changes" are in percentage points.

Note.--Period changes are derived from the unrounded data. Because of rounding, figures may not add to the totals shown. All data reported are on a calendar-year basis with the exception of financial data which are on a fiscal-year basis.

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

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. bicycles market. The model uses these estimates with data on market shares, Commerce's estimated margin of dumping, transportation costs, and current tariffs to analyze the likely effect of unfair pricing of subject imports on the U.S. like product industry.

The COMPAS model provides estimates of the effect of dumping or subsidies on U.S. like product revenue, volume, and price for U.S. sales alone. That is, it does not estimate the effects on that portion of domestic production of the like product destined for non-U.S. markets (i.e., U.S. exports). Given the normal COMPAS results, however, it is fairly straightforward to estimate the effects of dumping or subsidies on the entire domestic like product industry, including exports. We begin with the assumption that the domestic quantity supplied for the U.S. market is the total domestic production minus the quantity demanded of the product in the export market.[1] Substituting the functional forms used for supply and demand employed in COMPAS, $P_d^{\epsilon_d}$ and $P_x^{\eta_x}$, respectively, we have

$$P_d^{\epsilon_d} = Q - P_x^{\eta_x} \tag{1}$$

where Q is total domestic production, P_d and P_x are the prices of domestic like products in the U.S. and export markets, respectively, ϵ_d is the price elasticity of U.S. domestic supply (used in COMPAS), and η_x is the price elasticity of demand for U.S. exports. Totally differentiating equation (1) and rearranging, we get the percentage change in total U.S. production ($\hat{Q}$) as follows

$$\hat{Q} = (1-\lambda_x)\epsilon_d\hat{P}_d + \lambda_x\eta_x\hat{P}_x \tag{2}$$

where λ_x is the proportion of total U.S. production currently exported and hats (^) denote percentage changes. Note that $\hat{P}_d$ (the percentage change in domestic price resulting from LTFV pricing) is simply part of the COMPAS output and ϵ_d (the price elasticity of domestic supply) is a COMPAS input, λ_x (the proportion of domestic production currently exported) must be calculated, and we must make some assumptions to estimate η_x (the price elasticity of demand for U.S. exports) and $\hat{P}_x$ (the percentage change in U.S. export price resulting from LTFV pricing).

We will employ two different methodologies to estimate the latter two parameters. Method 1 assumes that the price of U.S. exports was unaffected by the LTFV pricing of imports (that is, we assume that $\hat{P}_x = 0$). In this case, the percentage change in total U.S. production is calculated as

$$\hat{Q} = (1-\lambda_x)\epsilon_d\hat{P}_d. \tag{2.1}$$

Method 2 assumes that the price of U.S. exports changed by the same percentage as the domestic U.S. price

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[1] This is the same assumption used in the COMPAS model. Note that export markets are discussed in the Conditions of Competition section of investigation reports and used to characterize the U.S. domestic supply elasticity.

(that is, we assume that $\hat{P}_x = \hat{P}_d$). In this case, the percentage change in total U.S. production is calculated as

$$\hat{Q} = \left((1-\lambda_x)\epsilon_d + \lambda_x \eta_x\right)\hat{P}_d. \quad \textbf{(2.2)}$$

Here we make the additional assumption that U.S. exports have the same price elasticity of demand as domestic products sold in the U.S. market (that is, we assume that $\eta_x = \eta_d$, where η_d is calculated within the COMPAS spreadsheet).

FINDINGS

The estimated effects of the LTFV pricing of imports on U.S. production of bicycles is as follows:[2]

	Revenue	Price	Volume
CATIC.....	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
CBC.....	0.1 to 0.3	0.0 to 0.1	0.1 to 0.2
Universal.....	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
All other.....	0.9 to 3.6	0.1 to 0.6	0.8 to 3.0
Total.....	1.0 to 3.9	0.1 to 0.7	0.9 to 3.2

More detailed effects of the dumping and the modeling assumptions used for the full range of scenarios are shown in tables D-1 to D-4.

Table D-1
The effects of LTFV pricing of CBC imports

* * * * * * *

Table D-2
The effects of LTFV pricing of Universal imports

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Table D-3
The effects of LTFV pricing of CATIC imports

* * * * * * *

Table D-4
The effects of LTFV pricing of all other imports

* * * * * * *

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[2] Estimates may vary depending on the assumptions about the effect of LTFV pricing on U.S. exports (i.e. LTFV pricing of imports does not affect the price of U.S. exports (method 1) or the price of U.S. exports changes by the same percentage as the price of U.S. producers' domestic sales (method 2)). With the particular inputs in this case, the estimated effects are virtually the same using either assumption about the effect of LTFV pricing of imports on the price of U.S. exports.

APPENDIX E

U. S. PRODUCTION OPERATIONS: COSTS AND SOURCES

BACKGROUND

The following tabulations contain data on the nature of each U.S. producer's production operations (commonly referred to as value added) and the sources of the parts used to produce two types of bicycles--20-inch BMX bicycles and 26-inch mountain bicycles. The data are the producers' costs (in dollars) of (1) each major component and (2) the processes involved in developing, producing, and selling each bicycle. The data are read as follows: the first column (total unit cost) is the sum of the next two columns (foreign content and total domestic content); total domestic content is in turn the sum of the last two columns (domestic raw materials and domestic labor and factory overhead).

Total domestic value added is then computed by dividing the sum of domestic labor and factory overhead costs and domestic overall product costs by the total cost of each bicycle. The computation is done both with and without selling, general, and administrative (SG&A) expenses considered. The computations are consistent with previous investigations. Huffy, Roadmaster, Murray, and GT were able to supply data on both types of bicycles and Trek and Raleigh supplied data on the 26-inch bike (they did not produce the 20-inch one). Only Cannondale did not supply any data.

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APPENDIX F

DISCUSSION OF ALLEGED PRICE DATA ANOMALIES AND ANALYSIS OF MODEL-BY-MODEL PRICE VARIATION RANGES

Although requests for price data in the final and preliminary investigations were very similar,[1] the petitioners and some importers reported many more bicycle models in each product category in the final than in the preliminary investigation.[2] The reason for this discrepancy became clear only after staff received explanations from reporting firms of how they reported price data in the preliminary investigation and also received extensive follow-up clarifications and revisions of the price data reported in the final investigation. In the preliminary investigation, despite instructions to report both largest-sale price data and total sales to all customers (based on the type of customer), many responding firms reported in each quarter only for their largest sale and, in some cases, also for total sales, but just of the model cited in the largest sale. In the final investigation, reporting firms followed the instructions to report total sales (of all applicable models) to all customers (by type of customer). The petitioners in particular, however, included as applicable models in the opening price-point (OPP) product categories (products 1, 2, and 4) many bicycle models that were equipped with additional features beyond the no-features models. Including all models reported in each product category led to prices in the prehearing report that were typically higher than prices calculated in the preliminary investigation. This was especially true for the U.S.-produced bicycles, which included a much higher proportion of additional-feature models than the imported Chinese bicycles.[3]

Respondents maintain that the different price data reported by the petitioners in the preliminary and final investigations resulted in serious anomolies in the pricing data before the Commission. Respondents claim that: (1) petitioners reported models with price variations of *** percent within the same pricing product and for the same calendar quarter; (2) petitioners reported models not corresponding to the product definitions; (3) for the same bicycle models, petitioners reported higher prices in the final investigation than they did in the preliminary investigation; (4) petitioners reported transaction prices that were higher than the list prices with no reasonable explanation; and (5) petitioners failed to report prices and volume for a number of true OPP models.[4]

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[1] In the final investigation, quarterly selling price data were requested for total sales in each quarter during January 1992-December 1995, by individual bicycle models in each of six bicycle categories and by type of customer. In addition, specifications and color photos were requested for each model reported. Values were specified to be net of all discounts and other premiums offered, with several discount, rebate, and premium programs identified as examples. In the preliminary investigation, specific-transaction price data were requested for the largest sale in each quarter for the same six bicycle product categories by type of customer during January 1992-December 1994; in addition, the total quantity and value shipped to all customers in each quarter were also requested. However, prices of individual models were not specifically requested, and specifications and color photos were not requested for the reported models that conformed to the product definitions.

[2] Petitioners notified Commission staff 11 days before the due date for returning questionnaires in the final investigation that they would be reporting for up to 90 individual models in some product categories and were finding this difficult to do. Although they were unable to definitively state why so many more models were being reported in the final investigation compared with the preliminary investigation, the staff modified its price data request by instructing producers and importers to aggregate price data for bicycle models that were essentially similar (nearly identical) except for such differences as the color of paint or boys' versus girls' models, or because essentially the same bike carried different model numbers corresponding to different customers. The responding firms were also instructed to identify all models in an aggregate group, report the base specifications for the group, and clearly note any differences among the models in the group from the base specifications. Color photos of each model in an aggregate model group were also requested.

[3] Comparisons of specifications among bicycle models reported by U.S. producers and importers were not possible in many cases because the reporting firms did not always supply specifications for all the models reported and the specifications they provided included varying amounts and clarity of specification detail.

[4] Dynacraft's posthearing brief, pp. 10-15; Target's posthearing brief, pp. 1-7; and Toys "R" Us' posthearing brief, pp. 13 and 14.

In response to the allegations made by respondents, staff reexamined the price data reported by both petitioners and respondents. First of all, as discussed earlier, petitioners and respondents primarily reported largest-sale price data in the preliminary investigation, as opposed to the total quantity and value price data they reported in the final investigation. For this reason, any comparisons between price data reported in the final investigation and that reported in the preliminary investigation are not meaningful. Staff confirmed that, within the product categories, prices for petitioners' reported models varied widely. The wide fluctuations in price indicate that non-comparable models were included in the pricing categories. Given this, staff decided to include only "no-features" models in the OPP categories (products 1, 2, and 4).[5] Prices for the strict OPP (i.e., no-features) models fluctuated within a narrower range, suggesting that the models now included in the product categories are more comparable. Price data reported by *** fluctuated within a range that is comparable to that of the prices of the strict OPP models reported by the petitioners. ***. [6]

The Commission asked U.S. producers and importers of Chinese bicycles to provide specifications and pictures of every bicycle model for which they provided price data.[7] To the extent possible, staff compared the available specifications to the product descriptions provided by the Commission and removed models that did not belong in the data set (i.e., product 2 models with caliper brakes, radios, etc.). Staff also reviewed the data sets for outliers and, to the extent possible, corrected errors (i.e., data entry errors, inclusion of sample sales, etc.).

Respondents maintained that there were numerous instances where the lowest prices reported by *** in the final investigation exceeded the weighted-average price reported by those petitioners in the preliminary investigation.[8] In the case of ***, respondents compared *** aggregate group prices (i.e., unit values for ***'s OPP product 1 grouping) reported in the final with ***'s unit values of its largest sale products reported in the preliminary. Since the aggregate group unit values include price data for a range of bicycle models and can vary depending on the product mix of that group, it is not surprising that these unit values are at times higher than the unit values reported in the preliminary investigation, which were based on a specific bicycle model (the largest sale bicycle model). Using data provided later in the final investigation, staff determined that the unit values of ***'s lowest-priced models reported in the final were lower than the unit values of its largest sale products reported in the preliminary.

* * * * * * *

In response to respondent's allegation that some of ***'s reported transaction prices were higher than their reported list prices, petitioners explained that the list prices are for base models, and that in most cases customers require add-ons (i.e., streamers, frame pads, etc.) which add to the cost of the bicycle.[9]

Finally, respondents claimed that *** failed to report price data for sales of its ***, which respondents consider to be true OPP models. These models were included in ***'s reported price data.

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[5] Toys "R" Us also suggested this approach. Toys "R" Us' posthearing brief, p. 14.

[6] Staff also analyzed the model-by-model variation of the price data reported by ***. However, staff removed *** price data from the LTFV price data set after Commerce determined that Chitech, *** Chinese source of bicycles, sold at fair value. Several U.S. producers and LTFV importers (i.e., ***, etc.) did not report price data on a model-by-model basis. Therefore, staff was unable to determine the degree to which prices fluctuated by model for these firms.

[7] During the final investigation, petitioners provided extensive specifications. LTFV importers *** and fair value importer *** also provided extensive specifications. Major LTFV importers for the mass market *** did not provide adequate specifications.

[8] See att. 1 of Dynacraft's posthearing brief.

[9] Telephone conversation with ***, a representative of the petitioner, May 3, 1996.

APPENDIX G

COMMENTS RECEIVED FROM U.S. PRODUCERS ON THE IMPACT OF IMPORTS OF BICYCLES 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 bicycles 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 three other producers were as follows:

1. Since January 1, 1992, 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 bicycles from China?

Huffy: "***."

Murray: "***."

Roadmaster: "***."

2. Does your firm anticipate any negative impact of imports of bicycles from China?

Huffy: "***."

Murray: "***."

Roadmaster: "***."