Certain Iron Mechanical Transfer Drive Components from Canada and China

Inv. Nos. 701-TA-550 and 731-TA-1304-1305 (Final)

Before the U.S. International Trade Commission

Presentation of the Domestic IMTDC Industry
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Domestic Like Product

- Petitioner recommends that the domestic like product definition be coextensive with the scope.

Domestic Industry

- Not arguing for exclusion of any party.
- Respondents' arguments are mostly BPI.

Domestically produced IMTDCs and subject imports are essentially interchangeable

- All responding producers, nearly all responding importers, and most responding purchasers indicated that large-diameter IMTDCs are "always" or "frequently" interchangeable. (*Prehearing Report at II-19*)
- The vast majority of IMTDCs are standard catalog products. (*Prehearing Report at II-4*)

Price is an Important Purchasing Factor

- Price was one of the most often cited "top three factors" in purchasing decisions, according to 19 of 24 purchasers (**79.1%**). (*Prehearing Report at II-13*)
- Price was the second most-frequently cited most-important factor. (*Prehearing Report at II-13*)
- Price was a "very important" factor in the purchasing decisions of 19 of 24 purchasers (**79.1%**). (*Prehearing Report at Table II-6*)
- Substantial majorities of responding purchasers stated that domestic IMTDCs and subject IMTDCs "always" or "usually" meet minimum quality specifications. (*Prehearing Report at II-19 – II-20*)

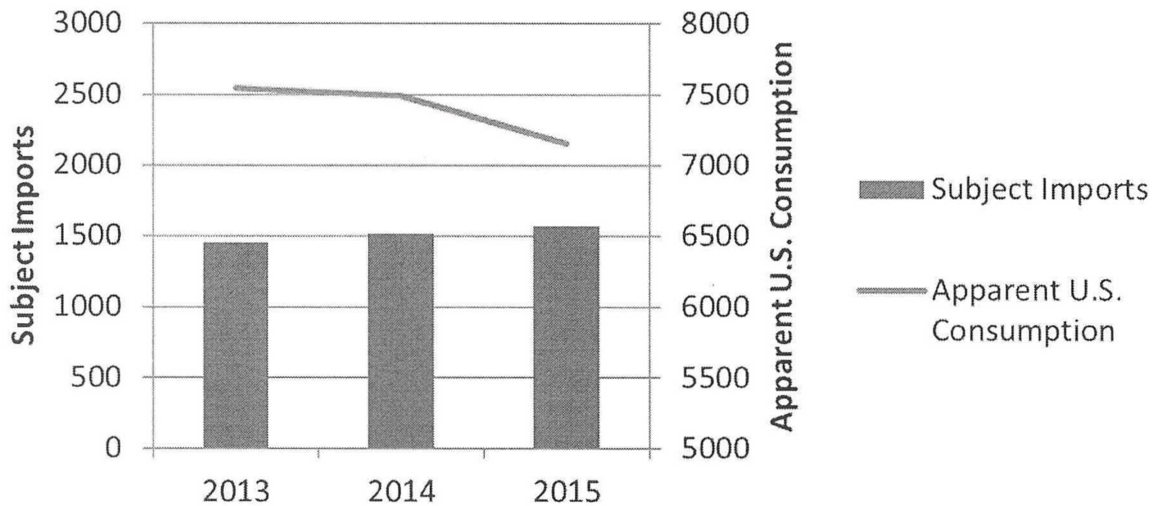
Demand

- All parties agree that demand decreased over the POI.
- According to the Staff Report, demand decreased by **5.2%** over the POI. (*Prehearing Report at IV-17*)

Volume

As demand decreased during the POI, subject imports increased.

Apparent U.S. Consumption and Subject Imports (in 1,000 Pieces)



Source: TB Wood's Prehearing Brief at 24.

Volume

- Subject import volume increased from **1.45 million** pieces to **1.57 million** pieces over the POI. (*Prehearing Report at Table IV-2*)
- On an absolute basis, subject import volume increased **7.7%** by quantity (pieces) over the POI.
- On a relative basis, subject imports increased from **44%** of domestic production in 2013 to **51%** of domestic production by 2015.

Volume is Significant

- Even with significant importer data missing.
- The Staff Report estimates that the questionnaires received from importers only accounted for **39.7%** of subject imports from China in 2015. (*Prehearing Report at IV-3*)
- Numerous Chinese producers participated in the Department of Commerce proceedings but failed to respond to the Commission's Questionnaire.

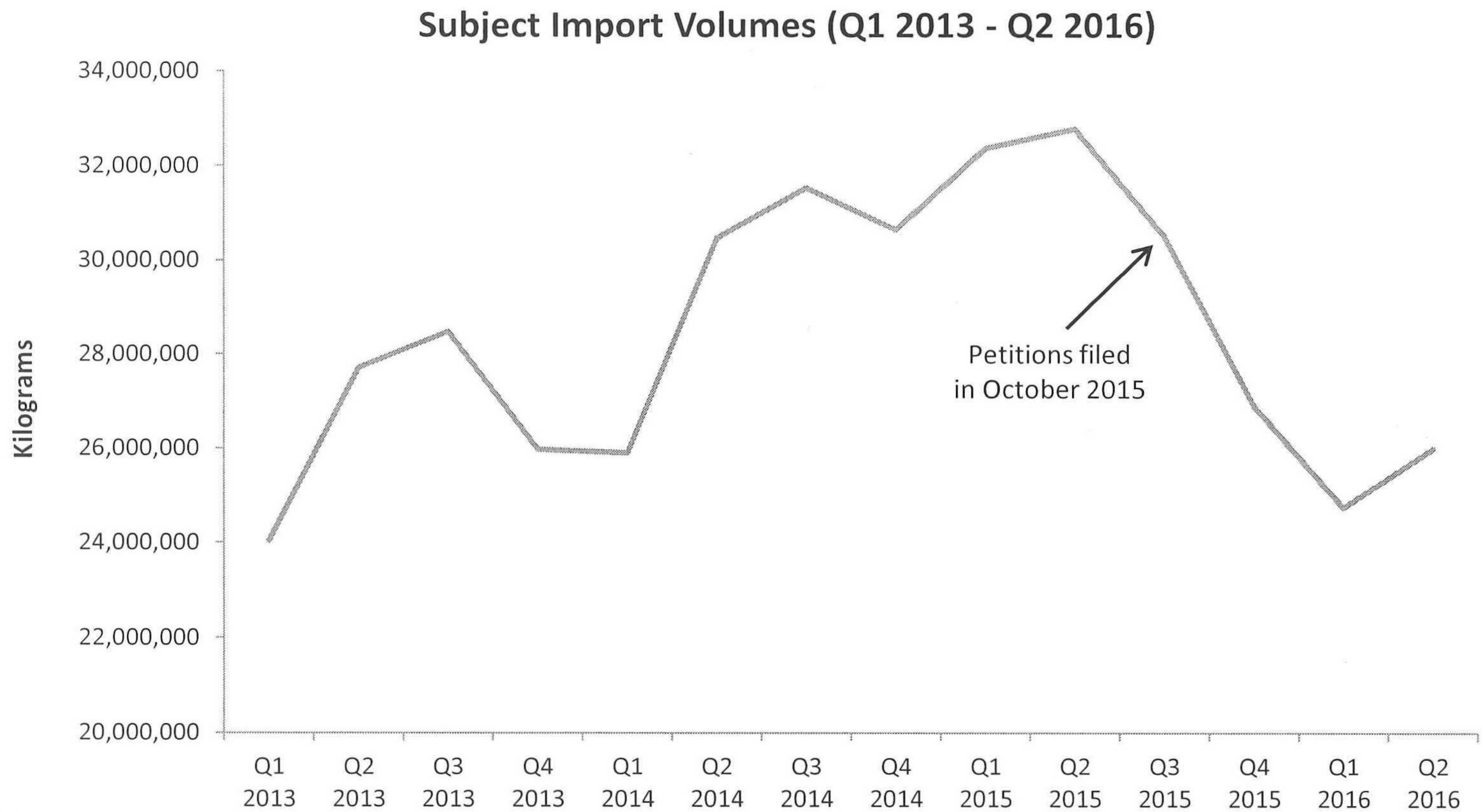
Post-Petition Effects

"{T}he Commission should consider whether changes in the volume of imports, their price effects, and their impact on the domestic industry occurring since the filing of the petition are related to the pendency of the investigation"

- Statement of Administrative Action accompanying the Uruguay Round Agreements Act, H.R. Doc. No. 103-316, vol. 1 at 853 (1994), 1994 U.S.C.C.A.N. 4040, 4186

Post-Petition Effects

Import Levels in the HTS Categories that Contain Subject Imports Increased Until These Cases Were Filed



Source: USITC Dataweb

Preliminary AD/CVD Margins

Country	AD Margin	CVD Margin
China	2.17 – 401.68%	2.68 – 166.7%
Canada	100.47 – 191.34%	-

(*Prehearing Report at Tables I-1 – I-3*)

- April 11, 2016: China CVD preliminary margins published
- June 8, 2016: Canada and China AD preliminary margins published
- October 21, 2016: Final AD/CVD margins will issue

Price Effects

The pricing products are illustrative of subject imports and the domestic like product.

- There are tens of thousands of SKUs.
  - Roughly 20,000 SKU's.
  - Numerous IMTDC specifications.
- Only domestic producers suggested pricing products.
- The pricing products resulted in the collection of **228** price comparisons.

Price Effects

Subject imports undersold the domestic like product in **217 of 228** price comparisons (*i.e.*, **95.2%** of the time), at margins of underselling that reached up to **84.8%**. (*Prehearing Report at V-27*)

Impact

- **13 of 23** (56.5%) responding purchasers switched from domestic product to subject imports since 2013. (*Prehearing Report at V-30*)
  - **11 of 13** (84.6%) responding purchasers reported that subject imports were <u>priced lower</u> than domestic product.
  - **6 of 13** (46.1%) responding purchasers certified that they switched <u>on the basis of price</u>.

Performance of the Domestic Industry Reflects Material Injury by Reason of Subject Imports

- U.S. production fell by **7.6%** during the POI.
- Capacity utilization fell by **4.3%** during the POI.
  - From **59.1%** in 2013 to **54.8%** in 2015.
- U.S. shipments fell by **11.3%** by quantity (pieces) and **4.7%** by value.

Operating Income

- Operating income fell across the POI, declining by **34.4%** from 2013-2015.
  - Operating income dropped **6.1%** from 2013 to 2014, and another **30.1%** from 2014 to 2015.
- Operating margin decreased to **2.7%** by interim 2016 (January – June).
- Net income margin decreased to **1.6%** by interim 2016 (January – June).

Inventories

- U.S. importers and the domestic industry have developed massive inventory build-ups.
  - Significant increase for U.S. producers, and a **7.6%** increase for U.S. importers over the POI.
- Inventories continue to depress prices and domestic performance.
  - Inventories of subject imports during interim 2016 increased by **13.6%** from interim 2015.

Mexican Imports

- See page 18 of respondent's brief & over-bracketing.
- Mexican imports undersold U.S. product in 71 of 119 instances. (*Prehearing Report at Appendix D at D-3*) Yet Chinese and Canadian imports undersold U.S. product at a higher rate, in **217 of 228** instances, at margins of up to 84.8%. (*Prehearing Report at V-27*)
- Mexican prices were generally higher than Canadian or Chinese prices – higher than Canadian prices in 59 of 71 instances, and higher than Chinese prices 104 of 115 instances. (*Prehearing Report at Appendix D at D-3*)
- Non-subject import volumes, including Mexican imports, were lower than subject import volumes.
    - Imports of Chinese and Canadian IMTDCs covered by the scope were larger throughout the POI than non-subject imports covered by the language of the scope. (*Prehearing Report at Table IV-2*)

Threat

- Subject imports caused the domestic industry's operating income to drop significantly and its net income margin to decline to a break-even 1.6%, which has left the industry vulnerable to further material injury.
- Subject producers have massive overcapacity – and the failure of many of them to respond indicates that their excess capacity is even larger.
- The United States remains an attractive market, especially to the export-dependent subject industries, which have the ability to quickly shift between markets.
- Subject imports have a proven track record of underselling.
- A significant volume of subject imports is sitting in importers' inventories.
- Additional import volumes have already been arranged.
- Subject imports hinder the domestic industry's ability to invest.
- The Chinese industry receives substantial benefits from countervailable subsidy programs. Preliminary margins of up to 166.7% were calculated. (*Prehearing Report at Table I-1*)
- The Commission should determine that the domestic industry has been injured, or, alternatively, that it is threatened with injury by reason of the subject imports.

Conclusion

- Subject imports increased over the POI during a period of decreasing demand.
- Subject imports undersold the domestically produced product in 217 out of 228 price comparisons.
- The domestic industry's production, capacity utilization, shipments, operating profits, and net income margin decreased over the POI as a result of unfairly priced imports from Canada and China.