CERTAIN FORGED UNDERCARRIAGE COMPONENTS FROM ITALY

Determination of the Commission in Investigation No. 701-TA-201 (Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigation

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Note.--Data which would disclose the confidential operations of individual concerns may not be published and, therefore, have been deleted from this report. Such deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

Investigation No. 701-TA-201 (Final)

CERTAIN FORGED UNDERCARRIAGE COMPONENTS FROM ITALY

Determination

On the basis of the record 1/ developed in investigation No. 701-TA-201 (Final), the Commission determines, 2/ pursuant to section 705(b)(1) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)(1)), that industries in the United States are materially injured by reason of imports from Italy of semi-finished 3/ forged links and rollers for the undercarriage of crawler-mounted machinery, provided for in items 664.08, 692.35, or 692.35 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized by the Government of Italy.

Background

The Commission instituted this investigation effective August 30, 1983, following a preliminary affirmative countervailing duty determination by the Department of Commerce on imports of semifinished forged undercarriage links and rollers for crawler-mounted machinery (forged undercarriage components) from Italy.

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, D.C., and by publishing the notice in the Federal Register on September 14, 1983 (48 F.R. 41246). The hearing was held in Washington, D.C. on November 22, 1983, and all persons who requested the opportunity were permitted to appear in person or represented by counsel.

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

2/ Commissioner Stern dissenting.

3/ For the purposes of this investigation, the term "semifinished" means not assembled and not machined to final dimensions, whether or not otherwise processed.

VIEWS OF CHAIRMAN ECKES, COMMISSIONER HAGGART AND COMMISSIONER LODWICK

On the basis of the record in investigation No. 701-TA-201 (Final), we determine that an industry in the United States is materially injured by reason of subsidized imports of semifinished forged undercarriage links from Italy. We also determine that an industry in the United States is materially injured by reason of subsidized imports of semifinished forged undercarriage rollers from Italy. 1/

Domestic industry

The term "industry" is defined in section 771(4)(A) of the Act 2/ as consisting of "[t]he domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." The term "like product," in turn, is defined in section 771(10) 3/ as being "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation[.]"

The imported products which are the subject of this investigation are semifinished forged undercarriage links and rollers. Semifinished links and rollers have no independent uses and are ultimately made into finished links and rollers. There appear to be no uses for finished links and rollers other than as components of undercarriages. The finished forged undercarriage components are used in crawler-mounted machinery, such as earth-moving

1/ As the petitioners have not alleged material retardation of an industry in this investigation, it is not an issue and will not be discussed further.
2/ 19 U.S.C. § 1677(4)(A).
3/ 19 U.S.C. § 1677(10).

machinery, bulldozers, cranes, bucket loaders, and excavators. The undercarriage is that part of the vehicle which moves the body of the machinery. Links are the connecting elements in the track chain. Rollers are the revolving cylinders which contact the track assembly. 4/

The imported semifinished links and rollers are distinct products with different characteristics. 5/ Furthermore, as components of the undercarriage, links perform distinct functions from rollers. 6/ Thus, for the purposes of this final investigation, we determine that semifinished links and rollers are two separate like products within the meaning of the statute. 7/ 8/ There is domestic production of both semifinished links and rollers, and the domestic products are interchangeable with the corresponding imports. Therefore, we conclude that there are two domestic products which are "like" the imports subject to this investigation.

The usual Commission practice is to define the domestic industry as including all the domestic producers of the like product. Accordingly, we define the domestic semifinished roller industry as consisting of all domestic

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4/ Report, A-2 to A-4.

5/ This is evidenced by the physical characteristics of the two articles, as illustrated on page A-3 of the Report.

6/ Report at A-4.

7/ In the preliminary investigation, the Commission found these two like products to be part of a single semifinished forgings industry, based on the data then available, which in several respects did not distinguish sufficiently between semifinished links and rollers to permit separate analyses (Certain Forged Undercarriage Components From Italy, Inv. No. 701-TA-201 (Preliminary), USITC Pub. No. 1394 (June 1983) (Commissioner Haggart dissenting on this point; Commissioner Lodwick was not a member of the Commission at the time of the preliminary investigation.)).

8/ Commissioner Haggart notes that the Commission's determination in this final investigation is in accord with her conclusions in the preliminary investigation wherein she found that links and rollers were physically distinct, noninterchangeable articles and, consequently, concluded that they were two separate "like" products within the meaning of the statute. Certain Forged Undercarriage Components From Italy, Inv. No. 701-TA-201 (Preliminary), USITC Pub. No. 1394 (June 1983) (Views of Commissioner Haggart) at pp. 45-46.

producers of semifinished rollers. 9/ With respect to the definition of the domestic semifinished links industry, an issue has been raised as to whether Caterpillar, which produces and imports semifinished links, should be excluded from the domestic industry as a related party. 10/

Under the related parties provision, Caterpillar, as both a domestic producer of semifinished links and an importer of semifinished links from Italy, may be excluded from the domestic industry if "appropriate circumstances" exist. 11/ 12/

The essence of the related parties provision is that consideration should be given to excluding the importer-producer from the domestic industry if its inclusion would distort the data on the effect of the imports on the domestic industry. Distortion is most likely to occur either because the related

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9/ Report, A-10-to A-12.

10/ The pertinent statutory provision reads as follows:

> When some producers are related to the exporters or importers, or are themselves importers of the allegedly subsidized or dumped merchandise, the term "industry" may be applied in appropriate circumstances by excluding such producers from those included in that industry. [19 U.S.C. § 1677(4)(B).]

11/ 19 U.S.C.§ 1677(4)(B). The legislative history concerning the related parties provision is sparse. There is only one example of what might constitute "appropriate circumstances." According to the Senate Finance Committee Report:

> The ITC is given discretion not to include within the domestic industry those domestic producers of the like product which are either related to exporters or importers of the imported product being investigated, or which import that product. Thus, for example, where a U.S. producer is related to a foreign exporter and the foreign exporter directs his exports to the United States so as not to compete with his related U.S. producer, this should be a case where the ITC would not consider the related U.S. producer to be a part of the domestic industry. [S. Rep. 96-249, 96th Cong. 1st Sess. 83 (1979).]

12/ Caterpillar is not the sole importer of the semifinished links because IMES Trading Co. is the importer of record on certain entries. However, IMES Trading Co. imports exclusively for Caterpillar and maintains a warehouse to service Caterpillar. The importer, IMES Trading Co., and the sole domestic purchaser, Caterpillar, have acted in "concert". Report at A-26.

party is isolated from the adverse effects of import competition or because it benefits from the imports.

In the instant investigation, we have concluded that Caterpillar's inclusion in the domestic semifinished links industry would not distort the effect of the imports on the domestic industry. Caterpillar's imports of semifinished links adversely affect its operations devoted to the production of semifinished links. For example, Caterpillar's production, employment, and capacity utilization devoted to semifinished links have been adversely impacted by its decision to import semifinished links. 13/ 14/

Based on the foregoing, we have not excluded Caterpillar from the definition of the domestic industry. We therefore define the domestic semifinished links industry as including all domestic producers of semifinished links. 15/

13/ We note that, in comparison to Caterpillar's operations devoted to the production of semifinished links, imports of semifinished links benefit Caterpillar as a producer and seller of finished links. However, in light of our definitions of the like product and the domestic industry, Caterpillar's finished links operations are not the subject of this investigation.

14/ The facts of the instant investigation can be contrasted with the facts found in Certain Automated Fare Collection Equipment And Parts Thereof From France, Inv. No. 701-TA-200 (Preliminary), which has been cited in support of the argument that Caterpillar should be excluded as a "related party." In Fare Collection Equipment, the Commission excluded from the domestic industry the related importer of the allegedly subsidized articles because it benefited from such imports. Under these circumstances, the Commission found that the inclusion of the related party in the domestic industry would have distorted the Commission's injury analysis, especially as it related to the industry's financial performance. This would not be the case in the instant investigation.

The instant investigation is unique in that Caterpillar does not "sell" semifinished links; rather, all of its production of semifinished links is internally consumed. Accordingly, Caterpillar, unlike other domestic producers, reported no profit or loss data for its internal transfers of semifinished links. Report at A-20.

15/ In the event that we had determined to exclude Caterpillar from the domestic industry, we note that it would not have changed any of our conclusions.

Condition of the domestic industries 16/

Semifinished links. — The data available to the Commission reveal serious declines in the semifinished links industry's performance during the period under consideration. U.S. production of semifinished links declined sharply by 70 percent from 1980 to 1982, and then declined by an additional 29 percent in January-September 1983. Although capacity declined, capacity utilization declined significantly over the period under consideration. 17/ The commercial shipments of domestic producers of semifinished links declined sharply from 1980 to 1982. Further declines were reported in January-September 1983 compared with the corresponding period in 1982. 18/ The unit value of these shipments has declined sharply since 1981. 19/

Average employment in U.S. establishments producing semifinished links declined over the period under consideration; the average number of all production and related workers followed a similar trend. 20/ The number of hours worked by production and related workers producing semifinished links declined by 63 percent from 1980 to 1982 and dropped by 41 percent in January-September 1983; wages declined by 56 percent from 1980 to 1982 and dropped 41 percent in January-September 1983. 21/ Total compensation followed a similar trend.

16/ An important factor affecting the condition of the domestic industries was that the workers of the largest U.S. customer for semifinished links and rollers, Caterpillar, were on strike from October 1982 through April 1983. This resulted in a dramatic drop in the demand for semifinished links and rollers during this period. Report at A-8.

17/ Report at A-14.

18/ Report, A-14 to A-15.

19/ Id.

20/ Report at A-16.

21/ Report at A-19.

Aggregate operating profit declined from $1.6 million, representing 8.6 percent of net sales, in 1980 to $1.2 million, representing 7.0 percent of net sales, in 1981. 22/ U.S. producers reported an operating loss of $807,000, or 24.1 percent of net sales, in 1982. Operating losses were $364,000 in the interim accounting period ending in September 1983, representing 16.5 percent of net sales, as compared with losses of $322,000, representing 20.2 percent of net sales, in the corresponding period of 1982. 23/

Semifinished rollers. — U.S. production of semifinished rollers declined sharply from 1980 to 1982 and then fell again in January-September 1983 relative to that for the corresponding period in 1982. 24/ U.S. producers' capacity increased from 2.6 million units in 1980 to 3.3 million units in 1982, or by 26 percent, and increased by another 15 percent in January-September 1983 compared with the corresponding period in 1982. However, capacity utilization remained at very low levels and declined over the period from 1980 to 1982. Capacity utilization dropped sharply in January-September 1983 as compared with the corresponding period for 1982. 25/ A major reason for the decline in capacity utilization despite the increase in capacity, is the decrease in production levels. U.S. producers' commercial shipments of semifinished rollers declined by 39 percent from 1980 to 1982 and then fell by 43 percent in January-September 1983 relative to

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22/ These aggregate profit data do not include data from Caterpillar because, as indicated previously, Caterpillar only consumes internally its production of semifinished links and, therefore, does not maintain separate profit and loss data on semifinished links.

23/ Report at A-20.

24/ Report at A-14.

25/ It should be noted that the corresponding data are probably not adequately adjusted to reflect actual product mix and are, therefore, overstated to some degree. Report at A-14. Nevertheless, the data are useful for analyzing trends.

those for the corresponding period in 1982. 26/ The unit value of these commercial shipments declined by 7 percent from 1980 to 1982 and then fell by 25 percent in January-September 1983 relative to that for the corresponding period in 1982.

Average employment in responding U.S. establishments producing semifinished rollers declined over the period under consideration; the average number of all production and related workers declined even more sharply. 27/ The number of hours worked by production and related workers, as well as their wages, declined over the period; total compensation declined irregularly over the period. 28/

Aggregate operating profits increased somewhat, from $2.5 million in 1980, representing 11.5 percent of net sales, to $2.6 million in 1981, representing 13.8 percent of net sales, despite declining sales. Profits declined significantly, however, in 1982 to $543,000, representing 4.3 percent of net sales. In the interim accounting period ending in September 1983, the aggregate operating profit declined to $368,000 as compared with $492,000 in the corresponding period in 1982. However, as a ratio to net sales, operating profits in the interim period ending in September 1983 increased to 10.4 percent as compared with 5.8 percent in the corresponding period in 1982. 29/ Nevertheless, as a ratio to net sales, interim 1983 profit levels were below those in 1980 and 1981.

Material Injury by Reason of Semifinished Imports.

Two firms acting in concert, Caterpillar and IMES Trading Co., were responsible for all imports of semifinished links and rollers. 30/ Because

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26/ Report at A-15.
27/ Report at A-19.
28/ Id.
29/ Report at A-23.
30/ See note 12, supra.

IMES has acted exclusively for Caterpillar and Caterpillar's purchases account for all of the imports, with the exception of imports placed in IMES' warehouse, our analysis will focus on Caterpillar's purchases of imported merchandise rather than actual imports. 31/

Semifinished links. -- In absolute terms, Caterpillar's purchases of semifinished links from Italy increased from 1980 to 1982, but declined significantly in January-September 1983 compared with January-September 1982. 32/ However, Caterpillar's purchases of semifinished links from Italy rose sharply as a share of U.S. consumption from 1980 to 1982, and remained stable in January-September 1983. 33/ Comparisons of the quarterly prices Caterpillar paid for imported merchandise from Italy with those paid for domestically produced merchandise consistently resulted in margins of underselling. 34/ These margins ranged from 3 to 32 percent and were largest

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31/ The exact figures with regard to Caterpillar's purchases of semifinished links are confidential. Data on actual imports are presented in Appendix E of the Report. A substantial number of links purchased by Caterpillar and imported in 1982 were rejected for quality reasons. These links were not finally accepted by Caterpillar until 1983. These imports are shown as 1982 imports in Appendix E, but they will be discussed as 1983 purchases. Report at A-26, A-28. Our determination would have been the same irrespective of whether these products are considered 1982 or 1983 imports.

32/ Report, A-26 to A-28. According to the representative of IMES, Caterpillar's purchases of imported semifinished links and rollers from IMES were adversely affected by the strike at Caterpillar. TR 112, 127, 142.

33/ Report at A-28.

34/ Report at A-31. We note that Caterpillar's "target" pricing system has adversely affected the prices of both domestic products and imports from IMES. This system is used to generate acceptable "target" prices (purchase prices) by Caterpillar for components from vendors. These "target" prices are determined by price competition experienced by Caterpillar for its crawler-mounted products, its finished undercarriage replacement parts, and its cost of in-house production of components such as links. See, e.g., TR 189. Caterpillar's purchase decisions were influenced greatly by consideration of whether domestic products or the imported products were priced low enough to approximate Caterpillar's "target" prices. TR 168-169. The importer's ability to undersell domestic producers and to more closely approximate Caterpillar's target prices was an important factor in explaining the increase in imports from Italy. Posthearing Submission from Caterpillar dated November 30, 1983.

(Footnote Continued)

in the quarter immediately preceding the largest quarterly decline in the weighted average price of the domestically produced articles. 35/ 36/ Lost sales allegations concerning semifinished links primarily involved sales to Caterpillar. Data provided by Caterpillar on its own consumption of semifinished links indicate that the firm's purchases of imported merchandise displaced domestic production including Caterpillar's domestic production of the articles. 37/ This displacement occurred primarily because of the low price of the subsidized imports. 38/

(Footnote Continued)

Furthermore, Commissioner Haggart concurs with the respondents that the price of finished links and rollers have caused price suppression in the market for semifinished links and rollers. Nevertheless, the evidence developed in this final investigation indicates that the price of semifinished links and rollers has also contributed to this price suppression.

35/ Report at A-31.

36/ Commissioner Haggart notes that in this investigation, as well as in other previous investigations, her position, as it relates to the appropriateness of considering the amount of the subsidy in the Commission's analysis, has been mischaracterized. Her position on this issue is set forth in Certain Carbon Steel Products from Spain, Invs. Nos. 701-TA-156, 157-160 and 162, pp. 14, 32-35. In that case, she concluded that the amount of the subsidy may be considered as a "factor" in the Commission's determination. It has been her consistent belief that the amount of weight to be given to the so-called "margin analysis" is a matter within the discretion of the Commission. In the instant investigation, as in previous investigations where the issue has been raised, she has not placed a significant amount of emphasis on such analysis because of the inherent problems that exist. For example, the period for which the Department of Commerce measured subsidization was January 1, 1982 through April 30, 1983. Our pricing data show underselling in both 1981 and the period April-September 1983. We have no information as to what the amount of the subsidy, if any, was during these periods. Furthermore, the margins of underselling in this investigation were as low as 3.1 percent for semifinished links and 8.5 percent for semifinished rollers. For these reasons, and for other reasons cited in her views in the Spanish steel case, she has concluded that margin analysis should not be considered dispositive, and she has not given a great deal of weight to this analysis in the instant investigation.

37/ Information obtained during the course of this investigation indicates that both the petitioners and IMES will be adversely affected in the future by Caterpillar's announced policy decision to forge more links internally. This decision, however, does not negate the adverse effect of Caterpillar's previous decision to increase its purchases of imported semifinished links relative to domestically produced semifinished links.

38/ Report at A-34.

Semifinished rollers. 39/ In absolute terms, Caterpillar's purchases of imported semifinished rollers increased steadily from 1980 to 1982, but then declined sharply in January-September 1983, as compared with the comparable period in 1982. 40/ Caterpillar's purchases of imported semifinished rollers from Italy increased as a share of consumption from 1980 to 1982, but declined in January-September 1983. 41/ There were significant increases in the weighted average price received by domestic producers during October-December 1981. 42/ However, this increase occurred prior to the time that Caterpillar significantly increased its purchases of semifinished rollers from IMES. During the first two quarters of 1982, prices declined and showed little change in the following quarters. 43/ Comparisons of Caterpillar's prices for domestically produced articles with its prices for imported merchandise from Italy consistently resulted in margins of underselling. 44/ These margins ranged from 8.5 to 24.3 percent. As was the case with respect to imports of semifinished links, lost sales allegations involving semifinished rollers primarily concerned Caterpillar. Data provided by Caterpillar indicate that

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39/ As is the case with semifinished links, Caterpillar is the sole purchaser of imported semifinished rollers, and thus much of this discussion is limited to general trends.

40/ Report at A-28.

41/ Report at A-28.

42/ Report at A-32.

43/ Id.

44/ See note 34, supra. We also note that between the period January-March 1981 and January-March 1983 the price of certain imported semifinished rollers from Italy increased slightly despite the fact that the nominal value of the lira fell by 24.3 percent during the same period. Report at A-33, A-34. It appears that the depreciation of the lira may have been a factor in the price Caterpillar paid for the imported merchandise only after January 1983. Report at A-33.

its' purchases of semifinished rollers from Italy displaced domestically produced articles and that this displacement occurred because of the lower price of the subsidized imports. 45/

Based on the foregoing, we conclude that imports of semifinished links and rollers have materially injured the respective semifinished links and rollers industries.

45/ See Report at A-36.

VIEWS OF COMMISSIONER PAULA STERN

I have determined that an industry in the United States is not materially injured or threatened with material injury, and that the establishment of an industry in the United States is not materially retarded, by reason of imports of semifinished forged undercarriage links and rollers from Italy with respect to which the Department of Commerce has found that a subsidy is being provided. 1/

Summary

A thorough analysis of injury to the domestic industries producing semifinished forged undercarriage links and semifinished forged undercarriage rollers (hereinafter referred to as semifinished links and rollers) indicates that although the domestic industries are currently suffering economic hardships, factors other than the subsidized imports from Italy have caused the decline in the domestic industries' performance.

In the semifinished link and roller industries, a significant decline in industrial demand coupled with a strike at Caterpillar Tractor Company -- the major importer producer, and domestic consumer -- principally accounted for the decrease in the domestic semifinished link and roller industries'

1/ Because there are established domestic industries in this investigation, material retardation of an industry is not an issue and will not be discussed further.

performance. In addition, Caterpillar's import purchasing policies shifted in response to the extremely competitive international conditions in the market for the finished products industry. Caterpillar adopted a target price policy and has maintained a policy of relying on several sources of supply, including imports, to ensure product availability.

In the case of semifinished links, Caterpillar which is a producer, purchaser, and importer, would be inflicting injury upon itself when purchasing imports, if the subject imports were a cause of injury.

Imports of semifinished links and rollers have clearly become more price competitive relative to those produced by the domestic industry. The primary evidence of this increase in Italian competitiveness links import price changes to exchange rate fluctuations which have, in effect, given Italian producers relative cost advantages.

The subject imports do not threaten material injury to the domestic industries. Penetration by imports declined in the markets for both semifinished links and semifinished rollers in the interim period. Inventories of imports remain at low levels. Furthermore, exports to the United States are declining relative to those bound for other consuming countries.

Standards for Determination

In a final countervailing duty investigation, the Commission is directed by Title VII of the Tariff Act of 1930 (the Act) to determine if an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of the merchandise that is the subject of an investigation. 2/ "Material injury" is defined as "harm which is not inconsequential immaterial, or unimportant." 3/ In making its determinations, the Commission is required to consider, among other factors, (1) the volume of imports of the subject merchandise which is the subject of the investigation (2) the effect of the imports of that merchandise on prices in the United States for like products, and (3) the impact of imports of such merchandise on domestic producers of like products. 4/

2/ 19 U.S.C. §§ 1671b(a).

3/ 19 U.S.C. § 1677(7)(A).

4/ 19 U.S.C. § 1677(7)(B).

In making a determination as to whether there is a threat of material injury, the Commission considers, among other factors, (1) the rate of increase of subsidized imports into the United States market, (2) the capacity of the exporting country to generate exports, and (3) the availability of other export markets. 5/ Findings of threat of material injury must be based on a showing that the likelihood of harm is real and imminent, and not based on mere supposition, speculation, or conjecture. 6/

Domestic Industry

Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" as the "domestic producers as a whole of the like product or those producers whose collective output of the like product constitute a major proportion of the total

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5/ Section 207.26 of the Commission's Rules (19 CFR § 207.26); H.R.Rep. 317, 96th Cong., 1st Sess., 46 (1979);

6/ S. Rep. 149, 96th Cong., 1st Sess., 88-89 (1979); S. Rep. 1298, 93rd Cong., 2d Sess., 180 (1974); Alberta Gas Chemicals, Inc. v. United States, 515 F. Supp. 780, 790 (USCIT 1981).

domestic production of that product." 7/ Section 771(10) defines "like product" as "a product which is like, or in the absence of like, most similar in characteristics and uses" with the article under investigation." 8/

The imported products under investigation are semifinished forged undercarriage links and rollers. The semifinished links and rollers differ from finished links and rollers in that they must undergo relatively extensive finishing operations before they can be used in the final assembly of crawler-mounted machinery, i.e., earth-moving machinery, bulldozers, cranes, bucket-loaders, and excavators.

Specifically, semifinished links and rollers, after finishing, are two components of the undercarriage of crawler-mounted machinery. The undercarriage is the part of the machine which moves the vehicle. Links are the connecting elements in the track chain, and rollers are the revolving

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7/ 19 U.S.C. § 1677(4)(A).

8/ 19 U.S.C. § 1677(10).

cylinders which contact the track assembly of the machine. 9/ There appear to be no other uses for links and rollers, other than as finished components in the undercarriages of crawler-mounted machinery.

Links and rollers are not similar components; that is, each are distinct and separate products. Both of these products are manufactured by the domestic producers, and the imports under investigation are like the domestically produced products of the same specification.

Based on the above like product analysis, it is appropriate to find two industries: a semifinished link industry and a semifinished roller industry.

In the present case, petitioners argued that semifinished links and rollers constitute only one domestic industry. 10/ They point to the Preliminary Determination of the Commission where I, indeed, found only one industry for links, rollers, and segments. 11/ The respondents, on the other hand, argued for

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9/ For an illustration and a more detailed explanation of semifinished links and rollers see Commission s Final Report (Report) from pages A-2 to A-5.

10/ Petitioners' Prehearing Brief (PHB), pp. 4-5.

11/ See Forged Undercarriage Components from Italy, "Views of Commissioner Paula Stern," Inv. No. 701-TA-201 (Preliminary), USITC Pub. No. 1394 (1983), p. 33.

two industries, stating that links and rollers are not interchangeable, do not compete with one another, and that separate production and profitability data can be obtained for these products. 12/ Although I found only one domestic industry for semifinished links and rollers in the preliminary investigation, this decision was based on the aggregate information and data then available for all domestic producers of semifinished links and semifinished rollers. At that time, it was not possible to separate the financial data for semifinished links and from that for semifinished rollers. The present investigation disaggregates a significant portion of the domestic semifinished link and roller data. Consequently, the performance of both the semifinished link industry, and the semifinished roller industry can now be viewed as two separate industries. Based on the facts mentioned above, I now believe it is most appropriate to do so.

In the semifinished link industry, there are seven domestic producers. The domestic semifinished roller industry consists of twelve producers. In addition, only four domestic firms produce both semifinished links and rollers. Furthermore, Caterpillar is the major domestic producer and importer of semifinished links.

12/ Respondent's Posthearing Brief (PRB), p. 3.

Another issue of significance remains: whether there are appropriate circumstances in this investigation for exclusion of "related parties," under section 771(4)(B) of the Tariff Act. Caterpillar, the major domestic producer, is also an importer of at least one of the products under investigation. The petitioners (which do not include Caterpillar), argue that Caterpillar should be considered a related party and excluded from the domestic industry for the purposes of the Commission's analysis. 13/ The respondents, on the other hand, argue that Caterpillar should not be excluded. 14/ Because of the relatively small number of firms in each industry and

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13/ The petitioners argue that:
(1) "The importer can use the unique position as both an importer and a producer to direct its purchases of subsidized Italian imports to shield its forging operations;"
(2) "The highly integrated nature of the operations" of Caterpillar, Industria Meccanica e Stampaggio S.p.A. (IMES) and I.M.E.S. Trading Co.; and
(3) Caterpillar "has directly received subsidies from the Italian government."
PHB, pp. 5-10.

14/ The respondents argue that:
(1) Caterpillar is the principal producer of links in the United States and its exclusion would seriously distort the injury analysis;
(2) IMES does not direct its imports to avoid competition with Caterpillar;
(3) Caterpillar and IMES are not related and deal with each other at arms length; and
(4) The foreign export financing received by Caterpillar has nothing to do with IMES, was not found to be a subsidy of Commerce, and was not, in fact, a subsidy since it conformed to the O.E.C.D. Consensus Agreement.
RPB, pp. 1-2.

Caterpillar's importance as a single producer, exclusion of Caterpillar would significantly bias and distort any analysis of the domestic industry. 15/ 16/ Therefore, the circumstances are not appropriate for its exclusion as a related party.

Semifinished Links

Condition of the Domestic Industry

In discussing the state of the domestic industry and the causal nexus between the imports and the industry's state of health, a public explanation of my analysis is restricted by the confidential nature of almost all of the information on the record. It is thus an unfortunate necessity that these views speak in generalities and refer to trends.

15/ This judgment conforms with my findings in the preliminary investigation. See "Views of Commissioner Paula Stern," pp. 33-34.

16/ See Certain Automated Fare Collection Equipment and Parts Thereof from France, Inv. No. 701-TA-200 (Preliminary), USITC Pub. No. 1323 (1982); Unlasted Leather Footwear Uppers from India, Inv. No. 701-TA-1 (Final), USITC Pub. No. 1045, 4-5 (1980); Television Receiving Sets from Japan, Inv. No. 751-TA-2, USITC Pub. No. 1153, p. 11 (1981); Motorcycle Batteries from Taiwan, Inv. No. 731-TA-42 (Preliminary), USITC Pub. No. 1157 (1981).

The data available to the Commission reveal serious declines in the semifinished link industry. However, it is important to note that the largest domestic producer, Caterpillar, did not supply the Commission with certain data, i.e., financial income-and-loss statements for the semifinished link operations.

U.S. producers' production of semifinished links declined sharply between 1980 and 1982, and again, in 1983. 17/ Likewise, shipments declined by the same percentage in the corresponding periods. 18/

U.S. producers' capacity to produce semifinished links declined slightly between 1980 and 1982, and the interim period of 1982 and 1983. 19/ However, in spite of this fact, Caterpillar is planning to increase its productive capacity for links substantially in the near future. 20/ The purpose of this increase is to eventually bring in-house the production of all "high volume" parts. 21/ Although capacity declined only slightly over the period, capacity utilization declined significantly during this period. 22/

17/ Report, p. A-13.

18/ Report, p. A.14.

19/ Id.

20/ Id.

21/ Id.

22/ Id.

Data on employment indicate that average employment in U.S. establishments producing semifinished links declined over the period under consideration. 23/ However, productivity of these workers declined only slightly from 1980 to 1982, and increased sharply in the interim period of 1983 when compared to the corresponding period of 1982. 24/

The income-and-loss data of the U.S. semifinished link industry reported to the Commission staff account for a relatively small portion of all reported shipments. 25/ These data represent over 95 percent of the shipments of the nonintegrated producers (Caterpillar is an integrated producer). 26/ Aggregate net sales by the domestic nonintegrated producers declined sharply from 1980 to 1982. 27/ During the interim period ending in September, however, net sales increased slightly. 28/ Between 1980 and 1983

23/ Report, p. A-16.

24/ Report, p. A-17.

25/ Report, p. A-20.

26/ Id. In addition, although Caterpillar accounts for a significant amount of the remaining percent of U.S. production of semifinished links, according to Caterpillar (see Transcript p. 127), they do not sell semifinished links and, thus, have no profit as such to report on their production. However, Caterpillar did explain (see Transcript, p. 21) they were able to estimate their cost of production in order to compare internal costs with domestic suppliers' prices.

27/ Id., p. 20.

28/ Id.

operating profit declined. 29/ In addition, this decline in profit caused a corresponding cash flow drain on the U.S. domestic nonintegrated industry. 30/

Despite the poor performance of the nonintegrated link producers, the profitability on links of U.S. producers followed the same trends as that for the overall forging establishment operations. 31/ The decline in semifinished link profitability may have been more severe than the overall results from the establishments in which they are produced, but the general trends were similar for both.

Evidence up to this point reveals that the domestic nonintegrated semifinished link industry is undergoing severe economic decline. Although the Commission may not weigh causes of injury in countervailing duty cases, the Commission must evaluate all "relevant economic factors which have a bearing on the state of the industry." 32/ Therefore, it is appropriate to analyze the other economic factors affecting the domestic industry when assessing whether imports of subsidized semifinished links caused material injury or threatened material injury to the domestic industry.

29/ Id.

30/ Id.

31/ Id.

32/ Trade Agreements Act of 1977, Section 771(7)(C)(iii).

When the indicators of the industries' economic difficulties are examined, factors other than subsidized imports emerge as the cause of the decline in the industry's performance. The small size of the subsidy margin found by Commerce (1.37 percent) underlines the insignificance of the subsidy on the U.S. industries' problems. 33/ The effects on the U.S. industry of the subsidy received by the foreign producer are not material.

Causation of the Domestic Industries' Problems

A thorough examination of the demand for semifinished links documents the reasons for the industry's poor performance. Demand for crawler-mounted machinery is primarily influenced by construction activity and land preparation. 34/ According to the U.S. Bureau of the Census, sales in constant

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33/ The Department of Commerce found in its final affirmative countervailing duty determination that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Italy of semifinished forged undercarriage links and rollers for crawler-mounted machinery. The net subsidy was determined to be 1.37 percent ad valorem. The programs determined to confer subsidies were (1) rebates of indirect taxes, accounting for an estimated net subsidy of 1.37 percent ad valorem and (2) pricing of forging quality steel, amounting to a subsidy of zero.

34/ Report, p. A-8.

dollar terms of construction equipment declined by 47 percent from 1980 to 1982. 35/ Apparent consumption of semifinished links declined even more sharply over the same period. 36/ Unusually high nominal and real interest rates during 1982-1983 were a major factor behind the decline in demand during the last three years. 37/

In addition to the macro-induced decline in demand, there was a decrease in production at Caterpillar when the workers engaged in a lengthy strike from October 1, 1982, until April 25, 1983. 38/

According to Caterpillar, purchases during the period of the strike were drastically reduced, since all of their plants that used semifinished links were closed. Consequently, the effects of the Caterpillar strike were definitely felt by Caterpillar's suppliers, further increasing the negative effects on producers of links of the already serious economic recession. 39/

35/ See U.S. Bureau of the Census, "Construction Machinery," Current Industrial Reports, February 1983.

36/ Report, p. A-9.

37/ See Transcript of Final Hearing, November 22, 1983 (Transcript), at p. 125.

38/ Transcript at pp. 126-27.

39/ See Transcript, p. 127

Beyond the above considerations lies a transcending economic reality: Caterpillar -- the major producer, purchaser, and importer of semifinished links -- would have to be inflicting injury upon itself if the imports in question are truly injurious. 40/ 41/ In addition, although Caterpillar's imports of semifinished links are increasing, this increase reflects an internal corporate decision with respect to purchasing. Such a decision presumably rests on an assessment of the relative costs and benefits of in-house production, domestic procurement, and imports. Because Caterpillar accounts for the vast majority of domestic production of semifinished links, any injury that may have resulted from importing the semifinished links from Italy would be self-inflicted. However, Caterpillar has chosen to import semifinished links because it was to its benefit, and hence, no material injury has resulted from Caterpillar's purchases.

40/ Caterpillar was unable to supply the Commission with data on its financial experience for semifinished links. Caterpillar must choose whether to produce these articles in-house (whether in one of its U.S. or foreign subsidiaries), or to import the semifinished links from suppliers in Italy or to purchase them domestically. One must assume that the firm has been able to determine the best financial alternative.

41/ Title VII does not provide relief for self-inflicted injury.

Imports have clearly become more price competitive relative to links produced by domestic nonintegrated producers -- but for reasons other than the 1.37 percent subsidy margin found by Commerce. Margins of underselling in 1982 and January-September 1983, the periods when injury was most evident, significantly outweighed this subsidy margin. Even if a 1.37 percent countervailing duty were to be imposed, imports would still enjoy a significant price advantage in the U.S. market. 42/ Thus, the 1.37 percent subsidy margin could not have been a cause of material injury to the U.S. industry.

42/ According to Caterpillar, the significant price advantage of Italian imports is necessary to maintain production costs because of increasingly intense competition from Japanese earth-moving equipment in the original-equipment manufacturers (OEM's) market, and from finished links in the replacement market. Caterpillar stated that Japan now has a 22 percent cost advantage in the production of earth-moving equipment. Transcript, p. 119. One way Caterpillar responded was to establish target prices, which were expected to be met by its suppliers of tractor components. These target prices were based on the costs Caterpillar believed were necessary in order for it to regain its competitiveness in the market.

It is obvious that the rapid and significant appreciation of the dollar in 1982 and 1983 relative to most major currencies contributed to Caterpillar's loss of competitiveness of crawler-mounted machinery in world markets. 43/ By the same token, the nearly 15 percent real appreciation of the dollar relative to the lira from January-March 1981 to April-June 1983 contributed to the increasing price competitiveness of imported Italian links in the U.S. market.

The Commission staff has evidence in this case that exchange rate changes directly affected the price of imported Italian links. 44/ From the first quarter of 1981 to the second quarter of 1983, the lira depreciated by nearly 15 percent against the dollar, in real terms. Imported link prices declined from the first quarter of 1981 to the second quarter of 1983. There was no immediate correlation between quarterly exchange rate changes and quarterly import price changes. However, lags should be expected in the effect of exchange rate changes on prices, so that price effect of exchange rate changes should be seen in the U.S. market in later quarters. 45/ The important point in this case is that when exchange rate changes and import prices are compared over a longer period, there is a correlation between the import price declines and the depreciation of the lira.

43/ Transcript, pp. 119-120.

44/ Report, p. A-33.

45/ Office of Economics memorandum, EC-G-86, April 13, 1983.

Demand for semifinished links from Italy has been controlled by Caterpillar. As previously noted, Caterpillar has decided to increase its capacity to produce semifinished links in the United States in order to maintain in-house production of semifinished links. 46/ This production is expected to have a negative effect on the import purchasing policies of Caterpillar and, therefore, a direct effect on volume of semifinished link imports.

The only allegation of a threat of material injury made on behalf of the domestic industry in the petition concerned the expansion and marketing plans of two Italian producers and exporters of finished undercarriage components, namely Berco, S.p.A. and Italtractor ITM, S.p.A. These allegations can be quickly refuted by the mere fact that the semifinished imports subject to this investigation are not like the finished imports.

46/ Transcript, pp. 122-123, 127-128

47/ Footnote needed.

It is apparent that the subject imports have to a certain extent displaced other imports rather than domestic production. As market penetration of semifinished links increased between 1980 and 1982, imports into the U.S. of semifinished links from other exporting countries decreased. 48/ This decrease in other imports of semifinished links seems to have been captured by Italian imports. 49/ I.M.E.S. Trading Co., a wholly-owned subsidiary of IMES maintains a warehouse in Peoria, Illinois, in order to service Caterpillar. 50/ However, the data on the record do not indicate that this warehousing operation contributes to any real and imminent threat.

48/ Report, p. A-27-28.

49/ Id.

50/ Report, p. A-26.

Semifinished Rollers

Condition of the Domestic Industry 51/

The data available to the Commission reveals serious declines in the semifinished roller industry. Central to the petitioner's argument concerning material injury are declines in production, shipments, capacity utilization, employment, and profitability.

U.S. producers' production of semifinished rollers declined sharply between 1980 and 1982, and declined again, in January-September 1983 relative to the corresponding period of 1982. 52/ Likewise, shipments declined by approximately the same percentages in the corresponding periods. 53/

U.S. producers' capacity of semifinished rollers declined between 1980 and 1982, and then increased in January-September 1983 relative to that for the corresponding period of 1982. 54/ As a result of the decline in production, capacity utilization dropped sharply. 55/

51/ Again, in discussing the state of the domestic industry and the relationship between the imports and the industry's state of health, a specific analysis is somewhat restricted because of the confidential nature of almost all of the information on record in this investigation. Therefore, of necessity, this analysis will speak in generalities and refer to trends.

52/ Report, p. A-14.

53/ Report, p. A-15.

54/ Report, p. A-14.

55/ Id.

Data on employment indicated that average employment in U.S. establishments producing semifinished rollers also declined during the period under consideration, however, the declines have not been as sharp when compared to the domestic link industry. 56/ Productivity of these workers remained relatively constant over the period. 57/

The income-and-loss data of the U.S. semifinished roller industry represents an estimated 95 percent of all known U.S. producers of semifinished rollers. 58/ Aggregate net sales by domestic producers of semifinished rollers declined sharply from 1980 to 1983. 59/ Operating profits increased from 1980 to 1981, but then declined in 1982 and 1983. 60/ Relative to net sales, profits increased from 1980 to 1981, decreased in 1982, and improved slightly in the interim period of 1983. 61/ There was a corresponding cash flow drain on the domestic industry producing semifinished rollers. 62/

56/ Report, p. A-19.

57/ Id.

58/ Since Caterpillar does not produce semifinished rollers, the Commission was able to collect data on almost the entire semifinished roller industry.

59/ Report, p. A-20.

60/ Report, p. A-23.

61/ Id.

62/ Id.

The profitability of U.S. producers on rollers followed the same trends as that for the overall forging establishments. 63/ Howerer, the decline in semifinished roller profitability was not as severe as that for the forging establishments on the whole, but the general trends were similar for both.

The conditions regarding product demand, the workers strike at Caterpillar, Caterpillar's sourcing techniques, target pricing, and the exchange rate analysis for the semifinished roller industry are essentially identical to those affecting the semifinished link industry. Additionally, in the roller industry, actual import prices for Italian semifinished rollers displayed less of a correlation with changes in the exchange rate, at least until the third quarter of 1983. There is evidence that exchange rate changes may have affected relative prices. From January-March 1981 to July-September 1983, margins of underselling steadily increased. To the extent that the depreciation of the lira improved the dollar-denominated cost competitiveness of Italian roller relative to domestic rollers, exchange rate changes could have affected relative prices, even with no actual downward trend in import prices, as U.S. producers' prices increased while import prices remained stable.

63/Id.

As previously stated, the only allegation of a threat of material injury made on behalf of the domestic industry in the petition concerned the expansion and marketing expansion plans of two Italian producers and exporters of finished undercarriage components, namely Berco S.p.A. and Intaltractor ITM, S.p.a. These allegations can be quickly refuted by the mere fact that the semifinished imports subject to this investigation are not like the finished imports.

It is apparent that the subject imports have to a certain extent displaced other imports rather than domestic production, as market penetration of semifinished rollers increased between 1980 and 1982, imports into the U.S. of semifinished rollers from other exporting countries decreased. 64/ This decrease in other imports of semifinished rollers seems to have been captured by Italian imports. 65/ As far as the warehouse operation of the I.M.E.S. Trading Company, the data on the record do not indicate that this warehousing operation contributes to any real and imminent threat. 66/

64/ Report, p. A-28.

65/ Id.

66/ Report, p. A-26.

Therefore, with respect to both industries under investigation, I have concluded that subsidized imports from Italy have neither materially injured nor threatened such injury to the respective U.S. industries.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On April 29, 1983, a petition was filed by counsel on behalf of Jernberg Forgings Co., Lindell Drop Forge Co., Portec, Inc., Presrite Corp., Presrite of Jefferson, Inc., Walco Metal Forming Group, and Walker Forge Inc., with the U.S. International Trade Commission and the U.S. Department of Commerce, alleging that an industry in the United States is materially injured, or is threatened with material injury, by reason of imports from Italy of forged components for the undercarriage of crawler-mounted machinery (links, segments, and rollers, whether rough or semifinished forgings, finished forgings, or completed assemblies), provided for in items 664.08, 692.34, or 692.35 of the Tariff Schedules of the United States (TSUS), upon which subsidies were alleged to be provided. Accordingly, the Commission instituted investigation No. 701-TA-201 (Preliminary) under section 703(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)), to determine whether an industry in the United States was materially injured, or was threatened with material injury, or the establishment of an industry in the United States was materially retarded, by reason of imports of such merchandise.

The Commission voted on the preliminary investigation on June 6, 1983, and notified Commerce of its determination on June 13, 1983. The Commission determined, on the basis of the information developed during the course of its preliminary investigations, that there was a reasonable indication that an industry in the United States was materially injured by reason of allegedly subsidized imports of semifinished forged undercarriage links and rollers from Italy. 1/ The Commission further determined that there was no reasonable indication that an industry in the United States was materially injured or threatened with material injury, and that the establishment of an industry in the United States was not materially retarded, by reason of imports of semifinished forged undercarriage segments and finished forged undercarriage links, segments, and rollers (see 48 F.R. 28564, June 22, 1983).

On August 30, 1983, Commerce published its affirmative preliminary determination on imports of semifinished forged undercarriage links and rollers for crawler-mounted machinery (forged undercarriage components) from Italy. Accordingly, the Commission instituted a final countervailing duty investigation on the subject products. Notice of the Commission's institution of the investigation and of the 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, D.C., and by publishing the notice in the Federal Register on September 14, 1983 (48 F.R. 41246). 2/

1/ For the purposes of this investigation, the term "semifinished" means forged articles that are not assembled, not machined to final dimensions, and not tempered, whether or not otherwise processed.

2/ A copy of the Commission's notice of institution of final countervailing duty investigation is presented in app. A.

On November 16, 1983, Commerce published its final affirmative countervailing duty determination (48 F.R. 52111). 1/ Commerce determined that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Italy of semifinished forged undercarriage links and rollers for crawler-mounted machinery. The net subsidy was determined to be 1.37 percent ad valorem.

The Commission held a public hearing on this investigation on November 22, 1983. 2/ The Commission voted on the investigation on December 12, 1983, and notified Commerce of its determination on December 21, 1983.

Additional Investigation Concerning Forged Undercarriage Components

An antidumping petition alleging that an industry in the United States was materially injured, or was threatened with material injury, by reason of imports from Italy of forged components for the undercarriage of crawler-mounted machinery (links, segments, and rollers, whether rough or semifinished forgings, finished forgings, or completed assemblies), provided for in items 664.08, 692.34, or 692.35 of the TSUS, which were allegedly sold in the United States at less than fair value (LTFV), was filed simultaneously with the countervailing duty petition and on behalf of the same petitioners. The Commission's determination in the preliminary antidumping investigation (731-TA-133 (Preliminary)) was identical to its determination in the preliminary countervailing duty investigation.

The Department of Commerce published its preliminary determination in the antidumping investigation on October 7, 1983 (48 F.R. 45816). Commerce preliminarily determined that forged undercarriage components from Italy are not being, nor are likely to be, sold in the United States at less than fair value. Commerce postponed its final determination in the case to February 20, 1984.

The Product

Description and uses

Crawler-mounted machinery includes machines such as tractors, bulldozers, cranes, bucket loaders, and excavators. These machines are used principally for earthmoving operations in major construction projects, such as building roads, dams, and airports. They are also used in mining operations. A crawler-mounted machine is presented in figure 1. The undercarriage is the part of the machine which moves the vehicle. The undercarriage is shown separately in figure 2. The forged components consist of the links, segments, and rollers. The links (fig. 3) are the connecting elements in the track

1/ A copy of Commerce's notice of a final affirmative countervailing duty determination is presented in app. B.

2/ A copy of the calendar of the public hearing is presented in app. C.

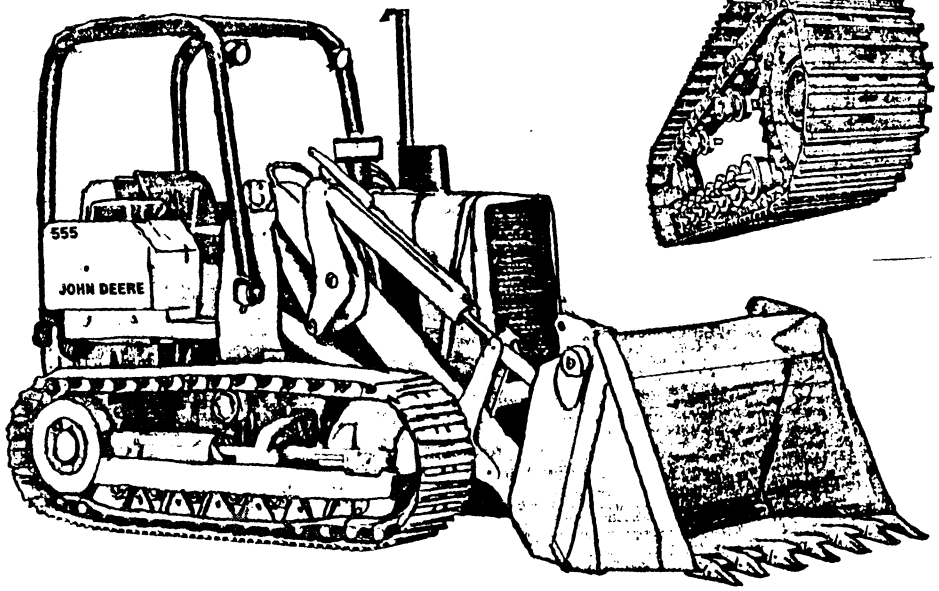


Figure 1 (above).--A crawler-mounted machine

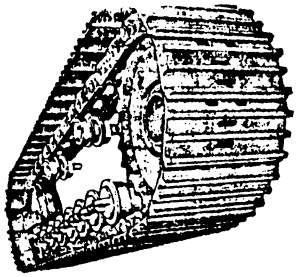
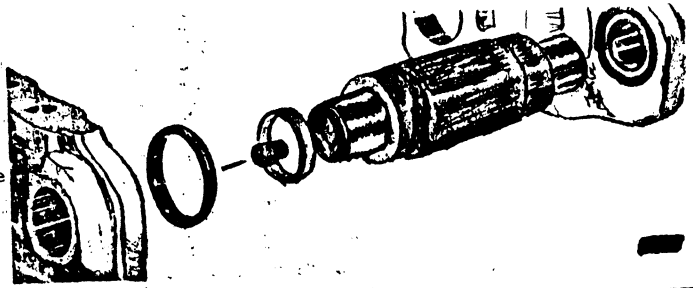


Figure 2 (left).--The undercarriage of a crawler-mounted machine



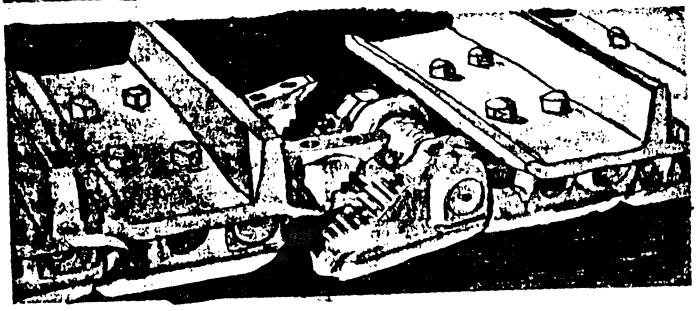


Figure 3 (right and below).--Link assemblies

Figure 4 (below).--A sprocket wheel with forged segments

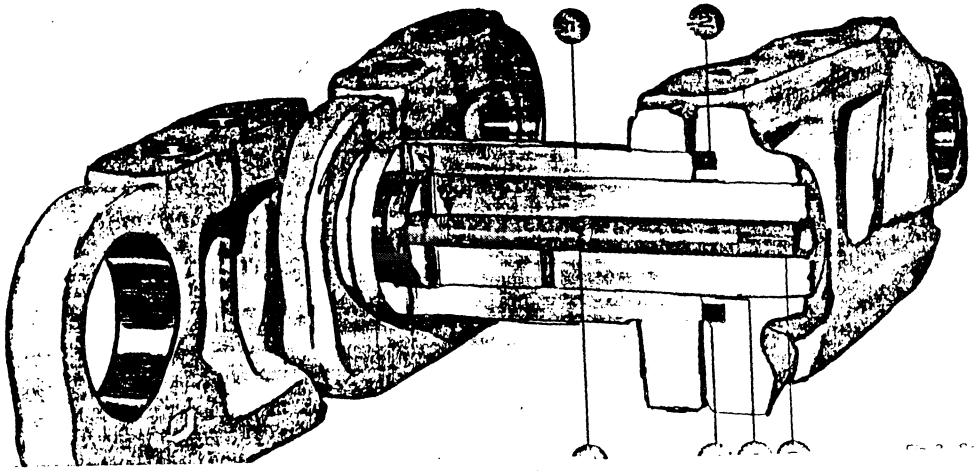
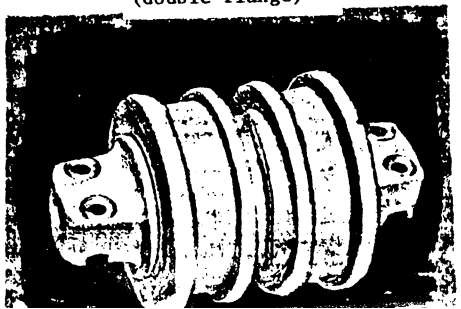
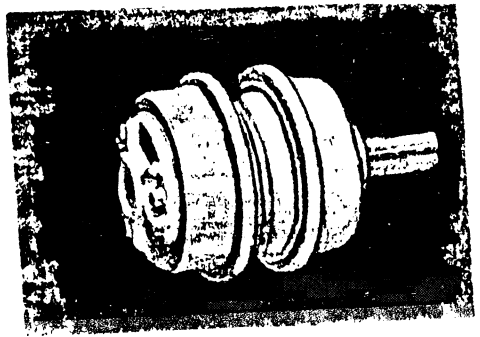


Figure 5 (below).--Roller assemblies (double flange) (single flange)





chain. They are interconnected through the use of pins and bushings. Segments (fig. 4) are the cogged sections that fit onto the outside of a hub forming a sprocket wheel which drives the track assembly. Not all manufacturers use forged segments; some prefer to use a casting for the sprocket section (as mentioned, segments are not included within the scope of this investigation). Rollers (fig. 5) are the revolving cylinders which contact the track assembly of the machine. Rollers are most often forged as two pieces (roller halves) and welded together in the center. The roller halves can have either one or two flanges.

All these components are sold as rough or semifinished forgings, finished forgings ready for final assembly, and as assembled units, i.e., as track chains, sprocket wheels, or roller assemblies (complete with the shaft, seals, and lubricants and ready to mount on the tractor). The only components of concern in this investigation are the semifinished links and rollers.

Manufacturing process

The forgers of these products use steel billets of varying lengths and widths, usually carbon or alloy steel containing boron, to produce links and rollers. In the United States, the steel is often purchased from the customer (the tractor manufacturer) on a buy-back basis. 1/ In the forging operation, a chemical analysis is first performed to assure that the material meets the required specifications. The steel bars are then sheared to length by a mechanical or hydraulic shear and heated to a plastic state in an electric induction or gas furnace.

Links.--Mechanical presses are used to forge the hot steel into a link, which is trimmed by a hydraulic trim press while still hot. It is then cooled and cleaned by shot blast. Finishing operations begin with heat treating to bring the article to full hardness. The edge that contacts the track is further hardened through induction heating. The link is then drilled and bored. The links are coupled with pins and bushings to form the track chain. After assembly, the track chain is cleaned and painted. Caterpillar estimates that the cost of the semifinished links represents * * * of the cost of finished links. 2/

Rollers.--For the production of rollers, the hot billet passes into a flanging or mechanical press where it is flattened by an upsetter and formed by blocking and finishing dies. The forging is trimmed of excess materials by a hydraulic trim press, cooled, cleaned by shot blast, and inspected for quality.

1/ Caterpillar Tractor Co. acquires the steel for its forgers. The steel is then "rebilled" to Caterpillar by the forgers at cost. This presumably has the effect of reducing and equalizing this material cost among its suppliers.

2/ See letter dated Nov. 30, 1983, addressed to Mr. Kenneth R. Mason, Secretary, submitted by Caterpillar Tractor Co.

Two methods are currently used in the United States for forging rollers: (1) the traditional method, whereby two roller halves are forged and then welded together, which requires an extensive amount of machining, especially for double-flange rollers, and (2) the newer, patent-pending Radonco process, which produces a one-piece, two- or four-flange roller. The Radonco method was introduced by Presrite Corp., one of the petitioners, in 1980 and has significantly reduced production and labor costs as well as press time. In addition, it has eliminated the need for additional trimming and machining operations. Only Presrite Corp. and a related firm, Presrite of Jefferson, Inc., employ the Radonco method.

The finishing operations on a roller are quite extensive. They begin with turning and boring operations. The outer diameter, flange, and seal 1/ are then faced. The roller is turned again and the welding diameter tested 2/. The roller is heat treated and the flange induction hardened. The roller halves are welded together. 3/ The shaft is rebroached and the seal refaced. The retainer holes are drilled and tapped. The roller shell is then ready to be assembled. Assembly of the roller involves lubricating the roller and adding the shaft, seals, and seal retainers. Caterpillar estimates that the cost of the semifinished rollers (two halves welded together) represents * * * of the cost of finished roller assemblies. 4/

U.S. tariff treatment

Links and rollers which are used in crawler-mounted machinery are classified under items 664.08, 692.34, and 692.35 of the TSUS. Item 664.08 includes construction and related machinery not specifically provided for elsewhere and parts of such machinery as well as parts for machinery classified in items 664.06 and 664.07. Item 692.34 covers tractors suitable for agricultural use, and parts thereof. Item 692.35 includes other tractors and their parts not specifically provided for elsewhere.

The current column 1 rate of duty is 3.8 percent ad valorem for articles entered under TSUS item 664.08 and 3.9 percent ad valorem for those entered under item 692.35. 5/ The current rates represent the fourth annual reduction in a series of staged duty reductions negotiated during the Tokyo round of the Multilateral Trade Negotiations (MTN). The column 1 rate of duty prior to January 1, 1980, was 5.0 percent ad valorem for item 664.08 and 5.5 percent ad valorem under item 692.35. The current rates are scheduled to be reduced annually to 2.5 percent ad valorem under item 664.08 and to 2.2 percent ad valorem under item 692.35, effective January 1, 1987. Articles from all sources entered under item 692.34 are duty free.

1/ When working with two roller halves.

2/ Ibid.

3/ Ibid.

4/ See letter dated Nov. 30, 1983, addressed to Mr. Kenneth R. Mason, Secretary, submitted by Caterpillar Tractor Co.

5/ Col. 1 rates of duty are most-favored-nation rates and are applicable to imports from all countries except those Communist countries enumerated in general headnote 3(f) of the TSUS. However, these rates do not apply to products of developing countries where such articles are eligible for preferential tariff treatment provided under the Generalized System of Preferences (GSP) or under the "LDDC" rate of duty column.

The column 2 rates of duty for items 664.08 and 692.35 are 35 and 27.5 percent ad valorem, respectively. 1/ Articles imported from all designated beneficiary countries and entered under items 664.08 and 692.35 are eligible for duty-free treatment under the Generalized System of Preferences (GSP). 2/ The rate of duty on imports from least developed developing countries (LDDC's) is 2.5 percent ad valorem under item 664.08 and 2.2 percent ad valorem under item 692.35. 3/ As far as it can be determined, there are no significant imports of the articles covered by this investigation from designated beneficiary countries under the GSP or from any LDDC's.

Nature and Extent of Subsidies

The petitioners presented an extensive list of countervailable subsidies from which they believed the foreign producer in Italy, Industria Meccanica e Stampaggio S.p.A. (IMES), benefited. This list included substantial equity contributions from the Government of Italy, subsidized financing in the form of loans granted through special credit institutions at preferential rates and terms, and various tax rebate and incentive programs. The foreign producers also were allegedly able to obtain capital grants, export insurance, and guarantees at below-market rates, and preferential pricing on the steel used in the manufacture of exported products. In addition, the petitioners felt that the producer benefited from subsidized export financing programs as well as regional development programs in Italy. Petitioners believed that the amount of these countervailable subsidies exceeded 45 percent ad valorem.

In its final determination, Commerce found that, indeed, certain benefits which constitute subsidies within the meaning of the countervailing duty law were being provided to manufacturers, producers, or exporters in Italy of semifinished forged undercarriage links and rollers for crawler-mounted machinery. Commerce estimated the net subsidy to be 1.37 percent ad valorem. The programs determined to confer subsidies were (1) rebates of indirect taxes, accounting for an estimated net subsidy of 1.37 percent ad valorem and (2) pricing of forging quality steel, amounting to a subsidy of zero. 4/

1/ Col. 2 rates of duty apply to imported products from those Communist countries and areas enumerated in general headnote 3(f) of the TSUS.

2/ GSP, implemented by Executive Order No. 11888, of Nov. 24, 1975, applies to merchandise imported on or after Jan. 1, 1976, and is scheduled to remain in effect until Jan. 4, 1985.

3/ The preferential rates of duty in the "LDDC" column reflect the full U.S. MTN's concession rates implemented without staging for particular items which are the products of LDDC's enumerated in general headnote 3(d) of the TSUS.

4/ Relying on the "best information available," Commerce determined that IMES was paying higher prices for purchases of forging quality steel from publicly owned suppliers vis-a-vis its purchases from privately owned suppliers. However, since the Government of Italy did not provide Commerce with information on the prices of steel charged to IMES and to other Italian suppliers, Commerce could not eliminate the possibility of preferential pricing, which may constitute a countervailable subsidy. Therefore, a subsidy amount of zero percent ad valorem was established for this program.

Two programs were determined not to confer subsidies. These were preferential pricing on certain loans through a credit institution subject to Government control and a debt conversion occurring in 1977. Programs determined not to be used included equity infusions and regional development incentives. One program, an export credit financing program, was determined to be no longer used by the manufacturers, producers, or exporters in Italy of forged undercarriage components. However, because of the possibility that a new facility may be opened, and official lending in support of exports by IMES could be resumed, Commerce stated that it intends to reexamine the official export credits in the course of the annual review conducted pursuant to section 751 of the Act should a countervailing duty order be issued in the proceeding.

U.S. Market

Channels of distribution

The market for forged undercarriage components comprises two segments, the tractor manufacturers (original-equipment manufacturers (OEM's)) and the independent distributors. Typically, the OEM's buy either rough forgings, which must be machined, heat treated, and assembled before use, or finished assemblies for use in the manufacture of the undercarriage for crawler-mounted machinery or for sale by their distributors as spare parts. It has been estimated by one producer that 40 percent of these components are used in the manufacture of original equipment and that 60 percent are destined for sale as replacement parts in the aftermarket. 1/ The independent distributors purchase only finished components for servicing crawler-mounted machinery in the aftermarket.

Aftermarket sales of undercarriage components are very important and highly competitive for both the OEM's and the independent distributors. Undercarriage components are subject to constant stress and friction when the crawler-mounted machinery is in operation. They wear out quickly and must be replaced often. The average service life of the undercarriage parts in question is about 2,000 hours. 2/ Thus, they become the basis for trade and maintaining customer relations with the tractor buyer. The Associated Independent Distributors estimates that sales of undercarriage components (including some components such as track shoes not covered by this investigation) account for at least 66 percent of the revenue of its members. 3/ Other industry sources agree that as much as 50 percent of the original value of the tractor is paid to replace the undercarriage components over the life of the tractor. 4/

1/ See transcript of the conference in the preliminary investigation, p. 29.

2/ Ibid., pp. 53-54. Caterpillar stated in a letter submitted on Nov. 30, 1983, addressed to Mr. Kenneth R. Mason, Seceretary, that links and rollers are theoretically designed to wear out simultaneously due to the downtime involved when replacing worn parts. However, the firm went on to indicate that links wear out quicker on conventional-style crawler tractors and rollers wear out quicker on the new high-drive tractors.

3/ See letter to Ms. Miriam A. Bishop of May 19, 1983.

4/ See transcript of the conference in the preliminary investigation, pp. 65-66.

The fact that these components are high-wear items means that if a distributor can offer competitive prices on undercarriage components, he can successfully draw in customers for regular maintenance work and service. This high-wear factor also has an important influence on the OEM's. They also need to keep the price of undercarriage components competitive in order to keep the cost of the tractor and the cost of servicing it competitive with other manufacturers. In addition, they must keep their distributors competitive in the undercarriage market so that they can make sales of other equipment and parts.

Semifinished forged undercarriage components are sold exclusively to OEM's (primarily Caterpillar), 1/ which finish and assemble them into parts ready for mounting on a tractor. Finished components and assembled parts ready for mounting are sold to both OEM's and independent distributors. Since domestic producers of semifinished parts sell only to OEM's, demand for their products depends on sales of new machinery and sales of spare parts in the aftermarket by OEM's.

Factors affecting demand

The most important factor affecting demand for forged undercarriage components is the use of crawler-mounted machinery. Demand for this type of vehicle is influenced primarily by construction activity and land preparation. In recent years, the decline in construction activity coupled with high interest rates has sharply curtailed the market for forged undercarriage components. Sales of construction equipment declined by 47 percent in constant dollar terms from 1980 to 1982. 2/ In addition, total private construction put in place declined by 12 percent (in constant dollar terms), 3/ and total public construction declined by 18 percent. 4/

Another very important factor affecting demand for the semifinished products was that the workers at the largest U.S. customer for semifinished forged undercarriage components, Caterpillar, were on strike from October 1982 through April 1983. This caused a dramatic drop in the demand for the semifinished forgings.

1/ John Deere & Co. * * * . * * * . International Hough (Harvester), Fiat-Allis (Allis Chalmers), Massey Ferguson, Ltd., and Terex Corp. * * * . * * * . * * * .

2/ See U.S. Bureau of the Census, "Construction Machinery," Current Industrial Reports, February 1983.

3/ See U.S. Department of Commerce, Bureau of Industrial Economics, "Construction Review: a Bi-Monthly Industry Review," March-April 1983, table C-6, p. 35. Values were adjusted using a producer price index in table E-2, p. 42.

4/ Ibid., table D-1, p. 45.

Apparent consumption

Finished articles. 1/--Because finished forged undercarriage components contain the semifinished articles, demand for the finished product is the governing force for the industry. Demand for the finished products in the U.S. market can be approximated by data on apparent U.S. consumption. The available data on apparent U.S. consumption of the finished components (compiled from data submitted in response to questionnaires of the U.S. International Trade Commission) 2/ are presented in the following tabulation (in thousands of units):

	Links	Rollers
1980	***	***
1981	***	***
1982	***	***
January-March--		
1982	***	***
1983	***	***

Apparent U.S. consumption of these articles represents the total of the use of these components in the manufacture of original equipment plus sales to OEM's domestic distributors plus independent distributors' shipments. The resulting data are somewhat removed from actual demand by the end user.

The available data on apparent consumption of finished links show a decline from * * * in 1980 to * * * in 1982, or by 61 percent. Apparent consumption then declined by 41 percent in January-March 1983 relative to that for the corresponding period of 1982. Apparent consumption of finished rollers declined from * * * units in 1980 to * * * in 1982, or by 54 percent. Consumption then dropped by 68 percent in January-March 1983 relative to that for the corresponding period of 1982.

Semifinished articles.--All the semifinished articles produced and sold in this country are eventually used by the OEM's in the manufacture of finished undercarriage components. Thus, apparent consumption of the semifinished products is actually an approximation of the demand by OEM's for these articles for further processing in their own finishing and assembling operations. Apparent consumption of semifinished forged undercarriage links and rollers is presented in table 1. Apparent U.S. consumption of semifinished links declined from * * * in 1980 to * * * in 1982, or by 68 percent. Consumption then dropped by 29 percent in January-September 1983 relative to that in the corresponding period of 1982.

1/ The term "finished" refers to those articles which are finished pieces in addition to those parts which are incorporated into track chain or roller assemblies.

2/ January-March 1983 is the most recent period for which such data are available.

Table 1.--Semifinished links and rollers: U.S. producers' domestic shipments, Caterpillar's purchases of imported merchandise, and apparent consumption, by types, 1980-82, January-September 1982, and January-September 1983

(In thousands of units)

Type and period	Producers' shipments 1/	Caterpillar's purchases	Apparent consumption
Links:			
1980	***	***	***
1981	***	***	***
1982	***	***	***
January-September--			
1982	***	***	***
1983	***	***	***
Rollers: 2/			
1980	***	***	***
1981	***	***	***
1982	***	***	***
January-September--			
1982	***	***	***
1983	***	***	***

1/ U.S. producers' domestic shipments include Caterpillar's internal consumption of its own in-house forging of links and are based on responses of 7 firms for links and 11 firms for rollers.

2/ For roller data, a unit is equivalent to one half roller.

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

Apparent U.S. consumption of semifinished rollers declined irregularly from * * * in 1980 to * * * in 1982, or by 35 percent. Apparent consumption then dropped by 45 percent in January-September 1983 relative to that in the corresponding period of 1982.

The Domestic Industry

U.S. producers

There are 15 known forgers of semifinished undercarriage links and rollers in the United States. Of these, only Caterpillar finishes and assembles its product. The remaining firms produce and ship only semifinished forgings. There are seven petitioners in the investigation. These firms are Jernberg Forgings Co., Lindell Drop Forge Co., Portec, Inc., Presrite Corp., Presrite of Jefferson, Inc., Walco Metal Forming Group (with two forging divisions--Federal Forge and Transue & Williams), and Walker Forge Inc. One other firm, the Forge Division of Eaton Corp., supports the petition. Petitioners accounted for an average of * * * of the quantity of domestic production of links and * * * of the quantity of reported production of rollers during 1980-82. Only four domestic firms, * * * , Jernberg, * * * ,

and Walco Metal Forming Group, produce both links and rollers. The producers of links are * * * , * * * , * * * , Caterpillar, Walco Metal Forming Group, Jernberg Forgings, and * * * . Eight firms produce only rollers: they are Eaton Corp., Lindell Drop Forge, * * * , * * * , Portec, Presrite Corp., Presrite of Jefferson, and * * * .

Of the 15 known domestic forgers, 14 supplied the Commission with data on their production of semifinished articles. It is estimated that these firms account for over 95 percent of domestic production of semifinished links and rollers. Some information concerning Caterpillar and the petitioners follows.

Caterpillar Tractor Co., located in Peoria, Ill., forges only links and uses all of its production in house. The Forge Division of Eaton Corp. is located in Ohio. Of the various forged undercarriage components, the firm produces only rollers and * * * . Lindell Drop Forge, located in Lansing, Mich., began producing rollers in small quantities in 1976. * * * . It produces rollers for crawler models * * * . 1/

Jernberg, located in Chicago, Ill., produces link, segment, and roller forgings as well as gears for transmissions, wheel spindles and hubs, and railroad couplings. Parts manufactured by Jernberg are used on crawler models * * *.

Portec is located in Canton, Ohio, and produces forged parts for the construction, oil, agricultural, and mining industries. Portec has been producing two-piece welded rollers for OEM's since 1979. It produces primarily for crawler tractor models * * * .

Presrite Corp., of Cleveland, Ohio, produces forgings for the trucking, oil hardware, mining, and construction industries. Presrite has been manufacturing segments and rollers for OEM's since 1981. Presrite of Jefferson (Ohio) was founded in 1980 to manufacture one-piece, forged-to-size, multiple-flanged rollers using its patent-pending Radonco process. Of the various undercarriage components, Presrite of Jefferson produces only rollers, and these account for * * * of the sales of the establishment. It produces rollers for crawler models * * * .

Walco Metal Forming Group began producing the articles in question in 1977 at the behest of Caterpillar and has two divisions which produce forged undercarriage components, Federal Forge and Transue & Williams, both located in Lansing, Mich. Walco produces connecting rods, crankshafts, valve lifters, and a number of other forgings. Federal Forge produces links, segments, and rollers. Transue & Williams produces only links and rollers. Links are produced for crawler models * * * . Links accounted for approximately * * * of Walco's total sales during 1982. Walco reported that nearly 60 percent of the links it produces are sold by OEM's as replacement parts, with the remainder being used as parts for original equipment.

1/ The designation D refers to Caterpillar crawler tractor models. These models are used as industry standards for size.

Walker Forge, located in Racine, Wis., has been producing undercarriage parts since 1969. This company produces only segments for crawler models * * * . Approximately * * * of Walker's segments are sold by OEM's in the replacement market; the remainder are used as parts for new crawler-mounted machinery.

There are no independent domestic producers 1/ of finished or assembled forged undercarriage components. There were several such producers until the early 1970's. Two of these, Pettibone Westrac and Letts Industries, are currently active in the market as importers of finished and assembled pieces. Thus, independent parts distributors must either purchase imported undercarriage components or obtain their requirements from OEM's at retail prices. 2/

U.S. importers

The net import file maintained by the U.S. Customs Service identified 73 importers of the products classified in the "other" tractor parts "basket" category during the period September 1981-September 1982. The Commission's staff conducted a survey of these importers in order to identify firms that import links and rollers. Only two firms, Caterpillar and IMES Trading Co., were found to have imported semifinished links and rollers during the period under consideration. IMES Trading Co. imports exclusively for Caterpillar and maintains a warehouse in Peoria, Ill. to service the tractor manufacturer.

Importers of the finished components were other tractor manufacturers and independent distributors of tractor parts.

The Foreign Producers

There are at least four major foreign producers of forged undercarriage parts--Berco and Italtractor in Italy, Intertrack in the Federal Republic of Germany, and Kamatsu in Japan. However, IMES is the only producer in Italy that has exported significant quantities of semifinished products to the United States. Imports of semifinished components were also reported from * * * .

1/ An independent producer is one that does not produce tractors or crawler-mounted machinery.

2/ See letter submitted by Associated Independent Distributors dated May 19, 1983.

The Question of Material Injury or Threat Thereof

U.S. production, capacity, and capacity utilization

Links.--U.S. production of semifinished links declined sharply over the period under consideration (table 2). It declined from * * * in 1980 to * * * in 1982, or by 70 percent, and then declined by an additional 29 percent in January-September 1983 relative to production in the corresponding period of 1982.

Table 2.--Semifinished forged links and rollers: U.S. production, capacity, and capacity utilization, for Caterpillar and all other firms, 1/ by types of components, 1980-82, January-September 1982, and January-September 1983

Item	1980	1981	1982	January-September--	
				1982	1983
Links:					
Production:					
Caterpillar					
1,000 units--	***	***	***	***	***
All other-----do----	***	***	***	***	***
Total-------do----	***	***	***	***	***
Capacity: 2/					
Caterpillar					
1,000 units--	***	***	***	***	***
All other-----do----	***	***	***	***	***
Total-------do----	13,358	13,253	13,220	9,926	9,852
Capacity utilization:					
Caterpillar					
percent--	***	***	***	***	***
All other-----do----	***	***	***	***	***
Total-------do----	***	***	***	***	***
Rollers:					
Production					
1,000 units 3/--	***	***	***	***	***
Capacity 2/-----do----	2,575	2,844	3,253	2,364	2,728
Capacity utilization					
percent--	***	***	***	***	***

1/ Data based on the responses of 6 firms for links and 11 firms for rollers.
2/ Where data on capacity were not reported, production figures were used.
3/ For rollers, 1 unit is equivalent to 1 half roller.

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

U.S. producers' capacity to produce semifinished links also declined over the period. It declined from 13.4 million units in 1980 to 13.2 million in 1982, or by 1 percent, and then declined again, though only slightly, in January-September 1983 relative to that in the corresponding period of 1982. It should be noted that the capacity data are probably not adequately adjusted to reflect actual product mix and are, therefore, overstated to some degree.

Caterpillar is planning to increase its capacity to produce links substantially in the near future. The purpose of this increase is to eventually bring in house the production of all "high volume" parts. A detailed explanation of Caterpillar's intentions was submitted by Caterpillar as an attachment to its purchaser's questionnaire (attachment I). This is presented in appendix D.

The available data on U.S. producers' capacity utilization show that it remained at low levels and declined over the period. Capacity utilization declined from * * * in 1980 to * * * in 1982, and declined again, from * * * in January-September 1982 to * * * in the corresponding period of 1983. However, because capacity data are probably overstated, these figures are understated.

Rollers.--U.S. production of semifinished rollers declined sharply over the period under consideration. It declined from * * * in 1980 to * * * in 1982, or by 39 percent. Production then dropped by 42 percent in January-September 1983 from that in the corresponding period of 1982.

U.S. producers' reported capacity to produce semifinished rollers increased significantly over the period. It increased from 2.6 million units in 1980 to 3.3 million in 1982, or by 26 percent. Capacity increased by an additional 15 percent in January-September 1983 relative to that for the corresponding period of 1982. Again, it should be noted that the capacity data are probably not adequately adjusted to reflect actual product mix and are, therefore, overstated to some degree.

The capacity utilization of U.S. producers, already at very low levels in 1980, dropped sharply over the period under consideration. It declined from * * * in 1980 to * * * in 1982 and then dropped from * * * in January-September 1982 to * * * in January-September 1983. However, because capacity data are probably overstated, these figures are understated.

U.S. producers' commercial shipments

Links.--U.S. producers' shipments of semifinished links declined sharply over the period under consideration. 1/ The quantity of shipments declined from * * * in 1980 to * * * in 1982, or by 70 percent (table 3). Shipments of semifinished links declined by 29 percent in January-September 1983 relative to those in the corresponding period of 1982. The unit value of semifinished links produced by the nonintegrated firms (all producers except Caterpillar) increased significantly from 1980 to 1981, but has declined sharply since then. The unit value increased from $12.30 per link in 1980 to $13.18 in 1981, or by 7 percent, but then declined to $7.84 in January-September 1983. There were no exports of semifinished links reported during the period under consideration.

1/ This includes Caterpillar's in-house consumption of its own production.

Table 3.--Semifinished forged links and rollers: U.S. producers' commercial shipments, by types, for Caterpillar and all other firms, 1/ 1980-82, January-September 1982, and January-September 1983

Item	1980	1981	1982	January-September--	
				1982	1983
Links:					
Quantity:					
Caterpillar					
1,000 units--	***	***	***	***	***
All other-----do----	***	***	***	***	***
Total-------do----	***	***	***	***	***
Percentage distribution of quantity:					
Caterpillar					
percent--	***	***	***	***	***
All other-----do----	***	***	***	***	***
Total-------do----	100.0	100.0	100.0	100.0	100.0
Unit value 2/					
per piece--	$12.30	$13.18	$11.54	$12.54	$7.84
Rollers:					
Quantity					
1,000 units 3/--	***	***	***	***	***
Value--1,000 dollars--	***	***	***	***	***
Unit value					
per half roller--	$29.55	$25.22	$27.42	$27.26	$20.57

1/ Data based on the responses of 6 producers of links and 11 producers of rollers.

2/ Caterpillar and 1 other firm reported no value of shipments. Thus, unit value figures reflect only those data submitted by those nonintegrated firms reporting both the quantity and value of shipments.

3/ For rollers, 1 unit is equivalent to 1 half roller.

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

Rollers.--U.S. producers' commercial shipments of semifinished rollers declined from * * * in 1980 to * * * in 1982, or by 39 percent. They then dropped by 43 percent in January-September 1983 relative to those for the corresponding period of 1982. The unit value of semifinished rollers declined from $29.55 per half roller in 1980 to $27.42 in 1982, or by 7 percent. In January-September 1983, the unit value of each half roller sold dropped to $20.57, or by 25 percent from that in the corresponding period of 1982. There were no exports of semifinished rollers reported for the period under consideration.

U.S. producers' inventories

U.S. producers of semifinished forged undercarriage components reported that they consider these items to be custom products and, for the most part, only produce them upon receipt of an order. Little, if any, merchandise is maintained in inventory. Only four domestic producers reported any inventories of these products. Their data on inventories of semifinished links and rollers and the ratio of these inventories to their shipments are presented in the following tabulation:

	End-of-period inventories (1,000 units)	Ratio of inventories to shipments (Percent)
Links:		
1980	***	***
1981	***	***
1982	***	***
January-September--		
1982	***	***
1983	***	***
Rollers:		
1980	***	***
1981	***	***
1982	***	***
January-September--		
1982	***	***
1983	***	***

U.S. producers' employment and wages

Links.--Data on employment were received from all known producers of semifinished links during the period under consideration. Average employment in U.S. establishments producing this product declined over the period under consideration. Total employment declined by 29 percent from 1980 to 1982 and then declined by 32 percent in January-September 1983 relative to that in the corresponding period of 1982 (table 4). The workers in these establishments are all unionized and are represented by four unions--United Auto Workers; United Steel Workers of America; the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers; and the International Die Sinkers' Conference. The average number of all production and related workers employed in such establishments followed a trend similar to that for total employment, declining by 33 percent from 1980 to 1982 and by 34 percent in January-September 1983 relative to that in the corresponding period of 1982. The average number of production and related workers employed in the production of links declined by 58 percent from 1980 to 1982, but then increased by 2 percent in January-September 1983 relative to that in the corresponding period of 1982.

Table 4.--Average number of employees, total and production and related workers, in responding U.S. establishments producing semifinished forged links and rollers and hours worked by, productivity of, hourly wages paid to, total compensation earned by, and average compensation of production and related workers producing these articles, for Caterpillar and all other firms, 1/ 1980-82, January-September 1982, and January-September 1983

Item	1980	1981	1982	January-September--	
				1982	1983
	Links				
Average number of employees:					
All persons:					
Caterpillar	***	***	***	***	***
All others	***	***	***	***	***
Total	19,168	17,413	13,696	14,405	9,856
Production and related workers producing---					
All products:					
Caterpillar	***	***	***	***	***
All others	***	***	***	***	***
Total	15,252	13,741	10,229	10,824	7,180
Links:					
Caterpillar	***	***	***	***	***
All others	***	***	***	***	***
Total	288	254	120	124	126
Hours worked by production and related workers producing links:					
Caterpillar---1,000 hours	***	***	***	***	***
All others-----do	***	***	***	***	***
Total-----do	619	533	226	222	132
Productivity of production and related workers producing links:					
Caterpillar units per hour	***	***	***	***	***
All others-----do	***	***	***	***	***
Total-----do	10.9	9.8	8.9	8.5	13.4
Hourly wages paid to production and related workers producing links:					
Caterpillar-1,000 dollars	***	***	***	***	***
All others-----do	***	***	***	***	***
Total-----do	6,892	6,657	3,005	2,954	1,743
Total compensation earned by production and related workers producing links:					
Caterpillar-1,000 dollars	***	***	***	***	***
All others-----do	***	***	***	***	***
Total-----do	7,945	7,835	3,465	3,395	2,055

See footnotes on following page.

Table 4.--Average number of employees, total and production and related workers, in responding U.S. establishments producing semifinished forged links and rollers and hours worked by, productivity of, hourly wages paid to, total compensation earned by, and average compensation of production and related workers producing these articles, for Caterpillar and all other firms, 1/ 1980-82, January-September 1982, and January-September 1983--Continued

Item	1980	1981	1982	January-September--	
				1982	1983
	Links--Continued				
Average compensation of production and related workers producing links:					
Caterpillar------per hour--	***	***	***	***	***
All others----------do----	***	***	***	***	***
Average----------do----	$12.84	$14.70	$15.33	$15.29	$15.57
	Rollers				
Average number of employees:					
All persons----------	8,054	7,619	5,597	5,796	4,689
Production and related workers producing---					
All products----------	6,831	6,398	4,501	4,684	3,776
Rollers----------	143	117	120	128	83
Hours worked by production and related workers producing rollers 1,000 hours--	226	209	151	116	76
Productivity of production and related workers producing rollers units per hour--	2.8	3.7	2.8	3.4	3.2
Hourly wages paid to production and related workers producing rollers 1,000 dollars--	2,081	1,692	1,726	1,324	645
Total compensation earned by production and related workers producing rollers 1,000 dollars--	2,675	2,163	2,183	1,696	851
Average compensation of production and related workers producing rollers per hour--	$11.84	$10.35	$14.46	$14.62	$11.20

1/ Based on responses of 6 firms producing links and 11 firms producing rollers.

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

The number of hours worked by production and related workers producing links declined by 63 percent from 1980 to 1982 and dropped by 41 percent in January-September 1983 relative to that in the corresponding period of 1982. This latter decline was primarily due to the prolonged strike at the Caterpillar plant during October 1982-March 1983. The productivity of these workers declined by 18 percent from 1980 to 1982, but then increased sharply, by 58 percent, in January-September 1983 relative to that in the corresponding period of 1982. Hourly wages paid to such workers declined by 56 percent from 1980 to 1982 and dropped by 41 percent in January-September 1983 compared with wages paid in the corresponding period of 1982. Total compensation paid to these workers followed a similar trend, while their average hourly compensation increased from $12.84 in 1980 to $15.33 in 1982, or by 19 percent. The average hourly rate of compensation also increased, though slightly, in January-September 1983 relative to that in the corresponding period of 1982.

Rollers.--Data on employment were received from all but one domestic producer of semifinished forged rollers. It is estimated that these producers accounted for over 95 percent of domestic production during the period under consideration. Average employment in responding U.S. establishments producing rollers also declined during the period under consideration, though the declines have not been as sharp as those for establishments producing links in the most recent period. Total employment declined by 31 percent from 1980 to 1982 and by 19 percent in January-September 1983 relative to that in the corresponding period of 1982. All but two firms' workers are unionized. The workers are represented by five different unions--United Auto Workers; United Steel Workers of America; the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers; the International Association of Machinists and Aerospace Workers; and the International Die Sinkers' Conference. The average number of all production and related workers employed in such establishments declined more sharply, falling by 34 percent from 1980 to 1982 and by 19 percent in January-September 1983 compared with that in the corresponding period of 1982. The average number of production and related workers employed in the production of rollers declined by 16 percent from 1980 to 1982 and then declined again, by 35 percent, in January-September 1983 relative to that in the corresponding period of 1982.

The number of hours worked by production and related workers producing these products declined by 33 percent from 1980 to 1982, and then declined by 34 percent in January-September 1983 relative to that in the corresponding period of 1982. The productivity of these workers remained relatively constant over the period, remaining around three half rollers per hour through most of the period. Hourly wages paid to such workers declined by 17 percent from 1980 to 1982, but dropped by 51 percent in January-September 1983 compared with wages paid in the corresponding period of 1982. Total compensation paid to these workers followed a similar trend, and their average hourly compensation declined irregularly over the period. After a 22-percent increase reported for 1980-82, the average hourly rate of compensation declined from $14.62 in January-September 1982 to $11.20 in the corresponding period of 1983, or by 23 percent. This decline brought the compensation rate to a level lower than that for 1980.

Financial experience of U.S. producers

Links.--Income-and-loss data on U.S. producers' operations producing forged semifinished links and on the establishments within which such components are produced were received from five producers, which accounted for an average of * * * of the quantity of reported shipments of domestically produced links during 1980-82. However, these firms accounted for over 95 percent of the shipments of the nonintegrated producers (i.e., all those except Caterpillar). Caterpillar does not sell semifinished links and, thus, has no profit as such to report on their production.

Aggregate net sales of forged semifinished links by these five producers declined sharply, from $18.4 million in 1980 to $3.3 million in 1982, or by 82 percent (table 5). During the interim period ending in September, total net sales increased from $1.6 million in 1982 to $2.2 million in 1983, or by 38 percent. The primary reasons for the sharp drop in net sales during 1982, were the strike at Caterpillar Tractor Co., the major customer of the reporting firms, and the severe economic depression of the earthmoving and construction machinery industry.

Aggregate operating profit declined from $1.6 million, representing 8.6 percent of net sales, in 1980 to $1.2 million, representing 7.0 percent of net sales, in 1981. U.S. producers reported an aggregate operating loss of $807,000, equivalent to 24.1 percent of net sales, in 1982. This loss was primarily due to the dramatic decline in net sales. During the interim periods ending in September, operating losses increased from $322,000 in 1982 to $364,000 in 1983. However, during the same period, the ratio of operating loss to net sales declined from 20.2 percent to 16.5 percent.

Cash flow generated from U.S. producers' operations on semifinished forged links declined from $2.2 million in 1980 to $1.8 million in 1981 and then declined to a deficit of $334,000 in 1982. U.S. producers reported a cash deficit of $42,000 for the interim period of 1982 and an increased deficit of $142,000 for the interim period ending September 30, 1983.

Sales of semifinished forged links accounted for a very small and declining portion of U.S. producers' establishment sales during the period under consideration. Nonetheless, the profitability of U.S. producers on links generally followed the same trends as that for the overall establishments. However, the firms' performance on links was not as good as that of the overall establishments, and the declines in link profitability were more severe.

Rollers.--Income-and-loss data on U.S. producers' operations producing forged semifinished rollers and on the establishments within which such components are produced were received from 12 producers, which accounted for all reported shipments of domestically produced rollers during the period under consideration.

Aggregate net sales of forged semifinished rollers by these producers declined from $21.7 million in 1980 to $12.6 million in 1982, or by 42 percent (table 6). During the interim periods ending in September, total net sales dropped sharply, from $8.5 million in 1982 to $3.6 million in 1983, or by 58

Table 5.--Income-and-loss experience of 5 U.S. producers of semifinished links, by types of operations, accounting years 1980-82 and interim periods ending Sept 30, 1982, and Sept. 30, 1983 1/

Item	1980	1981	1982	Interim period endi Sept 30-- 1982	1983
	Operations on links				
Net sales----------1,000 dollars--	18,363	17,697	3,346	1,593	2,20
Cost of goods sold----------do----	16,014	15,903	3,745	1,754	2,37
Gross profit or (loss)------do----	2,349	1,794	(399)	(161)	(17
General, selling, and administrative expenses----1,000 dollars--	762	551	408	161	19
Operating profit or (loss)--do----	1,587	1,243	(807)	(322)	(36
Depreciation and amortization 2/ 1,000 dollars--	592	510	473	280	22
Cash flow or (deficit) from operations 2/----1,000 dollars--	2,179	1,753	(334)	(42)	(14
Ratio of operating profit or (loss) to net sales----percent--	8.6	7.0	(24.1)	(20.2)	(16.
Number of firms reporting operating losses----------	1	2	5	5	
	Overall operations of reporting establishments				
Net sales----------1,000 dollars--	451,324	471,396	292,264	228,237	201,29
Cost of goods sold----------do----	398,215	423,700	282,740	216,755	183,41
Gross profit----------do----	53,109	47,696	9,524	11,482	17,87
General, selling, and administrative expenses----1,000 dollars--	11,046	12,328	12,891	7,211	7,81
Operating profit or (loss)--do----	42,063	35,368	(3,367)	4,271	10,05
Depreciation and amortization 1,000 dollars--	9,076	9,460	8,958	6,367	5,86
Cash flow from operations 1,000 dollars--	51,139	44,828	5,591	10,638	15,91
Ratio of operating profit or (loss) to net sales----percent--	9.3	7.5	(1.2)	1.9	5.
Number of firms reporting operating losses----------	0	3	4	4	
Ratio of net sales of links to net sales for the establishment percent--	4.1	3.8	1.1	0.7	1.

1/ The accounting year for * * * .

2/ Depreciation and amortization were not provided by 1 company for its operations on links. Hence, cash flow from operations is somewhat understated and the deficits somewhat overstated.

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

Table 6.--Income-and-loss experience of 12 U.S. producers of semifinished rollers, by types of operations, accounting years 1980-82, and interim periods ending Sept. 30, 1982, and Sept. 30, 1983 1/

Item	1980	1981	1982	Interim period ending Sept. 30-- 2/	
				1982	1983
	Operations on rollers				
Net sales----------1,000 dollars--	21,695	18,780	12,620	8,484	3,555
Cost of goods sold----------do----	18,219	15,358	10,906	7,554	2,951
Gross profit----------do----	3,476	3,422	1,714	930	604
General, selling, and administrative expenses----1,000 dollars--	983	826	1,171	438	236
Operating profit----------do----	2,493	2,596	543	492	368
Depreciation and amortization 1,000 dollars--	546	1,266	1,397	438	394
Cash flow from operations 1,000 dollars--	3,039	3,862	1,940	930	762
Ratio of operating profit to net sales----------percent--	11.5	13.8	4.3	5.8	10.4
Number of firms reporting operating losses----------	1	1	3	3	3
	Overall operations of reporting establishments				
Net sales----------1,000 dollars--	645,294	710,961	444,325	356,004	309,737
Cost of goods sold----------do----	561,156	621,791	415,668	328,553	277,978
Gross profit----------do----	84,138	89,170	28,657	27,451	31,759
General, selling, and administrative expenses----1,000 dollars--	24,699	26,883	25,652	17,648	17,202
Operating profit----------do----	59,439	62,287	3,005	9,803	14,557
Depreciation and amortization 1,000 dollars--	12,862	14,316	13,682	9,179	8,755
Cash flow from operations 1,000 dollars--	72,301	76,603	16,687	18,982	23,312
Ratio of operating profit to net sales----------percent--	9.2	8.8	0.7	2.8	4.7
Number of firms reporting operating losses----------	2	4	8	7	6
Ratio of net sales of rollers to net sales for the establishment percent--	3.4	2.6	2.8	2.4	1.1

1/ The accounting year for * * * .

2/ Data reported for the interim periods represent those of 11 producers.

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

percent. The primary reasons for the sharp drop in net sales during 1982 and January-September 1983 were the strike at Caterpillar Tractor Co., the major customer of the reporting firms, and the severe economic depression of the earthmoving and construction machinery industry.

Aggregate operating profit increased somewhat, from $2.5 million in 1980, representing 11.5 percent of net sales, to $2.6 million in 1981, representing 13.8 percent of net sales, despite declining sales. Profits declined to $543,000, representing 4.3 percent of net sales, in 1982. During the interim periods ending in September, profits declined somewhat on a quantitative basis, but improved significantly relative to net sales. For the interim periods, the aggregate operating profit declined from $492,000 in 1982 to $368,000 in 1983. However, as a ratio to net sales during the partial periods, operating profit increased from 5.8 percent in 1982 to 10.4 percent in 1983.

Cash flow generated from U.S. producers' operations on semifinished forged rollers declined from $3.0 million in 1980 to $1.9 million in 1982. U.S. producers reported a cash flow of $930,000 for the interim period ending in September 1982. Cash flow declined to $762,000 in the corresponding period of 1983.

Sales of semifinished forged rollers accounted for a very small and generally declining portion of U.S. producers' establishment sales during the period under consideration. Nonetheless, the profitability of U.S. producers on rollers generally followed the same trends as that for the overall establishment. However, the firms' performance on rollers was better than that of the overall establishment and the declines in profitability were not as severe.

Impact of imports on U.S. producer's growth, investment, and ability to raise capital

The Commission requested U.S. producers to describe and explain the actual and potential effects, if any, of imports of semifinished links and rollers from Italy on their firms' growth, investment, and ability to raise capital. Their responses are presented on the following pages.

* * * * * *

Caterpillar Tractor Co.--* * * . * * * . * * * . * * * .

Eaton Corp.--* * * . * * * . * * * . * * * .

* * * * * *

* * * * * *

Lindell Drop Forge Co.--* * * . * * * . * * * .

Portec, Inc.--* * * . * * * .

Presrite Corp.--* * * . * * * . * * * .

Presrite of Jefferson, Inc.--* * * .

* * * * * *

Walco Metal Forming Group.--* * * . * * * . * * * .

Threat of material injury

The Commission has typically considered such factors as the capacity of the foreign producers to increase imports and U.S. importers' inventories when evaluating the threat of material injury. IMES is the only known exporter in Italy of semifinished forged undercarriage components. The following data on IMES' overall production and capacity for 1980-82 were supplied by counsel for the firm in the preliminary investigation: 1/

	1980	1981	1982
Production----1,000 metric tons--	***	***	***
Capacity-------1,000 metric tons--	***	***	***
Capacity utilization-----percent--	***	***	***

Some additional information was made available to the staff in the final investigation. However, there were several factors which made this data inadequate for analysis. Capacity data, as reported, have not been adjusted

1/ See confidential telex to Wm. Fry, Director of Investigations, submitted by J. H. Lundquist on behalf of IMES. Capacity data are based on two-shift operation.

for product mix. Thus, the capacity utilization data derived from actual production are grossly understated. In addition, actual production data (in metric tons) on links and rollers separately are available only for January-September 1983. When compared with the reported capacity data, these production data give IMES a capacity utlization rate of * * * for links and * * * for rollers during January-September 1983.

Data were also provided on IMES' shipments and exports of links and rollers. These data are presented in table 7. The data show substantial declines in the quantity and relative importance of IMES' exports to the United States from 1982 to January-April 1983.

Table 7.--Semifinished forged links and rollers: IMES' total sales, exports to the United States, and exports to third countries, 1981-82, and January-April 1983

Item	1981	1982	January-April 1983
	Links		
Total sales----------1,000 units--	***	***	***
Exports to the United States 1,000 units--	***	***	***
Exports to third countries 1,000 units--	***	***	***
Total----------do----	***	***	***
Percentage distribution of exports--			
To the United States-------percent--	***	***	***
To third countries----------do----	***	***	***
Total----------do----	***	***	***
	Rollers		
Total sales----------1,000 units--	***	***	***
Exports to the United States 1,000 units--	***	***	***
Exports to third countries 1,000 units--	***	***	***
Total----------do----	***	***	***
Percentage distribution of exports--			
To the United States-------percent--	***	***	***
To third countries----------do----	***	***	***
Total----------do----	***	***	***

Source: Letter submitted on behalf of IMES, addressed to Mr. Kenneth R. Mason, dated Nov. 30, 1982.

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

IMES Trading Co., a wholly owned subsidiary of IMES, maintains a warehouse in Peoria, Ill., in order to service Caterpillar. By agreement, IMES Trading is to maintain a minimum of * * * of semifinished components on hand. Reported inventories held by IMES and the ratio of these inventories to Caterpillar's purchases of imported material from Italy are shown in the following tabulation:

	End-of-period inventories (units)	Ratio of inventories to shipments (percent)
Links:		
1980	***	***
1981	***	***
1982	***	***
January-September--		
1982	***	***
1983	***	***
Rollers:		
1980	***	***
1981	***	***
1982	***	***
January-September--		
1982	***	***
1983	***	***

Inventory levels of IMES Trading Co. show * * * declining trends for the most recent periods. For links, inventories * * * . For rollers, inventories * * * .

Consideration of the Causal Relationship Between the Subsidized Imports From Italy and the Alleged Injury

U.S. imports

Semifinished forged undercarriage components were imported from * * * countries during the period under consideration--Italy, * * * . Two firms acting in concert, Caterpillar and IMES Trading Co., were responsible for all of these imports. Because IMES has acted exclusively for Caterpillar and because some of IMES' importation was for building inventories, data in this section will focus on Caterpillar's purchases of imported merchandise rather than actual imports. 1/ The available data on Caterpillar's purchases of imported links and rollers are presented in table 8.

Links.--Imports of semifinished links were reported * * * from Italy and * * * . Caterpillar's purchases of semifinished links from Italy increased * * * in 1980 to * * * in 1982. However, these purchases declined significantly from * * * units in January-September 1982 to * * * in the

1/ Data on actual imports are presented in app. E.

Table 8.--Semifinished forged links and rollers: Caterpillar's purchases of imported merchandise, by types and by specified sources, 1980-82, January-September 1982, and January-September 1983

Item and source	1980	1981	1982	January-September--	
				1982	1983
	Links				
Quantity:					
Italy----1,000 units--	***	***	***	***	***
All other countries 1,000 units--	***	***	***	***	***
Total---------do----	***	***	***	***	***
Value: 1/					
Italy--1,000 dollars--	***	***	***	***	***
All other countries 1,000 dollars--	***	***	***	***	***
Total---------do----	***	***	***	***	***
Unit value:					
Italy-------per unit--	***	***	***	***	***
All other countries per unit--	***	***	***	***	***
Average-------do----	***	***	***	***	***
	Rollers				
Quantity: 2/					
Italy----1,000 units--	***	***	***	***	***
All other countries 1,000 units--	***	***	***	***	***
Total---------do----	***	***	***	***	***
Value: 1/					
Italy--1,000 dollars--	***	***	***	***	***
All other countries 1,000 dollars--	***	***	***	***	***
Total---------do----	***	***	***	***	***
Unit value:					
Italy per half roller--	***	***	***	***	***
All other countries per half roller--	***	***	***	***	***
Average-------do----	***	***	***	***	***

1/ Values are f.o.b. suppliers' plant or warehouse.
2/ For rollers, 1 unit is equivalent to 1 half roller.

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

Note: Because of rounding, numbers may not compute to the figures shown.

corresponding period of 1983, or by * * * . 1/ Imports of semifinished links from * * * . Total imports of links * * * .

The unit value of Caterpillar's purchases of semifinished links from Italy * * * . The unit value declined * * * . The unit values of imports from * * * ; * * * . The unit value of imports from * * * .

Rollers.--Caterpillar's purchases of semifinished rollers from Italy increased from * * * in 1980 to * * * in 1982, or by * * * , but then declined * * * in January-September 1982 to * * * . * * * rollers were imported from countries other than Italy. * * * .

The unit value of Caterpillar's purchases of semifinished rollers from Italy declined * * * over the period. It declined from * * * in 1980 to * * * in 1982, or by * * * , and declined from * * * in January-September 1982 to * * * in the corresponding period of 1983, or by * * * . * * * . * * * .

Market penetration of imports

Links.--Caterpillar's purchases of semifinished forged links increased * * * as a share of U.S. consumption from 1980 to 1982, but remained stable in January-September 1983 (table 9). Imports of semifinished links from Italy increased their share of apparent consumption from * * * in 1980 to * * * in 1982 and * * * in January-September 1982 and in the corresponding period of 1983. The share of imports of links from countries other than Italy * * * . Total imports, as a share of consumption, increased from * * * in 1980 to * * * in 1982 and * * * in January-September 1982 and 1983.

Rollers.--The share of apparent consumption accounted for by Caterpillar's purchases of semifinished rollers from Italy * * * in 1980 and 1981, but * * * in 1982. However, the share of such imports declined somewhat thereafter, * * * . The share of apparent consumption accounted for by imports of rollers from countries other than Italy * * * .

Prices

Introduction.--Domestic producers sell their semifinished forged links and rollers exclusively to OEM's. Prices of products sold to Caterpillar, which is by far the most important buyer in the market, are established on the basis of written price quotations. Caterpillar periodically requests price quotations on parts with certain specifications from all qualified suppliers

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1/ * * * links purchased by Caterpillar from IMES, SpA, and IMES Trading Co. in 1982 were rejected for quality reasons. These links were not finally received by Caterpillar until 1983. Therefore, the staff has shown these as 1983 purchases and has not included them in the 1982 figures.

Table 9.--Semifinished forged links and rollers: Market penetration of U.S. imports, by types and by specified sources, 1980-82, January-September 1982, and January-September 1983

* * * * * * *

(including IMES) for the products in question. 1/ Caterpillar supplies an indication of expected requirements for the item for the coming period, but does not commit itself to buy that amount. The quotations received are evaluated on the basis of price, with consideration also given to Caterpillar's annual supplier evaluations, which rate suppliers on quality and delivery performance. Caterpillar does not make a precise quantitative evaluation of these nonprice factors in terms of justifying a premium price.

Once a quote is accepted, an "open order" is placed, fixing prices for that item from that supplier until the next round of quotations. Production and shipment of the products by domestic producers of the undercarriage forgings are made only when a "release" is issued by Caterpillar for a specific number of parts for a specific delivery date, though a single release may authorize several shipments over a period of several months. Typical shipments range from * * * to * * * for links, and from * * * to * * * for rollers.

* * * * * * *

Typical terms of sale by the domestic producers of the semifinished products in question are f.o.b. producer's plant with freight paid by the purchaser, net 30 days. Caterpillar reports that the terms of sale applicable to its imports from IMES are similar: quotations are made in dollars, net 30 days, with freight paid by Caterpillar from the importer's warehouse or the dock.

1/ * * *, * * *. This information is based on telephone conversations with Mr. H. A. Cornelius, Manager for Castings and Forgings Purchasing, Caterpillar Central Purchasing, May 23 and 24, 1983.

Caterpillar claims that the existence of inventory held by IMES Trading Co. in Peoria, Ill. converts to a nonprice advantage for Italian semifinished links or rollers, because the forgings can be obtained quickly from this inventory for short-term "emergency" needs. 1/ U.S. producers assert that this U.S.-based inventory of the Italian product is necessary because of the longer leadtime to obtain the semifinished links or rollers directly from Italy, and does not actually give the Italian product a nonprice advantage. 2/

Price trends and margins of underselling.--Price information on the semifinished parts indicated below was solicited from all known domestic producers, purchasers, and importers of the products. 3/ Product specifications are in terms of the Caterpillar tractor model which that part would fit.

1. Semifinished D-9L size/class (or equivalent) links.

2. The semifinished link specification accounting for the largest share of shipments or purchases.

3. Semifinished D-8H size/class (or equivalent) rollers (roller halves).

4. The semifinished roller specification accounting for the largest share of shipments or purchases.

Caterpillar is the only buyer of the semifinished products from Italy and the largest buyer from U.S. producers. Caterpillar provided prices for purchases of both U.S.-produced and imported semifinished links and rollers. Because the direct competition between U.S.-produced and imported products takes place solely at Caterpillar, primary emphasis is placed on the Caterpillar purchase price data to analyze price trends and margins of underselling.

Caterpillar's purchase price for U.S.-produced D-9H links, as measured by its largest purchase in each quarter, * * * (Table 10). 4/ * * * . * * * .

Prices of imports from Italy of the D-9H links * * * . * * * . Prices * * * , such that the overall change in prices from January 1981 to September 1983 was a decline of * * * .

For semifinished D-8K rollers, prices paid by Caterpillar for its largest volume purchase from a U.S. supplier in each quarter rose by * * * . * * * . * * * . * * * .

Prices of D-8K rollers imported from Italy * * * . * * * . The overall change in prices over the period covered was a decline of * * * .

1/ Transcript of hearing, pp. 130 and 156.

2/ Ibid., pp. 46 and 47.

3/ Price information was sought from importers identified in the petition and in the Customs' net import file.

4/ Caterpillar has purchased D-9H links from U.S. producers and from Italy since at least January-March 1981. The most complete series of prices provided by Caterpillar were for this specification, and these are the prices that will generally be discussed here.

Table 10.--Semifinished forged links and rollers: Prices paid by Caterpillar for components produced domestically and imported from Italy, and margins of underselling, by quarters, January 1981-September 1983

*	*	*	*	*	*	*

Margins of underselling for D-9H links ranged from 3.1 to 31.8 percent during the period covered. For D-8K rollers, margins of underselling by imports from Italy * * * . * * * . Caterpillar reports that U.S.-produced and Italian-produced semifinished links and rollers meet the same specification requirements, and there is no quality difference. 1/ Caterpillar also reported that there was no variation in the cost to transform the domestic and imported semifinished links or rollers into finished products. 2/

Producers' sales prices were requested for the largest shipment in each quarter from January 1981 to March 1983. Responses were received from the largest domestic suppliers of the semifinished products. These prices are only used to analyze price trends, since no comparable prices are available for imported Italian products.

Table 11 shows data on prices received by U.S. producers (f.o.b. plant) for D-9L and D-9H links. The price trend for links of U.S. producers' sales is in close agreement with the trend of Caterpillar's purchase prices, with both sales and purchase prices declining * * * .

The weighted-average sales prices reported by producers for D-8H rollers are in the range of D-8K purchase prices reported by Caterpillar; however, the range of reported prices is very wide, because producers actually reported

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1/ Transcript of hearing, p. 159.
2/ Phone conversation with Caterpillar spokesman, Oct. 21, 1983.

Table 11.--Semifinished forged links and rollers: U.S. producers' prices received for sales of specified components to crawler equipment OEM's, by quarters, January 1981-September 1983

Period	Weighted average of prices received 1/	Range of reported prices	Period-to-period percentage change in average prices
	Semifinished D-9L and D-9H size/class (or equivalent) links		
1981:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***
Oct.-Dec-----	***	***	***
1982:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***
Oct.-Dec-----	***	***	***
1983:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***
	Semifinished D-8H size/class (or equivalent) rollers		
1981:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***
Oct.-Dec-----	***	***	***
1982:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***
Oct.-Dec-----	***	***	***
1983:			
Jan.-Mar-----	***	***	***
Apr.-June----	***	***	***
July-Sept----	***	***	***

1/ Prices are averages of those reported by domestic producers for the largest shipment in each period to their largest customer, weighted by the volume of the transaction. Prices are reported f.o.b. producer's plant.

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

prices for different specifications. 1/ Nonetheless, these prices can still be analyzed for price trends if considered firm by firm. For the six producers that reported roller prices under the D-8H category, * * * . * * * . * * * .

Of the two remaining firms that provided prices over the entire period, * * *. * * * .

U.S. roller producers also reported prices for other roller specifications. Prices for D-4 rollers reported by * * * . * * * . * * * .

Exchange rates.--As discussed above, IMES quotes prices in dollars to Caterpillar for semifinished undercarriage components imported from Italy. * * * . * * * . 2/

The following tabulation, based on information from the October 1983 International Financial Statistics of the International Monetary Fund, shows quarterly indexes of the U.S. dollar cost of Italian lira during January 1980-September 1983 (1980=100):

	Nominal	Real 1/
1980:		
Jan.-Mar	103.8	102.8
Apr.-June	100.6	101.0
July-Sept	101.5	100.9
Oct.-Dec	94.5	95.4
1981:		
Jan.-Mar	85.5	87.6
Apr.-June	75.5	79.3
July-Sept	70.5	76.1
Oct.-Dec	71.6	80.3
1982:		
Jan.-Mar	67.9	78.0
Apr.-June	64.9	76.0
July-Sept	61.5	73.9
Oct.-Dec	59.7	74.1
1983:		
Jan.-Mar	61.2	77.2
Apr.-June	58.0	74.1
July-Sept	54.4	2/

1/ The real exchange rate is the nominal rate adjusted for the difference in relative inflation rates between the United States and Italy, as measured by wholesale price indexes.
2/ Not available.

1/ Caterpillar orders links and rollers by part number, rather than by the tractor type the forging is destined for. Producers reported prices for roller part numbers they believed to be for D-8H tractors. However, there was a wide variance in the roller part numbers for which producers reported prices, resulting in a wide variation in the actual prices reported.
2/ In a letter of January 1983 from IMES to Caterpillar, * * * . This indicates that exchange rate changes can directly affect the price of imported undercarriage tractor parts.

The nominal value of the lira fell by 47.7 percent from January-March 1980 to July-September 1983. This decline * * * the * * * decline in the dollar price of the specified links purchased from IMES and the * * * in the price of rollers from IMES from January-March 1981 to July-September 1983.

Lost sales

Comprehensive information was obtained from Caterpillar (the only purchaser of semifinished links and rollers from Italy) on the total volume and value of its purchases of these products from domestic and foreign producers, and the volume of its in-house production.

A Caterpillar spokesman provided a general overview of that company's purchasing policies and practices with regard to forged undercarriage components. * * * . * * * . * * * . * * * . * * * .

* * * * * * *

Caterpillar claims that domestic producers lost no sales to imports of Italian-produced links and rollers. It argues that if Caterpillar had not purchased forgings from IMES it would have produced the product in-house (for links) or sourced finished parts from overseas (for rollers), rather than have purchased from petitioners. 1/

Links.--A total of 10 allegations representing over $36 million in lost sales of semifinished links during 1980-82 were made by the petitioners. All but one of the allegations concerned sales to Caterpillar. The dollar volume of the allegations substantially exceed the total value of imports from Italy of these products in this three-year period, which was * * * . According to petitioners, this difference is due to several different companies bidding on the same job, so that the sum of lost sale allegations may be greater than the total imports of Italian links. 2/ A portion of this difference may also be the result of losing an order that included future purchases. 3/.

Figures 6 and 7 show trends in the quantity and shares of total Caterpillar consumption (including internal production) of links in 1980-83. * * * . The U.S. suppliers' share of total consumption * * * . * * * .

* * * * * * *

1/ Transcript of hearing, pp. 121 and 122.
2/ Post-hearing brief of Dow, Lohnes, & Albertson, November 30, 1983.
3/ Ibid.

Figure 6.--Links: Total quantity of consumption by Caterpillar, 1980-1983

* * * * * * *

Figure 7. Links: Share of total quantity of consumption by Caterpillar, 1980-1983

* * * * * * *

The largest single allegation by a domestic producer of a lost sale was made by * * * . Data supplied by * * * and by Caterpillar show that * * * 's sales to Caterpillar * * * . * * * . * * * . * * * .

* * * * * * *

Rollers.--Figures 8 and 9 show trends in the quantity and shares of total purchases of rollers for 1980 through 1983. Purchases from domestic producers * * * . The number of rollers imported from Italy * * * . The share of roller imports from Italy * * * . * * * .

There were 26 allegations of lost sales of semifinished rollers, all on quotations made to Caterpillar. The alleged lost sales, which totaled over $17.8 million, were made by four U.S. producers and concerned sales from 1980 to 1982. The total value of imports of Italian-produced rollers was * * * from 1980 to 1982, while Caterpillar's total purchases from U.S. producers declined by a total of * * * over the same period.

The D-8 type roller accounted for five lost sales allegations with a value of * * * . The total quantity of roller units alleged to have been lost is * * * . Italian imports of this specification * * * .

The D-6 type roller accounted for four allegations with the value of lost sales at * * * in 1981 and 1982. Quantities in the allegations were reported in terms of tons rather than roller units. As a share of Caterpillar's D-6 purchases, Italian rollers * * * .

The D-4 and D-5 type rollers accounted for 14 allegations of lost sales, valued at * * * , during 1981 to 1982. Caterpillar reported that the transfer of some finishing operations overseas will eliminate the need for Caterpillar's U.S. plants to purchase approximately * * * of semifinished rollers per year from IMES and * * * per year from * * * U.S. forge shops. 2/

Lost revenues/price suppression

The lost revenue allegations provided by U.S. producers of semifinished links and rollers related solely to sales to Caterpillar. In 1980, Caterpillar adopted a so-called target-price system for purchases of semifinished tractor components as a mechanism to cut costs. This cost-cutting measure was in response to Caterpillar's perception of a decline in its competitiveness in domestic and export markets. 1/ Caterpillar further

1/ Transcript of hearing, pp. 123 and 124.
2/ Transcript of hearing, pp. 119 and 120.

Figure 8.--Rollers: Total quantity of consumption by Caterpillar, 1980-83

* * * * * * *

Figure 9.--Rollers: Share of total quantity of consumption by Caterpillar, 1980-83

* * * * * * *

testified that "In assessing Caterpillar's target prices with its domestic suppliers of links and rollers, Caterpillar simply did not focus on or indeed even mention IMES's prices." 1/

Petitioners claim that the pressures behind Caterpillar's desire to lower prices it pays to its U.S. suppliers is irrelevant, and that Caterpillar explicitly used the existence of lower-priced forgings from IMES to put pressure on U.S. producers to lower their prices. 2/

* * * * * * *

1/ Ibid., p. 120.
2/ Ibid., p. 189.

APPENDIX A

COMMISSION'S NOTICE OF INSTITUTION OF FINAL COUNTERVAILING DUTY INVESTIGATION

[Investigation No. 701-TA-201 (Final)]

Certain Forged Undercarriage Components From Italy; Final Countervailing Duty Investigation; Hearing

AGENCY: International Trade Commission.

ACTION: Institution of final countervailing duty investigation and scheduling of a hearing to be held in connection with the investigation

EFFECTIVE DATE: September 9, 1983.

SUMMARY: As a result of an affirmative preliminary determination by the International Trade Administration, U.S. Department of Commerce that there is a reasonable basis to believe or suspect that benefits that constitute a subsidy within the meaning of section 701 of the Tariff Act of 1930 (19 U.S.C. 1671) are granted by the Government of Italy with respect to the manufacture, production, or exportation of semifinished forged links and rollers for the undercarriage of crawler-mounted machinery, [1] provided for in items 664.08, or 692.34, or 692.35 of the Tariff Schedules of the United States, the United States International Trade Commission hereby gives notice of the institution of investigation No. 701-TA-201 (Final) under section 705(b) of the act (19 U.S.C. 1671d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry is materially retarded, by reason of imports of such merchandise. Unless the investigation is extended, the Department of Commerce will make its final subsidy determination in the case on or before October 26, 1983, and the Commission will make its final injury determination by December 27, 1983 (19 CFR 207.25)

FOR FURTHER INFORMATION CONTACT: Ms. Miriam A. Bishop (202-523-0291), Office of Investigations, U.S. International Trade Commission.

SUPPLEMENTARY INFORMATION:

Background.—On June 6, 1983, the Commission determined, on the basis of the information developed during the course of its preliminary investigation, that there was a reasonable indication that an industry in the United States was materially injured by reason of allegedly subsidized imports of semifinished forged undercarriage links and rollers from Italy. The preliminary investigation was instituted in response to a petition filed on April 29, 1983, by counsel for Jemberg Forgings, Co., Lindell Drop Forge Co., Portec, Inc., Presrite Corp., Presrite of Jefferson, Inc., Walco Metal Forming Group, and Walker Forge Inc.

Participation in the investigation.—persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary of the Commission, as provided in § 201.11 of the Commission's Rules of Practice and Procedure (19 CFR 201.11), not later than 21 days after the publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairman, who shall determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Upon the expiration of the period for filing entries of appearance, the Secretary shall prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation, pursuant to §201.11(d) of the Commission's rules (19 CFR 201.11(d)). Each document filed by a party to this investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service (19 CFR 201.16(c), as amended by 47 FR 33682, Aug. 4, 1982).

Staff report.—A public version of the staff report containing preliminary findings of fact in this investigation will be placed in the public record on November 7, 1983, pursuant to § 207.21 of the Commission's Rules (19 CFR 207.21).

Hearing.—The Commission will hold a hearing in connection with this investigation beginning at 10:00 a.m. on November 22, 1983, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on November 8, 1983. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 10:00 a.m. on November 15, 1983, in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is November 17, 1983.

Testimony at the public hearing is governed by section 207.23 of the Commission's rules (19 CFR 207.23, as amended by 47 FR 33682, Aug 4, 1982). This rule requires that testimony be limited to a nonconfidential summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 (19 CFR 207.22, as amended by 47 FR 33682, Aug. 4, 1982). Posthearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24) and must be submitted not later than the close of business on November 30, 1983.

Written submissions.—As mentioned, parties to the investigation may file prehearing and posthearing briefs by the dates shown above. 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 November 30, 1983. A signed orginal and fourteen (14) true copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired shall be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of section 201.6 of the Commission's rules (19 CFR 201.6).

For further information concerning the conduct of the investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and C (19 CFR Part 207, as amended by 47 FR 33682, Aug. 4, 1982), and part 201, subparts A through E (19 CFR Part 201, as amended by 47 FR 33682, Aug. 4, 1982).

This notice is published pursuant to § 207.20 of the Commission's rules (19 CFR 207.20).

By order of the Commission.

Issued: September 9, 1983.

Kenneth R. Mason,

Secretary.

[FR Doc. 83-25058 Filed 9-13-83; 8:45 am]

BILLING CODE 7020-02-M

[1] For the purposes of this investigation, the term "semifinished" means forged articles that are not assembled, not machined to final dimensions, and not tempered, whether or not otherwise processed.

APPENDIX B

U.S. DEPARTMENT OF COMMERCE'S NOTICE OF FINAL AFFIRMATIVE COUNTERVAILING DUTY DETERMINATION

Federal Register / Vol. 48, No. 222 / Wednesday, November 16, 1983 / Notices 52111

[C-475-008]

Final Affirmative Countervailing Duty Determination; Forged Undercarriage Components from Italy

AGENCY: International Trade Administration, Commerce.

ACTION: Notice.

A-44

SUMMARY: We have determined that certain benefits which constitute

subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Italy of semifinished forged undercarriage components described in the "Scope of Investigation" section of this notice. The net subsidy is 1.37 percent *ad valorem*. The U.S. International Trade Commission will determine whether imports are materially injuring or threatening to materially injure a U.S. industry, within 45 days after publication of this notice.

EFFECTIVE DATE: November 16, 1983.

FOR FURTHER INFORMATION CONTACT: Roland L. MacDonald or Deborah A. Semb, Office of Investigations, Import Administration, International Trade Administration, 14th Street and Constitution Avenue NW., Washington, D.C. 20230, telephone (202) 377-3534.

SUPPLEMENTARY INFORMATION: Based upon our investigation, we have determined that certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to manufacturers, producers, or exporters in Italy of semifinished forged undercarriage components, as described in the "Scope of Investigation" section of this notice.

The following programs were found to confer subsidies:

- Rebates of indirect taxes.
- Pricing on forging quality steel.

We determine the net subsidy to be 1.37 percent *ad valorem*.

Case History

On April 29, 1983, we received a petition from counsel for Jernberg Forgings Co., Lindell Drop Forge Co., Portec, Inc., Presrite Corp., Presrite of Jefferson, Inc., Walco Metal Forming Group, and Walker Forge, Inc. filed on behalf of the U.S. industry producing forged undercarriage components. The petition alleged that certain benefits which constitute subsidies within the meaning of section 701 of the Act are being provided, directly or indirectly, to manufacturers, producers, or exporters in Italy of forged undercarriage components. We found the petition to contain sufficient grounds upon which to initiate a countervailing duty investigation, and on May 24, 1983, we initiated an investigation (48 FR 23288). At that time, we stated that we expected to issue a preliminary determination by July 25, 1983. We subsequently determined that the case was "extraordinarily complicated" as defined in section 703(c)(1)(B) of the Act, and postponed our preliminary determination until August 25, 1983 (48 FR 28564).

Since Italy is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. Therefore, we notified the International Trade Commission (ITC) of our initiation. On June 13, 1983, the ITC determined that there is a reasonable indication that imports of semifinished forged undercarriage links and rollers are materially injuring or threatening to materially injure U.S. industries. The ITC also determined that there is no reasonable indication that semifinished forged undercarriage segments and finished forged undercarriage links, rollers and segments are materially injuring or threatening to materially injure U.S. industries. Since Industria Meccanica e Stampaggio S.p.A. (IMES) is the only known exporter to the U.S. of semifinished forged undercarriage links and rollers, our investigation of the petition's allegations regarding Italtractor ITM S.p.A. and Berco S.p.A., the manufacturers, producers and exporters of semifinished forged undercarriage segments and finished forged undercarriage links, rollers and segments, was terminated.

We presented a questionnaire concerning the allegations in the petition to the Embassy of Italy in Washington, D.C. on June 14, 1983, and requested a response by July 14, 1983. In a letter dated July 11, 1983, the government of Italy requested a postponement of the due date of the response; we granted the Italian government a two-week extension. The government of Italy submitted a response to our questionnaire on July 28, 1983. Additional information was submitted on numerous dates.

On August 24, 1983, we preliminarily determined that the government of Italy was providing manufacturers, producers, or exporters of semifinished forged undercarriage components with certain benefits which constitute subsidies within the meaning of the countervailing duty law (48 FR 38273). The estimated net subsidy was 1.02 percent *ad valorem* and the following programs were preliminarily determined to confer subsidies:

- Rebates of indirect taxes.
- Preferential financing.

On September 12-23, 1983, we verified in Italy the questionnaire responses submitted by the government of Italy and IMES.

Our notice of preliminary determination gave interested parties an opportunity to submit written and oral views. Following the preliminary determination, both petitioners' and respondent's counsels filed briefs pertaining to this investigation. We held a public hearing on September 27, 1983, at which counsel for the petitioners, counsel for IMES, and representatives from the Italian Embassy participated.

Scope of Investigation

The products covered by this investigation are semifinished forged undercarriage links and rollers for crawler-mounted machinery (forged undercarriage components). The merchandise is currently classified under item numbers 664.08, 692.34 and 692.35 of the Tariff Schedules of the United States Annotated (TSUSA).

Industria Meccanica e Stampaggio S.p.A. (IMES) of Sumirago (Varese), Italy is the only known exporter of the forged undercarriage components which were exported to the United States. The period for which we are measuring subsidization is January 1, 1982 through April 30, 1983.

Analysis of Programs

In its response, the government of Italy provided data for the applicable period. In addition, a response was provided by IMES through the government of Italy. Based upon our analyses of the petition, the responses to our questionnaries, our verification, and oral and written comments by interested parties, we determine the following:

I. Programs Determined To Confer Subsidies

We have determined that subsidies are being provided under the programs listed below to manufacturers, producers, or exporters in Italy of forged undercarriage components.

A. *Rebates of Indirect Taxes.* The stated purpose of Italian Law 639 is to rebate customs duties and certain indirect taxes upon the export of products containing certain raw materials. The law sets forth the value of the rebate for iron and steel in lire per kilogram. Rebate values have remained unchanged since enactment of the law in 1964. Granting of the rebate is automatic provided all the proper information is supplied to and verified by the government of Italy.

Respondents did not provide the Department with information on the criteria for establishing the rebate value and on the indirect taxes which were subject to rebate. No evidence was presented by the respondents to demonstrate the requisite linkage between the amount of the rebate and the incidence of customs duties and

certain indirect taxes on various inputs of forged undercarriage components.

Since the requisite linkage was not demonstrated and since this rebate is contingent upon export performance, we determined that the rebate of indirect taxes provided to IMES under Italian Law 639 conferes an export subsidy upon the manufacturers, producers, or exporters in Italy of forged undercarriage components.

We calculated the benefit received under this program by allocating the value of the rebates earned between January 1, 1982 and April 30, 1983 over the value of IMES' 1982 and January–April 1983 exports of forged undercarriage components. On this basis, we calculated a net subsidy in the amount of 1.37 percent *ad valorem.*

B. *Pricing on Forging Quality Steel.* The petitioners alleged that the government of Italy, through two government-owned steel mills, provides forging quality steel to IMES at prices which are preferential relative to other Italian purchasers. The government of Italy did not respond to the DOC questions on the prices of steel charged to IMES and to other Italian purchasers. In the absence of such a response, we assume that steel mills owned by the government of Italy may sell forging quality steel to IMES at rates lower than those charged to others.

Assuming that such price discrimination confers a subsidy, we find a countervailable subsidy amount of zero on the facts of this case. Because the government of Italy did not provide information on steel prices, we must use the "best information available" to determine the benefit conferred upon IMES by preferential pricing of steel by the government of Italy. Information on the prices of steel was provided by IMES and by the petitioner. The steel price information provided by the petitioner was for steel bar, a finished steel product. IMES provided information on its purchases of forging quality steel from two privately owned steel mills, two government-owned steel mills and a United Kingdom steel mill. We verified these costs and used the steel prices from the two privately owned mills provided by IMES as "best information available."

IMES purchased nearly twice as much steel from private suppliers in 1982 as is did from publicly owned suppliers. The weighted average price of steel purchased from private suppliers was lower than the weighted average price of steel purchased from publicly owned suppliers. Thus, the countervailable subsidy amount IMES received from preferential prices on steel purchased from government-owned steel suppliers was zero percent *ad valorem.*

II. Programs Determined Not To Confer Subsidies

We have determined that subsidies are not being provided to manufacturers, producers, or exporters in Italy of forged undercarriage components under the programs described below.

A. *Preferential Financing.* In the preliminary determination, we found that the financing provided to IMES under Italian Law 263 conferred a domestic subsidy because we believed that these loans were limited to companies located in the Mezzagiorno or in "designated depressed areas" and that the terms of these loans were inconsistent with commercial considerations. During verification, we found that this program was generally available to all small and medium-sized companies in Italy. Italian Law 623 has not been in force since 1976.

In October 1974, IMES obtained two eight-year loans from Mediocredito Regionale Lombardo at the prevailing commercial rate of interest. Mediocredito Regionale Lombardo is a regional medium-term credit institution founded and subject to government control under Law 445. Under Law 445, financing is available at commercial rates to small and medium-sized businesses for equipment or capital from regional medium-term credit institutions. Mediocredito Regionale Lombardo is owned by public and private shareholders with no direct ownership by the government of Italy.

In February 1976, IMES received a reduction in the rate of interest under Law 623 on one of the loans obtained from Mediocredito Regionale Lombardo. The other 1974 loan IMES obtained from Mediocredito Regionale Lombardo did not receive a reduction in the rate of interest. We verified that IMES is not located in the Mezzagiorno or in a "designated depressed area" and that IMES received the interest rate reduction which was available to all small and medium-sized businesses. Both loans were repaid in 1982.

Because the interest rate reduction received by IMES under Law 623 is not limited to a specific industry, group of industries, or to companies in specific regions, we have determined that the rate reduction IMES received under Law 623 does not confer a countervailable subsidy upon the manufacturers, producers, or exporters in Italy of forged undercarriage components.

B. *Convertible Debt.* IMES issued convertible debt in 1977. This debt was converted to capital stock in November, 1982. We verified that the conversion was consistent with commercial considerations. Therefore, we have determined that the conversion of IMES's debt to capital stock did not confer a countervailable benefit.

III. Programs Determined Not To Be Used

We have determined that the programs listed below which were listed in our notice of initiation are not being used by the manufacturers, producers, or exporters in Italy of forged undercarriage components.

A. *Government Equity Infusions Inconsistent With Commercial Consideration.* We verified that IMES is a 100 percent privately owned, family operated company which has not received any government equity infusions.

B. *Regional Development Incentives.* The petition alleges that IMES receives development benefits provided by the government of Italy under the following laws or programs: Law 908 which provides subsidized loans at below market rates and on preferential terms to qualifying industrial projects in northern and central Italy; Law 614 which provides tax incentives, including a ten-year total exemption from local taxes, to certain industrial enterprises establishing or expanding in areas of northern and central Italy; and Law 902 which assists small and medium-sized businesses in northern and central Italy with selective investments, particularly for modernizing existing plants to save labor costs.

We verified that IMES has neither received any benefits from, nor participated in, any of these regional development programs.

IV. Program No Longer Used

We have determined that program listed below which was included in our notice of initiation is no longer used by the manufacturers, producers, or exporters in Italy of forged undercarriage components.

A. *Export Credit Financing.* In the preliminary determination, we stated that we would seek more complete information on the terms and conditions of the export credit financing received by IMES' American customer under Italian Law 227.

Part IV of Italian Law 227 establishes medium-term credit financing to promote the exportation of gods and services. The Istituto Centrale per il Credito and Medio Termine (Mediocredito Centrale) administers the export credit financing through "special medium and long-term credit institutions." The Minister of the

Treasury, after consulting the Interministerial Committee for Credit and Savings, establishes the requirements, terms and conditions of the export credit financing. The financing is denominated in Italian lire or any foreign currency acceptable to the Mediocredito Centrale and the special medium and long-term credit institutions.

During the period under investigation, certain shipments of forged undercarriage components were financed through a program of export credits administered by and officially supported by the government of Italy. Under this program, an export facility was made available in 1981 between one of the "special medium and long-term credit institutions" and a French commercial bank. This facility provided an "umbrella" line of credit to the French bank at a rate consistent with the terms of the OECD arrangement on export credits. The French bank could then re-lend the funds provided under the umbrella at a rate above the OECD rate. These loans by the French bank were buyers' credits tied to exports from Italy, and were subject to approval by the Italian authorities. This particular umbrella facility expired in April 1983, after which time the French bank could not make new loans under the facility.

In October, 1982, the U.S. customer entered into an agreement with the French bank, opening a line of credit for the purchase of forged undercarriage components from IMES. Shipments financed under this line of credit are identifiable by invoice, and all invoices against which this line was used were issued by IMES from October 7 to November 9, 1982. All shipments financed under this program were entered for consumption before the suspension of liquidation. After that time, but prior to the initiation of this investigation, the U.S. customer informed the French bank that there would be no further purchases using this line of credit and, therefore, the French bank was released from its commitment for the remainder of the line. Accordingly, the French bank terminated the agreement with respect to the unused portion of the line of credit, and no further purchases by the U.S. customer from IMES were financed through this program.

Because this line of credit is no longer available to support sales by IMES to the U.S. customer and no shipments of the forged undercarriage components subject to the suspension of liquidation were financed under this program, we conclude that loans under this program are no longer available in support of IMES and that subsidies, if any, which may have been conferred on prior entries are beyond the reach of this proceeding. However, because of the possibility that a new facility may be opened, and official lending in support of exports by IMES could be resumed, we intend to reexamine these oficial export credits in the course of the annual review conducted pursuant to section 751 of the Act should a countervailing duty order be issued in this proceeding.

Petitioner's Comments

Comment 1

In calculating the amount of the benefit conferred by the rebate of indirect taxes, Commerce should use either the statutory lire per kilogram value of the rebate as it has done in the past or, in the alternative, the amount of such rebate earned by IMES during the review period.

DOC Position

We verified that although the statutory lire per kilogram rebate value was 30 lire per kilogram, the rebate value fluctuated based upon yearly appropriations for the program by the Italian Goverment. Therefore, we calculated the amount of benefit conferred upon IMES by Law 639 on an *ad valorem* basis.

We agree that the calculations to determine the benefits conferred on IMES by Law 639 should be based on the amount of such rebate earned by IMES during the review period. Accordingly, we recalculated the benefit conferred by the rebate of indirect taxes on the basis of the amount of the rebate earned by IMES during the review period.

Comment 2

Commerce must determine whether IMES benefits from preferential prices and terms from its steel suppliers vis-a-vis their other customers.

DOC Position

We requested information from the government of Italy on its steel prices to customers other than IMES. This information was not provided; therefore, we determined that the government of Italy provided steel to IMES at preferential prices relative to their other customers. *See* the section of this notice titled "Programs Determined to Confer Subsidies".

Comment 3

In its preliminary determination, Commerce did not address the petitioners' central allegation of preferential steel pricing. Commerce mistakenly applied its upstream subsidization methodology.

DOC Position

Since the Government of Italy (GOI) did not respond to our questions on the prices of steel charged to IMES and to other Italian purchasers, we must assume that the government is selling to IMES at preferential rates. However, as described in section I.B, using "best information available" (information provided by IMES), we determined that there was no countervailable subsidy amount.

Comment 4

At the inducement of the GOI, privately owned steel mills also sell to IMES at preferential prices. This inducement is as much a subsidy as implementing the policy through government-owned steel mills.

The Act equally enjoins IMES's privately owned steel suppliers, as well as government owned steel suppliers, from subsidizing IMES's manufacture and exportation of forged undercarriage components.

DOC Position

We found no evidence of preferential pricing.

Comment 5

Because the GOI refused to supply data requested in the questionnaire, Commerce must use the European community official prices (Davignon prices) or the information on steel prices provided by the petitioners as "best information otherwise available".

DOC Position

Italian steel is generally sold at discounts from the Davignon prices.

The information on steel prices provided by the petitioners is for hot-rolled steel bar, a finished steel product. We verified that the steel product that IMES uses to manufacture forged undercarriage components is steel billet, a semifinished steel product. We also verified the prices that IMES paid for steel billet. Because hot-rolled steel bar and steel billet are two distinct steel products, the finished product generally costlier than the semifinished product, we used the "best information available in making our final determination, pursuant to section 776(a) of the Act. The best information available is the verified information furnished by IMES rather than the information provided by the petitioners.

Comment 6

Failure by Commerce to countervail preferential steel prices and terms received by IMES would lead to wholesale circumvention of the U.S.-E.C. steel agreement. Italian steel mills can easily circumvent the Agreement by selling steel at preferential prices and terms to IMES (and other steel fabricators) who would then forge the steel into products for subsequent sale in the U.S. at low prices. The Italian steel industry, therefore, would be exporting, through IMES, its overcapacity and high unemployment to the United States.

DOC Position

As noted in our response to petitioner's comment 5 above, we verified that the steel that IMES uses to manufacture forged undercarriage components is steel billet, a semifinished steel product. Steel billet is not a licensed product under the United States-European Community steel arrangement. Sales in the U.S. of forged undercarriage components manufactured from a steel product not licensed under by the U.S.-E.C. steel agreement would not circumvent that Arrangement.

Comment 7

Commerce should find that the preferential export credit financing provided to IMES's American customer confers a countervailable benefit. If the exportation of products benefits from preferential financing, then the products are being subsidized. It is irrelevant whether the product is being subsidized directly or indirectly.

DOC Position

We determined that the export credit financing provided to IMES American customer is no longer being used. *See* the section of this notice titled "Program No Longer Used."

Comment 8

The countervailing duty law does not exempt from its provisions preferential export credit financing that complies with the requirements of the OECD Arrangement.

DOC Position

See DOC position on Petitioners' Comment 7 above. We did not reach this issue because we found that the financing concerned is no longer being used.

Comment 9

Commerce should calculate the *ad valorem* amount of the subsidy conferred by IMES's preferential export credit financing by using as its commercial benchmark a comparable dollar-denominated loan that IMES could have secured in the Italian commercial market, without regard to the credit experience of IMES's American customer or the availability of dollar financing outside of Italy.

DOC Position

See the section of this notice titled "Program No Longer Used."

Respondent's Comments

Comment 1

The rebates of indirect taxes that IMES receives under Law 639 should not be found countervailable.

DOC Position

We have determined that the rebates of indirect taxes IMES receives under Law 639 are an export subsidy conferred upon IMES by the government of Italy. *See* the section of this notice "Programs Determined to Confer Subsidies" for an explanation of the DOC position.

Comment 2

If the DOC continues to treat the Law 639 program as countervailable in the final determination, the DOC should continue to use the amount of rebate actually received to calculate the benefit to IMES. The amount received during the period of investigation, rather than the amount theoretically earned, more accurately reflects the real value of the program to IMES. Further, any benefit calculation should be on an *ad valorem* basis.

DOC Comment

We calculated the *ad valorem* subsidy conferred upon IMES by Law 639 using the amount of rebate earned by IMES during the period of investigation, rather than the amount received by IMES. We verified that the earned, but unreceived, rebates are reported on IMES financial statements as assets, enabling IMES to use the rebates as collateral for borrowing purposes. Thus, IMES is able to use or draw against earned but unreceived rebates. In addition, the delay in receipt of the rebate is due to administrative delay rather than government mandate.

Comment 3

IMES received no countervailable benefits from its steel purchases. IMES has never received any discounts contingent on export performance from any steel mill, whether government or private, domestic or foreign.

DOC Position

We found no evidence that IMES received any discounts based upon export performance. IMES does have some domestic sales and we verified that the steel prices charged IMES do not vary depending on the final destination of the products. *See* DOC response to Petitioners' Comment 2 above.

Comment 4

"Petitioners' allegation with regard to preferential steel prices was limited only to government-owned steel mills in their petition. On the last day of verification, they attempted to insert a new and unsubstantiated 'private subsidy' theory into this case. . . . There is absolutely no evidence in the record to indicate that the pricing practices of the private mills are dictated or controlled by the government. Under the countervailing duty statutes and ITA precedent, so-called 'private subsidies' are not countervailable unless required by a government. Therefore, petitioners' untimely and unsubstantiated allegation must be rejected."

DOC Position

The petitioners first raised their allegation of private subsidization in a letter prior to verification. We do not consider the allegation to have been "untimely."

Comment 5

The alleged "circumvention" of the U.S.-E.C. steel agreement by exportation to the U.S. of forged undercarriage components manufactured by IMES is a non-issue. The U.S.-E.C. Arrangement covered Italian hot-rolled sheet and strip and cold-rolled sheet and strip; the type of steel used by IMES to make forged undercarriage components (steel billet) is not covered by the Arrangement. Since the type of steel used by IMES was not at issue in the Italian steel cases, it is difficult to see why Italian steel producers would be "motivated" to circumvent the agreement that settled those cases.

DOC Position

We verified that the type of steel IMES uses to manufacture forged undercarriage components is steel billet which is not a product licensed under the U.S.-E.C. steel arrangement. Therefore, this investigation does not involve the circumvention of the U.S.-E.C. steel arrangement.

Comment 6

The pricing practices of the private steel mills would not be countervailable

even if preferential prices were provided. Any private domestic subsidy or export subsidy must be required by a government to be countervailable. There is no evidence in the record to indicate that the prices charged by the private steel companies are required, controlled, directed or influenced by the Italian government.

DOC Position

We found no evidence in the record or during verification, to indicate that the prices charged by the private steel companies are required, controlled, directed or influenced by the government of Italy.

Comment 7

IMES vigorously disputes the preliminary determination that the interest rate reduction it received under Law 623 is countervailable. The Law 623 interest rate reduction was generally available and, therefore, is not countervailable.

DOC Position

We verified that the interest rate reduction IMES received under Law 623 was generally available to all small and medium-sized companies. Accordingly, we determined that Law 623 did not confer a countervailable benefit on IMES.

Comment 8

The export credit financing recieved by IMES' American customer under Italian Law 227 is not countervailable because IMES was not the recipient of the loan. The financing arrangement benefitted the American customer, not IMES.

DOC Position

We did not reach this issue since we found that the financing concerned is no longer being used. *See* the section of the notice titled "Program No Longer Used."

Comment 9

Financing arrangements permitted by the OECD Arrangement are not countervailable. The U.S. participates in both the OECD Arrangement and GATT, which provide for the granting of export financing by its participants subject to certain restraints. The financing arrangement at issue in the present case was in conformity with the provisions of the OECD Arrangement, which thus brings the export credit practice outside the statutory definition of subsidy.

DOC Position

See our position on Comment 8 above.

Comment 10

If the DOC finds the export credit financing provided to IMES' American customer to be countervailable in spite of its accordance with the OECD Arrangement, the applicable benchmark should not be IMES' borrowing rate. The loan was granted to IMES' American customer, not IMES. Therefore, the more appropriate benchmark would be the U.S. prime rate or the London Interbank Offered Rate (LIBOR).

DOC Position

See our position on Comment 8 above.

Final Determination

Based on our investigation and in accordance with section 705(a)(1) of the Act, we reached a final determination that manufacturers, producers, or exporters in Italy of semifinished forged undercarriage components are being provided certain benefits which constitute subsidies within the meaning of the countervailing duty law.

Continuation of Suspension of Liquidation

We are directing U.S. Customs to continue to suspend liquidation of all entries of semifinished forged undercarriage components from Italy subject to this investigation which 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 continue to require a cash deposit, the posting of a bond or other security equal to 1.37 *ad valorem* for each entry of the subject merchandise. The bond or cash deposit requirements established in our preliminary determinations of August 30, 1983, are no longer in effect.

ITC Notification

In accordance with section 705(c)(1)(A) of the Act, we will notify the ITC of our determination. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration. If the ITC determines that material injury or threat of material injury does not exist, this proceeding will be terminated and all securities posted as a result of the suspension of liquidation will be refunded or cancelled. If the ITC determines that such injury does exist, we will issue a countervailing duty order directing Customs officials to assess a countervailing duty on semifinished forged undercarriage components from Italy entered, or withdrawn from warehouse, for consumption after the suspension of liquidation equal to 1.37 percent *ad valorem*. This determination is published pursuant to section 705(d) of the Act.

William T. Archey,

Acting Assistant Secretary for Trade Administration.

November 7, 1983.

[FR Doc. 83-30878 Filed 11-15-83; 8:45 am]

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APPENDIX C

CALENDAR OF THE PUBLIC HEARING

CALENDAR OF THE PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Certain Forged Undercarriage Components from Italy

Inv. No. : 701-TA-201 (Final)

Date and time: November 22, 1983 - 10:00 a.m.

Sessions were held in connection with the investigation in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

In support of the imposition of countervailing duties:

Dow, Lohnes & Albertson
Washington, D.C.
McIntyre, Glazer, Crawford & Malitz Co., L.P.A.
Washington, D.C.
--OF COUNSEL

on behalf of

Jernberg Forgings Co.; Lindell Drop Forge Co.; Portec, In.; Presrite Corporation; Presrite of Jefferson, Inc.; Walco Metal Forming Group; and Walker Forge Inc.

Nelson Henry, Group Vice President, Walco Metal Forming Group

Robert Wolcott, Vice President, Sales and Marketing, Jernberg Forgings Co.

Thomas Werner, Unit Chairman and Chairman of the Bargaining Committee, Lindell Unit - UAW #24

B. E. Reid, United Representative, International Union, United Automobile Workers, Detroit, Michigan

- more -

AVAILABLE FOR QUESTIONS:

Donald J. Diemer, Chairman of the Board and President
Presrite Corporation

Naga Manohar, Executive Vice President and
General Manager, Presrite Corporation

Ralph Delio, President, Presrite of Jefferson, Inc.

Warren Jones, General Manager, Portec, Inc.,
Forgings Division

Dow, Lohnes & Albertson

William Silverman)
John C. Jost)--OF COUNSEL

McIntyre, Glazer, Crawford & Maltiz Co., L.P.A.

Robert W. McIntyre--OF COUNSEL

In opposition to the imposition of countervailing duties:

Howrey & Simon--Counsel
Washington, D.C.
on behalf of

Industria Meccanica e Stampaggio, S.p.A. and
IMES Trading Co., Inc.

Joseph J. Yoches, Commodity Group Manager for
Rough Materials, Central Purchasing Department,
Caterpillar Tractor Company

Raffael Cristani, Managing Director, Industria
Meccanica e Stampaggio, S.p.A.

Steven C. Hoffman, Esq., Caterpillar Tractor Company,
Peoria, Illinois

Kevin P. O'Rourke)
Catherine Shea)--OF COUNSEL

APPENDIX D

ATTACHMENT I TO CATERPILLAR'S PURCHASER'S QUESTIONNAIRE

Attachment I

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APPENDIX E

DATA ON IMPORTS OF LINKS AND ROLLERS

Table E1.--Semifinished forged links and rollers: U.S. imports, by types of components and by specified sources, 1980-82, January-September 1982, and January-September 1983

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