

PADS FOR WOODWIND INSTRUMENT KEYS FROM ITALY

**Determination of the Commission
in Investigation No. 731-TA-152
(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Note.--Information which would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Investigation No. 731-TA-152 (Final)

PADS FOR WOODWIND INSTRUMENT KEYS FROM ITALY

Determination

On the basis of the record 1/ developed in investigation no. 731-TA-152 (Final), the Commission determines, pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)), that an industry in the United States is materially injured 2/ by reason of imports of pads for woodwind instrument keys from Italy, provided for in item 726.70 of the Tariff Schedules of the United States (TSUS), which have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

Background

The Commission instituted this final investigation, effective April 25, 1984, following a preliminary determination by the Department of Commerce that imports of pads for woodwind instrument keys from Italy are being, or are likely to be, sold in the United States at LTFV. Commerce's preliminary determination was published in the Federal Register of April 25, 1984.

Notice of the institution of the Commission's 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 of May 16, 1984 (49 F.R. 20766). The hearing was held in Washington, D.C. on July 12, 1984, and all persons who requested the opportunity were

1/ The "record" is defined in section 207.2(i) of the Commission's Rules of Practice and Procedure (19 C.F.R. § 207.2(i)).

2/ Chairwoman Stern and Vice Chairman Liebelier dissenting.

permitted to appear in person or through counsel. The Commission's determination in this investigation was made in an open "Government in the Sunshine" meeting, held on August 13, 1984.

On November 7, 1983, petitions were filed with the Commission and the U.S. Department of Commerce on behalf of Prestini Musical Instruments Corp. Nogales, AZ. The petitions alleged that pads for woodwind instrument keys imported from Italy were being sold in the United States at LTFV, and were causing material injury or the threat thereof to the U.S. industry producing such articles. Accordingly, the Commission instituted investigation No. 731-TA-152 (Preliminary) to determine whether there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury, or whether the establishment of an industry was materially retarded, by reason of imports of pads for woodwind instrument keys provided for in TSUS item 726.70.

On December 21, 1983, the Commission notified the Commerce Department of its affirmative determination with respect to the preliminary investigation of imports from Italy. Notice of the Commission's preliminary determination was published in the Federal Register of December 29, 1983 (48 F.R. 57381). As a result, Commerce continued its investigation into alleged LTFV sales of pads for woodwind instrument keys from Italy. Commerce's final determination with respect to LTFV imports from Italy was published in the Federal Register of July 11, 1984 (49 F.R. 28195).

VIEWS OF COMMISSIONER ECKES, COMMISSIONER LODWICK, AND COMMISSIONER ROHR

We determine that an industry in the United States is materially injured by reason of imports of pads for woodwind instrument keys from Italy which are sold at less than fair value (LTFV). 1/

Definition of domestic industry

Section 771(4)(A) of the Act defines the term "industry" as the "domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major portion of the total domestic production of that product." 2/ Section 771(10) defines "like product," in turn, as a "product which is like, or in the absence of like, most similar in characteristics and uses with, the articles subject to an investigation." 3/

We adopt our finding in the preliminary investigation that there are two like products--leather and bladder pads. 4/ As in the preliminary investigation, we also find under section 771(4)(D) 5/ that available data do not permit the separate identification of the production of bladder and leather pads. In the final investigation, the Commission requested separate data for leather and bladder pad production. The largest domestic producer, Prestini Musical Instruments Corp., the petitioner, was not able to provide the Commission separate profitability and employment data for leather and bladder pads. 6/

1/ Retardation of establishment of an industry in the United States is not an issue in this investigation and will not be discussed further.

2/ 19 U.S.C. § 1677(4)(A).

3/ 19 U.S.C. § 1677(10).

4/ See Pads for Woodwind Instrument Keys from Italy, Inv. Nos. 701-TA-203 and 731-TA-152 (Preliminary), USITC Pub. 1466 (1983) at 3-5.

5/ 19 U.S.C. § 1677(4)(D).

6/ The Commission's staff verified this fact when Prestini's plant in Arizona was visited and the company's records were examined.

Since separate data cannot be obtained, the effect of the LTFV imports will be assessed against the narrowest group of domestically produced products which includes the like products 7/ for which the necessary information can be provided, namely, all pads for woodwind instrument keys. The domestic industry, therefore, consists of the producers of all pads for woodwind instrument keys. 8/ 9/

Existence of a domestic industry

We adopt our finding in the preliminary determination that a domestic industry exists in the United States. 10/ 11/ During the final investigation, certain additional facts came to light regarding the existence of a domestic industry. These facts do not change our decision and for the most part further support the decision that a domestic industry exists in the United States. 12/

7/ 19 U.S.C. § 1677(4)(D).

8/ The domestic producers are Prestini, Ed Meyers Co., Ferrees' Band Instrument Tool and Supply Co., and Emerson Musical Instruments. The other domestic producers do not support the petition. The other domestic producers, however, represent only a small part of domestic production, and one of the domestic producers, Ferrees, is one of the largest importers of pads from Italy.

9/ For the purposes of this investigation, woodwind instruments consist of the following: saxophones, clarinets, flutes, piccolos, bassoons, oboes, and English horns.

10/ See Pads for Woodwind Instrument Keys from Italy, supra, at 5-7.

11/ Commissioner Rohr did not participate in that determination.

12/ In the final investigation, the Commission found that Prestini produced 80 percent of its leather pads, instead of 90 percent, in the U.S. A representative of Prestini also stated at the hearing that approximately 70 percent of its raw materials were of U.S. origin. At the hearing, Prestini testified that 13 percent of its total operating expenses were for its operations in Mexico. The staff found that less than one quarter of the total cost of goods sold during 1982 to 1983 was supplied by Prestini's operations in Mexico. See GC Memorandum, GC-H-233, August 7, 1984.

After considering the facts in this case, we have decided to treat the musical instrument pads assembled in Mexico as domestic products. 13/ A substantial amount of the value is added to these pads in the United States. 14/ Almost all the raw materials, except for imported bladder, are received at Prestini's Arizona plant where they are inspected, selected, sorted, and in some cases, cut. 15/ After this, the raw materials are sent across the border for further cutting and assembly in the Mexican plant. 16/ Of those raw materials, 70 percent are of United States origin. 17/ At the hearing, Prestini's representative stated that all of its felt, cardboard, glue, plastic resonators, rivets, nickel-clad plating, and ten percent of its bladder are from domestic sources. 18/ All of the tools and dies used in the Mexican operations are also made in the Arizona plant. 19/ After the pads are assembled in Mexico, they are returned to the United States for sorting, counting, packaging, quality control, final inspection, and shipping. 20/ Most of the skilled workers are located in the United States, whereas the unskilled workers are located on Mexico. 21/ There are no inventories, shipments, or exports from the Mexican plant. All of the inventories are kept in the United States, and all of the shipments and exports are made from the

13/ The staff visited the Mexican plant and after examining Prestini's records in the United States, the staff was able to obtain separate figures for production and employment at the Mexican plant.

14/ The staff could not calculate an exact figure for the value added to the pads assembled in Mexico because of such problems as the difficulty of quantifying the value added to these pads by unskilled workers in Mexico that are paid Mexican wages versus the value added by skilled workers in the United States that are paid U.S. wages.

15/ Hearing transcript at 10.

16/ Id.

17/ Id. at 12.

18/ Id. at 19.

19/ Id. at 41.

20/ Id. at 10.

21/ Report of the Commission ("Report") at A-19; Hearing transcript at 7, 11-12.

Arizona plant. 22/ Finally, there is no separate profitability for the Mexican plant because all of the sales are made from the United States plant where the corporate office is located. 23/ On the basis of these facts, we conclude that the pads assembled in Mexico should be considered domestic products. 24/

Condition of the domestic industry

Data obtained by the Commission during this investigation 25/ show that since 1981 the condition of the domestic pad industry has seriously deteriorated. Data on production, shipments, employment, and financial performance during this period all reflect these serious declines. 26/ Prestini was the only domestic producer to supply the Commission with capacity, capacity utilization, shipment, employment, wages, profitability, and sales figures. 27/

Between 1981 and 1983, total U.S. production of musical instrument pads for the four U.S. producers declined by 37 percent. Both bladder pad and leather pad production sustained substantial drops during this period. 28/ During 1981-83, capacity and capacity utilization of Prestini also dropped

22/ Hearing transcript at 7.

23/ Id.

24/ See Certain Radio Paging and Alerting Receiving Devices from Japan, Inv. No. 731-TA-102 (Final), USITC Pub 1410 (1983) where the Commission stated that the basic concept of domestic industry should be broadly construed.

25/ Prestini's production accounts for more than three-quarters of the U.S. industry. Since Prestini accounts for such a large part of the domestic industry, actual industry figures for production, employment, profitability, etc. are confidential and will be discussed only in general terms.

26/ Report at A-9-A-16. During January-April 1984, Prestini's production and shipments increased slightly as compared to the same period in 1983. At the same time, employment continued its steady decline in January-April 1984, as compared with the same period in 1983.

27/ Two U.S. producers, Ferrees and Emerson, provided the Commission with estimated data for their sales and employment. These data reflect the same trends as those of Prestini.

28/ Report at A-9.

significantly. 29/ Prestini's shipments of domestic pads also declined in a like manner between 1981 and 1983. Domestic shipments of both leather and bladder pads declined without interruption during the period and year-end inventories, as a share of production, increased annually. 30/

Production-related workers employed in Prestini's U.S. facilities declined annually from 1981 through 1983. In 1982, nearly half the workers employed in 1981 had lost their jobs, and the decline in employment continued dropping by an additional 25 percent during 1983. 31/ Wages for Prestini's employees also steadily declined during the period as total hours worked by production and related workers declined by nearly 60 percent.

Prestini operated profitably during 1981-82 and then experienced a substantial loss during 1983, a time in which Prestini lost a large customer for both bladder and leather pads to imports from Italy. 32/ Prestini's net sales rose from 1981-82; but the increase was much less than the increase in apparent domestic consumption. Net sales fell substantially in 1983. 33/ During the investigative period, Prestini's operating expenses increased from 1980 to 1981, but then declined from 1981 to 1983. During this same period, Prestini's gross income, after increasing from 1980 to 1981, declined steadily from 1981 to 1983. 34/ In 1980-82, Prestini had a positive cash flow, but in 1983 Prestini for the first time had a negative cash flow. 35/ Capital expenditures for buildings, machinery, and equipment declined annually during

29/ In 1983, Prestini, even with greatly reduced capacity, was operating at less than 50 percent. Id. at Table 6, A-10.

30/ Id. at Table 7, A-11, A-13.

31/ Id. at Table 9, A-13.

32/ Id. at Table 10, A-15.

33/ Id. at A-14.

34/ Id. at Table 10, A-15.

35/ Id.

1980-83. 36/ These factors indicate that rising costs were not the source of Prestini's problems.

Material injury by reason of LTFV imports from Italy

During the investigative period, the market for musical instrument pads was characterized by a decline in domestic consumption and imports from Italy held a predominant and increasing share of the U.S. market for musical instrument pads. This large volume of imports from Italy had a significant impact on Prestini's business, which is devoted in large part to the production of musical instrument pads. 37/

During 1981 to 1983, U.S. consumption of musical instrument pads declined by about 6 percent. 38/ Conversely, the volume of imports from Italy, which already held approximately three-quarters of the U.S. market for pads, increased by 4.3 percent from 1981-83. 39/ Imports of pads from Italy increased their share of the market during this period by 6.4 percentage points. At the same time, Prestini's share of the U.S. market declined by about 6.4 percentage points. 40/ Thus in a declining market, imports from Italy were able to increase their already substantial share of the U.S. market at the expense of the petitioner.

Furthermore, although the absolute volume of bladder pads declined during 1981-83, the absolute volume of leather pads steadily increased. In 1983, the volume of leather pads from Italy was almost double that in 1981. 41/

36/ Id. at Table 11, A-16.

37/ Prestini also produces reeds for woodwind instruments, but such production accounts for only a small share of total company sales. Id. at A-14.

38/ Id. at Table 4, A-8.

39/ Imports of leather pads more than doubled in January-April 1984 as compared to the same period in 1983.

40/ Report at A-24.

41/ Id. at A-21-A-22.

During January 1982 to March 1984, imported pads from Italy were consistently priced lower than the domestic products by substantial margins. 42/ During this period, clarinet, flute, and saxophone pads from Italy undersold comparable U.S.-made pads in 26 out of 27 instances during the nine quarters for which information was obtained. 43/ Prestini's ability to price its pads competitively, cover its costs, and generate funds for capital improvements was seriously affected by the low priced imported LTFV products.

The Commission was able to confirm lost sales allegations to three musical instrument manufacturers. 44/ One manufacturer increased its purchases of Italian leather and bladder pads significantly in 1982. This manufacturer, which was one of Prestini's largest customers, reported that price was the most important factor in its decision to switch to musical instrument pads from Italy. 45/ The other two manufacturers acknowledged buying Italian bladder pads in 1983 because they were lower priced. 46/

For the above reasons, we determine that an industry in the United States is materially injured by reason of LTFV imports of pads for woodwind instrument keys from Italy.

42/ Id. at A-30.

43/ Id.

44/ Id. at A-33.

45/ Memorandum No. 330 from the Office of Economics to the Commission; Report at A-33.

46/ Report at A-33.

VIEWS OF CHAIRWOMAN PAULA STERN AND
VICE CHAIRMAN LIEBELER

We find that the domestic woodwind instrument pad industry is not materially injured or threatened with material injury 1/ by reason of imports of pads from Italy for which the Department of Commerce has made a final affirmative determination of sales at less-than-fair-value (LTFV). Our determination is based primarily upon the following points: (1) imports from Italy and the ratio of import inventories to imports are declining; (2) the decline in profitability experienced by the major domestic producer in 1983 was caused in large part by its sudden price increases and a precipitous decline in its exports; (3) there is no plausible causal link between the LTFV benefit associated with the imports, and the imported products' ability to substantially undersell domestically-produced pads; and (4) Italian exporters are currently operating at full capacity and are decreasing shipments to the United States as they increase shipments to third countries.

Definition of Domestic Industry

We concur with the majority's finding that bladder and leather woodwind instrument pads ("pads") are two separate like products, but since disaggregated profitability and other data are not available on this basis, the effect of the LTFV imports must be assessed on domestic production of both products combined.

1/ Material retardation of the establishment of an industry is not an issue in this case, and shall not be discussed further.

A second major issue in this investigation is whether petitioner Prestini Musical Instruments Corp. ("Prestini") constitutes a domestic industry in light of the fact that most of its pads are assembled in Mexico. Specifically, 80 percent of its bladder pads are cut and assembled in Mexico, and 20 percent of its leather pads are assembled in Mexico. 2/ Pads assembled in Mexico are delivered to Prestini's nearby Arizona facility, where they are sorted and inspected to some degree, and shipped to end users. 3/ All of the leather and virtually all of Prestini's bladder are imported; most of its other raw materials are domestically sourced. 4/

The 80 percent of Prestini's leather pads and 20 percent of bladder pads that are both cut and assembled in the United States clearly constitute domestic production. Therefore, to this extent, Prestini's operations constitute a domestic industry. 5/ The difficult issue is whether the pads assembled in Mexico should be treated as domestic production or as imports. In Certain Radio Paging and Alerting Devices from Japan, 6/ the Commission examined the following factors : (1) whether the activities in the United States involved considerable technical expertise and capital investment; (2) whether the value added in the United States constituted a significant percentage of the product's component value and direct labor costs; and (3) whether the U.S. aspect of the production process employed a significant

2/ Tr. at 11.

3/ Id.

4/ Id. at 19 and 25.

5/ Even excluding pads assembled in Mexico, Prestini's production constitutes a significant proportion of domestic production. Therefore, Prestini's standing is not at issue.

6/ Inv. No. 731-TA-102 (Final).

number of U.S. workers. In addition, Commissioner Stern examined (1) whether the product was substantially transformed by U.S. operations; (2) the sourcing of major components, and (3) the degree of control exercised by the U.S. operations compared to that exercised by related foreign operations.

In this case, the two most relevant factors are the value added in the United States and whether the product is substantially transformed by U.S. operations. The pads assembled in Mexico are not substantially transformed by U.S. operations. 7/ The available data do not allow for a precise quantification of value added. For bladder pads, value added is limited to minor sorting and inspection operations. 8/ However, the value added for leather pads, which account for a larger proportion of net sales than bladder pads, is significant. 9/ Thus, we will assume for the sake of argument that the value added is significant enough to warrant treatment of the Mexico-assembled pads as domestically-produced products.

Factors and Conditions of Trade

The manufacture of pads for woodwind instrument keys is done either by musical instrument manufacturers for captive consumption or by a few small firms that make custom-ordered pads tailored to individual manufacturers' specifications. Petitioner Prestini and two producers in Italy, Manifattura Cuscinetti, SRL, di Dario Balsamo ("Balsamo") and Luciano Pisoni Fabbrica

7/ See General Counsel Memorandum, GC-H-223 at 9.

8/ Prestini Prehearing Brief at 2.

9/ See id. For leather pads, value added is higher than for bladder pads, because leather pads are cut in the United States.

Accesori Strument Musicali ("Pisoni") supply a large share of total world-wide demand for pads. 10/

Due to the different kinds of woodwind instruments and the differences between various manufacturers' models of instruments, pads are custom made in a large range of diverse specifications. 11/ Production runs for each specification are necessarily short. 12/ The manufacturing process, which consists virtually entirely of manual stamping and assembly, is highly labor intensive. 13/

The subject pads are marketed through three major channels of distribution: distributors, dealers (i.e., retailers) and repairman, and musical instrument manufacturers. 14/ Distributors purchase large volumes of pads from the pad producers, and resell them to instrument manufacturers, wholesalers, or dealers and repairman at marginal profits. Wholesalers and retailers resell the pads at nominal profits. Instrument manufacturers purchase the pads either directly or through distributors. Prestini, which accounts for the overwhelming proportion of domestic producers' open-market sales, sells most of its pads directly to instrument manufacturers, and none to distributors. 15/ In contrast, although some of the imported pads from Italy are sold to instrument manufacturers, most are sold to distributors.

10/ See Report at A-22, and A-9. Based upon data regarding the United States, which is by far the largest market for pads. Although the exact figures are confidential, non-captively-produced pads account for a very substantial portion of U.S. consumption.

11/ Report at A-6.

12/ Id.

13/ Id.

14/ Unless otherwise noted, the following discussion is based on Report, Table 3, and notes of discussion with industry experts by John Christ, Office of Economics.

15/ The exact figures are confidential.

Condition of the domestic industry 16/

There are four domestic producers of the subject pads. 17/ However, petitioner Prestini accounts for substantially more than half of U.S. open-market shipments. Thus our analysis necessarily focuses on the condition of this one company.

Prestini was located in Italy until 1973, when the company moved to the United States, and established production operations in Arizona and Mexico. 18/ Prestini's former employees in Italy then formed a rival company, Pisoni. Pisoni began competing with Prestini by offering its pads at prices allegedly 50 percent below Prestini's. During the 1974-77 period, Prestini lost several important U.S. accounts to its new rival. In 1977, Prestini was purchased by the La Voz Corporation, a major manufacturer of musical instrument accessories with an extensive dealer sales network. La Voz gave the operation a major infusion of capital. Under La Voz's direction, Prestini began to sell more to musical instrument manufacturers and dealers than to distributors. This shift apparently reflected a business strategy to maximize profits by selling directly to these purchasers, thereby bypassing the

16/ Since the data on the condition of the domestic industry reflects only Prestini's operations, much of it is confidential. Thus, my analysis is necessarily cast in general terms.

17/ Of the three producers other than Prestini, one makes pads almost entirely for captive consumption, and the other two are musical accessory dealers that are phasing out domestic production in favor of imports. These three firms maintain that it is impossible to compete with imported pads due to the highly-labor intensive nature of the product, and relatively high U.S. labor costs. Based upon notes of information obtained by William Perry, Office of General Counsel.

18/ Unless otherwise noted, the following discussion is based upon information contained in Prestini's Prehearing Brief at 1-5.

distributor level of the market. 19/ Also at this time, Prestini cut prices by 40 percent in order to win back some of the sales lost to Pisoni. The La Voz-inspired pricing strategy resulted in heavy financial losses. As a result, La Voz decided to discontinue operations. In March 1980, the Prestini family repurchased the company's remaining assets from La Voz.

Prestini's shipments declined steadily and sharply between 1981 and 1983. This decline is accounted for, to a significant extent, by declines in exports. 20/ As shipments declined, capacity utilization and employment in Prestini's U.S. facility also declined. 21/ Throughout the period under investigation, a major factor in Prestini's cost structure was a significant interest expense related in part to the financing of the Prestini family's repurchase of the company's assets from La Voz. 22/ Prestini's financial condition was profitable, and actually improving even in 1982, the first year

19/ In the 1977-78 period Prestini discontinued sales to distributors. Prestini claims this was because distributors were purchasing from importers as well as from Prestini. This, it claims, resulted in reduced sales volume for Prestini, yet precluded Prestini from selling direct to manufacturers. Tr. at 32. However, a major distributor disputes this, claiming that it was Prestini that abandoned the distributor market because it preferred to sell direct to the distributors' customers. In response, the distributor switched its sourcing from Prestini to the only significant alternative source—imported pads. Report at A-41. Since Prestini at this time had just been purchased by a company with an extensive retail sales network, apparently its withdrawal from the distributor market resulted from having its own retail distribution network, which made it less dependent upon the distributor market. Thus, the decision appears to have been largely voluntary. By 1978, Prestini did not sell to distributors at all.

20/ Exports declined by half between 1981 and 1982, and by an additional 85 percent between 1982 and 1983. See discussion *infra* at 17, n. 12 and 18.

21/ Report, Tables 8-9.

22/ Report at A-19.

in which shipments declined. 23/ However, in 1983, Prestini experienced a significant drop in net sales, and significant net losses before taxes. 24/

No material injury by reason of LTFV imports from Italy

Imports from Italy increased between 1981 and 1982, then decreased in 1983 to slightly above 1981 levels. 25/

Imports from Italy increased their market share by 8 percentage points in 1982 over 1981, but declined by 2 percentage points in 1983. 26/ In 1983, imports of higher-value leather pads followed a trend different from that for bladder pads in 1983. Whereas imports of bladder pads declined sharply between 1982 and 1983, imports of leather pads increased sharply in 1983, and increased again in 1984. 27/ This is apparently attributable to a relatively large increase in the price of leather pads instituted by Prestini in mid-1982. 28/ Nevertheless, the decline in imported bladder pads was so precipitous that it more than offset the increase in imported leather pads. Thus, the aggregate volume of imported leather and bladder pads declined sharply in 1983, and again in January-April 1984 compared to the corresponding period of 1983. 29/

23/ Report, Table 10.

24/ Report, at Table 10.

25/ Id.

26/ Report, at Table 13.

27/ Id., Table 14.

28/ Id. at A33.

29/ Report, Table 13. In terms of value, leather pads contribute more to overall net sales than do bladder pads. However, as discussed in the causality analysis infra, it was not simply the decline in domestic sales of leather pads that explains Prestini's losses in 1983. Prestini's exports of leather pads also fell dramatically during this period. Exports of leather pads fell by half between 1981 and 1982, and by an additional 85 percent between 1982 and 1983. Based upon export data for leather and bladder pads contained in Prestini's questionnaire response. (The exact figures are confidential.)

Inventories of imports from Italy followed a trend very similar to that of imports. In addition, the ratio of inventories to imports declined steadily. In 1983, the ratio was almost half that in 1981. 30/

Price effects of imports

Prices in the instrument manufacturer market indicate that imports from Italy consistently undersold Prestini's pads by large margins during the period under investigation. In addition, some purchasers have confirmed that at these price differentials, the price of the imported pads was a factor in their decision to purchase these pads in lieu of Prestini's.

In 1982, Prestini effectuated price increases for both bladder and leather pads. The increase for leather pads was significant, and greater than that for bladder pads. The prices of imports did not increase. Thus, the effect of Prestini's price increases is reflected in even larger margins by which the imports undersold Prestini's pads.

After careful examination of all of the evidence on the record, we find that the dumping of imports from Italy has not contributed to the financial problems currently experienced by Prestini or to any declines in U.S. employment. First, much of Prestini's declining shipments and net sales in 1983 is attributable to a very substantial drop in exports. Prestini itself acknowledges that because of the strength of the U.S. dollar, its export sales have shrunk dramatically. 31/ Notably, exports of the higher-value leather pads fell by more than half between 1981 and 1982, and by an additional 85 percent between 1982 and 1983. 32/

30/ Report at A-20.

31/ Prestini Prehearing Brief at 5.

32/ See n. 29 supra.

Second, the 1983 decline in net sales also reflects Prestini's own business decision in 1982 to increase prices. These price increases resulted in a substantial increase in net sales in 1982, despite a decline in shipment volume. ^{33/} They also allowed Prestini to make a net profit well above the break-even point in 1982. ^{34/} However, in 1983, these price increases no longer were able to offset continuing declines in shipments. Thus, the financial data indicate that Prestini's 1982 price increases were in part a voluntary, strategic business decision rather than one required by increasing costs alone. The strategy has apparently backfired. Although significant underselling exists, the data in this case do not support the argument that imports attempted to gain market share by lowering prices below those of the domestic product. Rather, in this market, which is dominated by a single domestic producer, increases in imports reflect the decision of certain major purchasers to source from other producers in order to have leverage for resisting price increases. ^{35/}

Third, direct competition between Prestini's products and imports from Italy is limited. Prestini's products are sold only in the instrument-manufacturer and "dealer and retail" submarkets. In contrast, imports are concentrated in the distributor submarket. ^{36/} Prestini apparently abandoned or lost this submarket in 1977-78 as a result of its business decision to by-pass this level of distribution.

^{33/} See Report, supra Tables 10 and 7.

^{34/} Report, Table 10.

^{35/} Several major purchasers buy both Prestini and imported pads even though Prestini's are higher priced. See Report at A-41-44 and Memorandum from Office of Economics No. 320 (Aug. 13, 1983). Obviously, these purchasers are employing a dual sourcing policy presumably in order to assure availability of supply and to use as leverage in price negotiations.

^{36/} See Report, Table 3, and Table 13 (Ferree).

Fourth, several purchasers cited the lesser quality of the domestic product as a reason for switching to imports. 37/

Finally, there is absolutely no evidence attributing the alleged injury by reason of these imports to the fact that they have been found to be sold at less-than-fair-value. 38/ Plain common sense tells you that the amount of the dumping margin relative to the amounts by which the imports undersell Prestini's products is obviously insignificant. Specifically, the weighted average dumping margin found by the Department of Commerce is 1.09 percent. 39/ The imports generally undersell the domestic product by margins of 20 to 39 percent. 40/ Thus, the effect of the unfair trade practice on the pricing or market behavior of imports is negligible or nil. It is certain that had the LTFV margins been zero, Prestini's performance would have been identical. Imposition of negligible antidumping duties will not result in any improvement.

The evidence in the record supports a finding that there is no causal connection between the dumping and the price of the imports. It also contains

37/ Report at A- 42-46 and Memorandum from Office of Economics No. 320 (Aug. 13, 1983).

38/ Vice Chairman Liebler does not join in this comparison of the margin of underselling with the dumping margin.

39/ The exporters have individual LTFV margins in this range as well. Moreover, there is no evidence that any specific sales of pads benefitted in any way beyond that which the infinitesimal amount of the weighted average margin would indicate.

40/ The specific margins of underselling are confidential. The margins of underselling based on prices reported by purchasers (Table 19) are in some quarters significantly lower than those based on prices reported by Prestini and importers (Tables 17 and 18). However, this data is based upon responses substantially less complete than those reflected in Tables 17 and 18. Moreover, even the purchasers' pricing data indicates that in all but the first two quarters of 1982, the margins of underselling were several times that of the LTFV margin.

compelling affirmative evidence that Prestini's problems are not related to the LTFV nature of the imports. 41/ Prestini itself admits that it suffers a 50-60 percent cost disadvantage compared to the subject imports. 42/ This is particularly remarkable because Prestini's Mexican operations have allowed it to enjoy competitive labor costs. In addition, Prestini and at least one of the major Italian exporters source most of their bladder from the same supplier. 43/

Prestini maintains that the Italian product must be obtaining subsidies that allow them to price below Prestini's cost of production. However, the Department of Commerce ("Commerce") has made a negative finding on this issue. 44/ Furthermore, Commerce has found that these producers are not selling below their cost-of-production, but are in fact profitable. Thus it appears that Prestini's overall cost structure is simply much greater than that of the Italian producers.

No Threat of Material Injury

Given the apparent cost advantages of the imports from Italy, the relevant question in this case is not whether imports threaten material injury, but why haven't imports acquired the entire U.S. market?

41/ Congress has cautioned the Commission not to weigh causes of injury in making our ultimate finding. However, it also indicated that we are not to ignore other causes of injury. See H. Rep. No. 317, 96th Cong., 1st Sess. at 47 (1979).

42/ Tr. at 34.

43/ Tr. at 49. The cost of leather and bladder are by far the largest individual raw material cost items. Labor costs are also very significant.

44/ Report at A-3. Commerce found that the total net subsidy was de minimis.

The answer is that Italian exporters are currently operating at full capacity, 45/ and are apparently not interested in expanding operations. 46/ Currently, the two Italian producers together could not satisfy U.S. demand. 47/ In addition, production in Italy has declined significantly during the period. 48/ Furthermore, because of the exchange rate advantage, a growing percentage of Italy's exports of pads are being sent to countries other than the United States, and an increasingly smaller proportion is directed at the U.S. market.

In sum, we find that Prestini's problems are not even plausibly related to the subject LTFV sales of imports from Italy. Rather, Prestini's fundamental cost disadvantage, its strategic decision to raise prices suddenly and substantially in 1982, and a substantial decline in its export shipments more than explains Prestini's current financial problems. Nor is there evidence indicating that imports from Italy pose a threat of material injury.

45/ Report, Table 12.

46/ According to a major importer, the pad business in Italy is basically a low-paying cottage industry that employs many elderly people and has trouble attracting new employees. Also, demand for pads is falling as demand for musical instruments falls. See Tr. at 82.

47/ See Report, Table 12.

48/ Id.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On April 25, 1984, the U.S. Department of Commerce published in the Federal Register (49 F.R. 17791) its preliminary determination that there is a reasonable basis to believe or suspect that pads for woodwind instrument keys from Italy are being sold, or are likely to be sold, in the United States at less than fair value (LTFV). 1/ Accordingly, effective April 25, 1984, the U.S. International Trade Commission instituted investigation No. 731-TA-152 (Final) to determine whether 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 from Italy of pads for woodwind instrument keys provided for in item 726.70 of the Tariff Schedules of the United States (TSUS) which the Commerce Department had preliminarily determined are being, or are likely to be, sold in the United States at LTFV within the meaning of section 731 of the Tariff Act of 1930 (19 U.S.C. § 1673).

Notice of the institution of the Commission's final 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, and by publishing the notice in the Federal Register of May 16, 1984 (49 F.R. 20766). 2/ The hearing was held in Washington, D.C. on July 12, 1984. 3/ On July 11, 1984, Commerce published in the Federal Register (49 F.R. 28195) its affirmative final determination with respect to LTFV sales of pads for woodwind instrument keys from Italy. The statutory deadline for reporting the Commission's final injury determination to the Department of Commerce is August 23, 1984. The Commission's briefing and vote on this investigation were held in a public "Government in the Sunshine" meeting on August 13, 1984.

Background

On November 7, 1983, petitions were filed with the U.S. International Trade Commission and the U.S. Department of Commerce on behalf of Prestini Musical Instruments Corp., Nogales, AZ. The petitions alleged that pads for woodwind instrument keys imported from Italy were being sold in the United States at LTFV and were causing material injury or the threat thereof to the U.S. industry producing such articles. Accordingly, the Commission instituted investigation No. 731-TA-152 (Preliminary) to determine whether there was a reasonable indication that an industry in the United States was materially injured, or was threatened with material injury, or whether the establishment of an industry in the United States was materially retarded, by reason of imports of pads for woodwind instrument keys which were allegedly sold in the United States at LTFV. As a result of its preliminary investigation, the

1/ Copies of Commerce's preliminary and final determinations, as published in the Federal Register, are presented in app. A.

2/ A copy of the Commission's Federal Register notice of its institution of this final antidumping investigation is presented in app. B.

3/ A calendar of witnesses who appeared at the public hearing is presented in app. C.

Commission, on December 21, 1983, notified the Department of Commerce that there was a reasonable indication that an industry in the United States was materially injured by reason of the alleged LTFV imports from Italy. 1/ Consequently, Commerce continued its investigation into the nature and extent of the alleged LTFV sales.

Other Recent Investigations of the Subject Articles

The petitions filed with the U.S. International Trade Commission and the U.S. Department of Commerce on November 7, 1983, on behalf of Prestini Musical Instruments Corp., also alleged that pads for woodwind instrument keys are subsidized by the Government of Italy. Accordingly, the Commission instituted investigation no. 701-TA-203 (Preliminary) under section 703(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a)). 2/ The purpose of that investigation was to determine whether there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury, or the establishment of an industry was materially retarded, by reason of imports of pads for woodwind instrument keys which were allegedly subsidized by the Government of Italy. As a result of its preliminary investigation, the Commission, on December 21, 1983, notified Commerce that there was a reasonable indication of material injury, 3/ and Commerce continued its investigation into the nature and extent of the alleged subsidies.

On January 31, 1984, Commerce made a negative preliminary countervailing duty determination 4/ with respect to the subject merchandise, and on April 25, 1984, Commerce published in the Federal Register (49 F.R. 17793) its final determination that the total net subsidy on pads for woodwind instrument keys from Italy was 0.05 percent ad valorem. Commerce considered this ad valorem subsidy as de minimis and made a negative final determination.

Nature and Extent of Sales at LTFV

The Department of Commerce, in order to determine whether U.S. sales of pads for woodwind instrument keys from Italy were made at LTFV, compared the United States price with the foreign-market value. Where a manufacturer/exporter did not have sufficient home-market or third-country sales, Commerce compared the U.S. price with constructed value. As a result of its investigation, Commerce found that the two companies that exported to the

1/ Chairwoman Stern determined that there was a reasonable indication that a domestic industry was materially injured or threatened with material injury. Vice Chairman Liebler and Commissioner Rohr were not members of the Commission at that time.

2/ The Commission conducted both the preliminary antidumping and the preliminary countervailing duty investigations concurrently.

3/ Chairwoman Stern determined that there was a reasonable indication that a domestic industry was materially injured or threatened with material injury. Vice Chairman Liebler and Commissioner Rohr were not members of the Commission at that time.

4/ Since Commerce's preliminary determination was negative, the Commission did not institute a final countervailing duty investigation.

United States, Manifattura Cuscinetti, SRL, di Dario Balsamo (Balsamo) 1/ and Luciano Pisoni Fabbrica Accessori Strumenti Musicali (Pisoni), sold pads for woodwind instrument keys in the United States at LTFV. Commerce, therefore, directed the U.S. Customs Service to suspend liquidation of the subject merchandise entered, or withdrawn from warehouse, on or after April 25, 1984.

Commerce's investigation covered the 6-month period, June 1, 1983, through November 30, 1983. Commerce found that the foreign-market value exceeded the U.S. price in 16.2 percent of the sales compared, with an overall weighted-average margin of 1.09 percent. For Pisoni, margins ranged from 0.4 to 31.0 percent, with an overall weighted-average margin on all sales compared of 1.16 percent. For Balsamo, margins ranged from 0.2 to 37.0 percent, with an overall weighted-average margin of 1.03 percent. Table 1 presents a summary of all transactions compared by the Department of Commerce in making its LTFV determination.

Description and Uses

Pads for woodwind instrument keys consist of a thin, felt disc backed with cardboard or paper and covered with a fine layer of gut (bladder) or leather. 2/ Pads consisting entirely of cork or of synthetic material such as plastic may sometimes be substituted for the bladder or leather pads, but use of the cork pads or pads of synthetic material on woodwind instruments is limited. 3/ Pads are glued inside the pad cups on the inner side of the woodwind instrument keys, forming a firm, air-tight closure over the tone holes of the instrument. As the keys are pressed and released, the tone holes are uncovered and covered, which shortens or lengthens the vibrating air column within the instrument and causes relatively high or low tones.

Because of the diverse specifications for pads due to the different kinds of woodwind instruments, 4/ the differences in the specific models manufactured by each of the woodwind instrument producers, and the rather limited production runs of each size and type of pad produced, the manufacturing process for pads is highly labor intensive. 5/ Due to the nature of the pad's principal function as an air-tight seal, tolerances for diameter and thickness are close. A deviation of as little as 0.2 mm could

1/ Referred to in Commerce's notices as "Pads Manufacture."

2/ The gut is usually lamb or cow bladder; leather is either lambskin or goatskin.

3/ Transcript of the conference, p. 49.

4/ For the purposes of this investigation, woodwind instruments consist of the following: Saxophones, clarinets, flutes, piccolos, bassoons, oboes, and English horns.

5/ The largest production run on any particular type of pad reportedly is small--approximately 2,000 pieces--and U.S. producers state that, as a result, automation is not cost effective.

... for woodwind instrument keys: Summary of data on U.S. imports from Italy used by the Department of Commerce in making its final LTPV determination, June 1, 1983-Nov. 30, 1983

	Total U.S. market sales	U.S. market sales compared by Commerce	Sales at fair value	Sales at LTPV	Ratio of compared sales to total sales	Ratio of sales at fair value to compared sales	Ratio of LTPV sales to compared sales	Range of LTPV margins	Weighted- average LTPV margins
							Percent		
Pisoni-----	***	***	***	***	***	***	***	0.4-31.0	1.16
Balsamo-----	***	***	***	***	***	***	***	.2-37.0	1.03
Total or average-----	***	***	***	***	***	83.8	16.2	.2-37.0	1.09

Source: Compiled from confidential worksheets of the U.S. Department of Commerce.

render the pad ineffective. 1/ Pads are differentiated for use by altering the softness or hardness of the felt and by the thickness of the cover. Softer pads are usually made of woven felt, whereas harder pads are usually made of pressed felt. The softer pads, which yield greater response in playing, aid students whose fingerings may be imprecise. The harder pads are normally used by professional musicians.

In the manufacturing process, pad covers are stamped out mainly with hand dies, 2/ although sometimes a small hydraulic press is used. Felt discs and cardboard backs are manufactured in the same manner. Pads are assembled by hand using a revolving mold, a metal cylinder with an open center of specific depth and diameter. The cover material is centered over the opening and the felt disc is pressed into the opening on top of the cover, leaving the edges of the cover material protruding from the opening. The card backing is then centered over the felt. A small amount of glue is applied to the back of the card. The assembler then revolves the mold between the thumb and fingers of one hand while using a small, picklike tool to fold the protruding edges of the cover material over the card backing. After all the edges have been secured, the pick is used to pluck the finished pad from the mold. Pads that require resonators, which are metal or plastic discs normally limited to use on saxophones, are drilled through the center and the resonator is positioned and fastened. Metal resonators are used when a brighter tone is desired, whereas plastic resonators yield a more mellow sound.

Pads are purchased in bulk or in sets principally by woodwind instrument producers, but also by instrument technicians and repairers. Replacement of worn pads is usually performed by trained repairers and requires disassembly of the key mechanism of the instrument, and then reassembly after replacement of the pads. When ordering pads, the purchaser specifies the kind of woodwind instrument, the type of material desired (either leather or bladder), the thickness of the cover (either single or double), the thickness of the felt, and whether the felt is to be woven or pressed. Purchasers also specify any special instructions such as the type of edges (whether beveled or straight) and, if the pads require resonators, whether metal or plastic resonators are desired.

U.S. Tariff Treatment

Imported pads for woodwind instrument keys are classified under Tariff Schedules of the United States (TSUS) item 726.70, parts of woodwind instruments other than bagpipes. Other parts classified under item 726.70 include reeds, mouthpieces, and key assemblies. Table 2 shows the 1984 rates

1/ The quality of the pad is extremely important to the producers of woodwind instruments. Although the pads represent only 1 to 1.5 percent of the value of the finished instrument, poor-quality pads have an inordinate affect on the production process. Downtime occurs when production lines must be stopped to allow the replacement of pads that had been installed earlier in the manufacturing process.

2/ Pad manufacturers maintain an inventory of dies for the pads of specific models of instruments produced by the woodwind instrument manufacturers that they supply.

Table 2.--Parts of woodwind instruments other than bagpipes:
Current U.S. rates of duty

(Percent ad valorem)					
TSUS item No.	Description	Col. 1	LDDC	Col. 2	
726.70	Parts of woodwind instruments other than bagpipes.	5.9	4.9	40.0	

of duty applicable to imports of parts of woodwind instruments other than bagpipes.

The rate of duty in column 1 is the most-favored-nation (MFN) rate, and is applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUS, 1/ for which the column 2 rate applies. However, such rates do not apply to products of developing countries which are granted duty-free tariff treatment under the Generalized System of Preferences (GSP) 2/ or preferential tariff treatment under the least developed developing countries (LDDC) column.

U.S. Producers

During 1981-83, four firms manufactured pads of leather or bladder for woodwind instrument keys in the United States. Locations of the manufacturers and their U.S. production in 1983 are presented in the following tabulation:

<u>Firm</u>	<u>Location</u>	<u>Production</u> (1,000 pads)
Prestini Musical Instruments Corp. (Prestini).	Nogales, AZ.	<u>1/</u> ***
Ferree's Band Instrument Tool & Supply (Ferree's).	Battle Creek, MI.	<u>2/</u> ***
Ed Meyers Co. (Meyers)	Omaha, NE.	***
Emerson Musical Instruments (Emerson).	Elkhart, IN.	<u>3/</u> ***

1/ Excludes pads assembled in Mexico. Pads assembled in Mexico by Prestini amounted to * * * in 1983.

2/ * * *.

3/ * * *.

1/ Communist countries currently eligible for MFN treatment are the People's Republic of China, Hungary, Romania, and Yugoslavia.

2/ Prestini Musical Instruments Corp., the petitioner for this investigation, imports pads that it assembles in Mexico duty free under the GSP. Transcript of hearing, p. 48.

U.S. Importers

Four firms, Enzo Pizzi, Inc. (Pizzi), located at Woodside, NY; Yamaha Musical Products (Yamaha), located at Grand Rapids, MI; Ferree's, located at Battle Creek, MI; and Le Blanc Corp. (Le Blanc), located at Kenosha, WI; are the only U.S. importers of pads for woodwind instrument keys from Italy. Yamaha began its importation of pads from Italy in 1982 and its imports are all used in woodwind instruments the company manufactures. Prior to 1982, Yamaha purchased all of its pads from Prestini, which, according to Yamaha, were made by Prestini in Mexico. 1/ Le Blanc also used its imports exclusively in its production of woodwind instruments.

Channels of Distribution

Data were obtained from Prestini and from Pizzi, with respect to sales by channel of distribution. The bulk of the pads produced by Prestini, including those produced in Mexico, are sold to musical instrument manufacturers. Pizzi reported a decline in the share of its sales to musical instrument manufacturers and a slight increase in the share to distributors (table 3).

Table 3.--Pads for woodwind instrument keys: Percentage distribution of shipments, as reported by Prestini and by Pizzi, by channels of distribution, 1981-83

Item	1981	1982	1983
Pads sold by Prestini to <u>1/</u> --			
Musical instrument manufacturers-----	***	***	***
Dealers and repairmen-----	***	***	***
Total-----	100	100	100
Pads sold by Pizzi to <u>2/</u> --			
Musical instrument manufacturers-----	***	***	***
Distributors-----	***	***	***
Dealers and repairmen-----	***	***	***
Total-----	100	100	100

1/ Includes pads produced in the United States and also those assembled in Mexico.

2/ Imports from Italy.

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

1/ Postconference brief during the preliminary investigation on behalf of Yamaha Musical Products, p. 2.

Apparent U.S. Consumption

According to information presented at the Commission's hearing, the musical instrument business has changed over the years and is continuing to change rapidly. Both the manufacture of woodwind instruments and the production and importation of accessories, including pads, have declined, due largely to overall declines in funding for public school music programs and to the increased use of electronics in the industry. ^{1/}

Apparent U.S. consumption of pads increased from * * * in 1981 to * * * in 1982, or by 23.4 percent, before declining in 1983 to * * * or by 23.8 percent. Consumption in 1983 was down 5.9 percent from consumption in 1981 (table 4). Complete partial-year data are not available for 1983 or 1984, as not all manufacturers could provide data.

Table 4.--Pads for woodwind instrument keys: U.S. production, exports of domestic merchandise, imports for consumption, and apparent U.S. consumption, 1981-83, January-April 1983, and January-April 1984

Item	1981	1982	1983	January-April--	
				1983	1984
U.S. production-----1,000 pads--	***	***	***	***	***
U.S. exports-----do-----	***	***	***	***	***
Imports from:					
Italy-----do-----	***	***	***	***	***
Mexico ^{3/} -----do-----	***	***	***	***	***
Total-----do-----	***	***	***	***	***
Apparent U.S. consumption-----do-----	***	***	***	***	***
Ratio to consumption of imports					
from--					
Italy-----percent--	***	***	***	***	***
Mexico ^{3/} -----do-----	***	***	***	***	***
Total-----do-----	***	***	***	***	***

^{1/} * * *.

^{2/} * * *.

^{3/} * * *.

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

^{1/} Transcript of hearing, p. 66. Shipments of woodwind instruments by U.S. producers declined irregularly from an estimated 345,000 units in 1981 to an estimated 326,000 units in 1983, or by 6 percent.

Consideration of the Alleged Material Injury to an Industry
in the United States

U.S. production

In the aggregate, U.S. production of pads declined annually, from *** in 1981 to *** in 1983, or by 36.6 percent. Production of leather pads declined from *** in 1981 to *** in 1983, or by 36.3 percent, and production of bladder pads declined from *** in 1981 to *** in 1983, or by 36.8 percent. Prestini was the only producer that supplied data for the partial years. Total production of pads by Prestini increased by *** percent in January-April 1984 compared with production in January-April 1983, the result of increased production of *** which offset a small decline in the firm's production of *** (table 5).

Table 5.--Pads for woodwind instrument keys: U.S. production, by firms, and by types of materials, 1981-83, January-April 1983, and January-April 1984

(In thousands)					
Item	1981	1982	1983	January-April--	
				1983	1984
Leather:					
Prestini-----	***	***	***	***	***
Meyers-----	***	***	***	***	***
Emerson-----	***	***	***	***	***
Ferree's-----	***	***	***	***	***
Total-----	***	***	***	***	***
Bladder:					
Prestini-----	***	***	***	***	***
Meyers-----	***	***	***	***	***
Emerson-----	***	***	***	***	***
Ferree's-----	***	***	***	***	***
Total-----	***	***	***	***	***
Total:					
Prestini-----	***	***	***	***	***
Meyers-----	***	***	***	***	***
Emerson-----	***	***	***	***	***
Ferree's-----	***	***	***	***	***
Total-----	***	***	***	***	***

1/ Not available.

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

U.S. producers' capacity and capacity utilization

Prestini was the only firm that supplied data on its capacity to produce pads. Prestini's U.S. capacity declined without interruption from * * * in 1981 to * * * in 1983, or by * * * percent. Capacity utilization for Prestini's U.S. facilities ranged from * * * percent in 1982 to a low of * * * percent in 1983 (table 6).

Table 6.--Pads for woodwind instruments keys: Prestini's U.S. capacity, ^{1/} production, and capacity utilization, by types of materials, 1981-83, January-April 1983, and January-April 1984

Item	1981	1982	1983	January-April--	
				1983	1984
Capacity (1,000 pads)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Production (1,000 pads)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Capacity utilization (percent)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Average-----	***	***	***	***	***

^{1/} Does not include capacity or production in Mexico.

^{2/} Not available.

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

U.S. producers' shipments

Prestini was the only U.S. producer that provided shipment data; however, its data on shipments included pads assembled in Mexico and returned to its U.S. facility for finishing operations. Domestic shipments of pads, as reported by Prestini, declined annually, from * * * in 1981 to * * * in 1983, or by * * * percent. Shipments of leather pads in 1983 declined by * * * percent from shipments in 1981, and shipments of bladder pads declined by * * * percent.

Shipments in January-April 1984 increased to * * *, or by * * * percent, from * * * in January-April 1983. During January-April 1984, shipments of leather pads increased by * * * percent from shipments in January-April 1983, and shipments of bladder pads increased by * * * percent during the same period (table 7).

Table 7.--Pads for woodwind instruments keys: Domestic shipments ^{1/} by Prestini, by types of materials, 1981-83, January-April 1983, and January-April 1984

Type	1981	1982	1983	January-April--	
				1983	1984
Quantity (1,000 units)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Value (1,000 dollars)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Unit value (cents each)					
Pads for instrument keys of--					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Average-----	***	***	***	***	***

^{1/} Includes pads produced in Mexico.

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

U.S. producers' exports

U.S. exports of pads were reported to the Commission only by Prestini, and they include pads assembled in Mexico; exports by the other producers are believed to be nil or negligible. Exports by Prestini declined annually from * * * in 1981 to * * * in 1983, or by * * * percent (table 8). During January-April 1984, export shipments by Prestini increased by * * * percent from the level during the January-April 1983, from * * * to * * *. According to a representative of Prestini, export accounts have been reluctant to buy U.S. pads due to a very strong U.S. dollar. ^{1/} Principal markets for pads exported by Prestini in recent years were * * *.

^{1/} Transcript of hearing, p. 20.

Table 8.--Pads for woodwind instrument keys: U.S. producers' exports, by types of materials, 1981-83, January-April 1983, and January-April 1984 ^{1/}

Item	1981	1982	1983	January-April--	
				1983	1984
Quantity (1,000 units)					
Pads of:					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Value (1,000 dollars)					
Pads of:					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Total-----	***	***	***	***	***
Unit value (cents each)					
Pads of:					
Leather-----	***	***	***	***	***
Bladder-----	***	***	***	***	***
Average-----	***	***	***	***	***

^{1/} Data reported are for Prestini only and include pads assembled in Mexico; exports by the other producers are believed to be nil or negligible.

^{2/} Less than \$500.

^{3/} Calculated from unrounded figures.

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

U.S. producers' inventories

Prestini supplied inventory data for 1981-83, but included the products it produced in Mexico. ^{1/} Prestini's yearend inventories of pads declined annually from * * * in 1981 to * * * in 1983, or by * * * percent. As a share of production, yearend inventories increased annually from * * * percent in 1981 to * * * percent in 1983, as shown in the following tabulation:

^{1/} Prestini does not maintain an inventory in Mexico.

<u>Year</u>	<u>Yearend inventories 1/ (1,000 units)</u>	<u>Production 1/ (1,000 units)</u>	<u>Ratio of inventories to production 1/ (percent)</u>
1981-----	***	***	***
1982-----	***	***	***
1983-----	***	***	***

1/ Includes both Prestini's Mexican and U.S. operations.

Employment and wages

The number of production workers employed in Prestini's U.S. facilities declined annually from * * * workers in 1981 to * * * workers in 1983, 1/ or by * * * percent over the period. Total hours worked by production and related workers declined from * * * in 1981 to * * * in 1983, or by * * * percent (table 9).

Table 9.--Pads for woodwind instrument keys: Prestini's U.S. employment and wages, 1981-83, January-April 1983, and January-April 1984

Item	1981	1982	1983	January-April--	
				1983	1984
Average number of employees:					
All persons-----number--	***	***	***	***	***
Production workers 1/-----do----	***	***	***	***	***
Hours worked by production workers					
number--	***	***	***	***	***
Total wages paid to production					
workers-----	***	***	***	***	***

1/ Production and related workers producing pads for woodwind instrument keys.

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

1/ Production workers in Prestini's plant in Mexico averaged * * * workers in 1981, * * * workers in 1982, and * * * workers in 1983. During 1981-83, according to an official at Prestini, the firm's production workers in Mexico worked a 9-hour day, 5 days per week, and received an average of * * * per day (or * * * cents per hour).

Average annual hours worked by production and related workers increased slightly from * * * hours in 1981 to * * * hours in 1983, or by * * * percent. Average hourly wages for production workers increased from * * * in 1981 to * * * in 1983, or by * * * percent. The workers at Prestini's U.S. facility are not represented by a union.

Financial experience of U.S. producers

Operations on pads for woodwind instruments keys.--Prestini, the petitioner, was the only firm that supplied income-and-loss data relative to its instrument key pad operations. 1/ * * *.

The income-and-loss experience of Prestini on its operations producing pads for woodwind instrument keys is presented in table 10 for 1980-83. 2/ Net sales rose annually, from * * * to * * *, or by * * * percent, during 1980-82. Net sales dropped by * * * percent to * * * in 1983. * * *.

* * * * *

As a share of net sales, the cost of goods sold (cost of raw materials plus freight and duties) ranged between * * * percent in 1981 and * * * percent in 1980, and operating expenses ranged from * * * percent in 1980 to * * * percent in 1981.

1/ The income-and-loss data are for Prestini's consolidated instrument key pad operations, including those of Prestini de Mexico, S.A.

2/ Prestini did not supply interim income-and-loss data for 1984, as the company is in the process of computerizing its record keeping.

The income-and-loss data also include Prestini's operations producing reeds for woodwind instruments. Sales of such reeds account for a small share of Prestini's total company sales.

3/ Prestini reported by questionnaire that the firm employed an average of * * * production and related employees at its U.S. establishment operation during January-April 1984. The Commission's staff counted * * * employees working in Prestini's Mexican establishment on June 19, 1983.

Table 10.--Income and loss experience of Prestini Corp. on its operations producing instrument key pads 1/

Item	1980	1981	1982	1983
Net sales-----1,000 dollars--:	***	***	***	***
Cost of goods sold:				
Beginning inventory-----do--:	***	***	***	***
Purchases-----do--:	***	***	***	***
Freight and duties-----do--:	***	***	***	***
Ending inventory-----do--:	***	***	***	***
Total-----do--:	***	***	***	***
Gross income-----do--:	***	***	***	***
Operating expenses:				
Salaries--officers'-----do--:	***	***	***	***
Salaries--U.S. employees-----do--:	***	***	***	***
Salaries--Mexican employees-----do--:	***	***	***	***
Mexico operating expenses-----do--:	***	***	***	***
Telephone-----do--:	***	***	***	***
Office supplies-----do--:	***	***	***	***
Travel and entertainment-----do--:	***	***	***	***
Professional fees-----do--:	***	***	***	***
Interest expense-----do--:	***	***	***	***
Small supplies and equipment-----do--:	***	***	***	***
Depreciation-----do--:	***	***	***	***
Rent-----do--:	***	***	***	***
Commissions-----do--:	***	***	***	***
Equipment lease-----do--:	***	***	***	***
Automobile expense-----do--:	***	***	***	***
All other expenses-----do--:	***	***	***	***
Total-----do--:	***	***	***	***
Net income or (loss) before income taxes-----do--:	***	***	***	***
Cash flow from operations-----do--:	***	***	***	***
Ratio to net sales of:				
Gross income-----percent--:	***	***	***	***
Net income-----do--:	***	***	***	***
Cost of goods sold-----do--:	***	***	***	***
Operating expenses-----do--:	***	***	***	***

1/ Prestini's accounting year ended Dec. 31. Interim data are not available for 1984.

2/ Included in purchases.

3/ Included with salaries-employees U.S.A.

Source: Compiled from statements submitted by Prestini Corp.

Capital expenditures.--As shown in table 11, Prestini's capital expenditures for buildings, machinery, and equipment declined annually from * * * to * * * during 1980-83. Overall, the firm spent * * * for buildings or leasehold improvements during the reporting period and * * * for machinery and equipment.

Table 11.--Prestini Corp.'s capital expenditures for buildings, machinery, and equipment used in the production and marketing of instrument key pads, 1980-83

Item	1980	1981	1982	1983
Building or leasehold improve- ments-----1,000 dollars--	***	***	***	***
Machinery, equipment, and fixtures 1/-----do-----	***	***	***	***
Total-----	***	***	***	***

1/ Including dies manufactured in-house * * *.

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

Consideration of Alleged Threat of Material Injury to an Industry in the United States by LTFV Imports From Italy

Producers in Italy

The Commission requested certain data that were provided to the Department of State by the two pad producers in Italy. 1/ According to the State Department, the two producers in Italy provide as much as * * * percent of total world pad production. In 1983, Pisoni accounted for * * * percent of the production of pads in Italy and * * * percent of the exports of those products from Italy to the United States. The State Department was informed that both plants have been operating at full capacity since 1980. Both firms also reported that they had no plans for expansion in 1984.

Production and shipments of Italian pads

Production of pads in Italy for woodwind instrument keys increased from * * * in 1980 to * * * in 1982 (or by * * * percent) before dropping to * * * in 1983, 2/ a decline of * * * percent from production in 1982 and a decline of * * * percent from production in 1980.

1/ Data reported to the State Department by Balsamo were significantly understated. Invoices submitted to the Commission during this investigation * * *, show that * * * imported * * * units from Balsamo in 1981, * * * in 1982, and * * * in 1983. * * *.

2/ * * *.

In the aggregate, total domestic shipments of pads to the Italian home market and export shipments of pads produced in Italy declined irregularly from * * * in 1980 to * * * in 1983, or by * * * percent. Exports to the United States, as reported to the Department of State, declined irregularly during the period, from * * * in 1980 to * * * in 1983 (or by * * * percent); exports to other markets and home-market shipments in Italy increased irregularly from * * * in 1980 to an estimated * * * in 1983, or by * * * percent. As a share of production in Italy, exports to the United States declined from * * * percent in 1980 to * * * percent in 1981, and then increased to * * * percent in 1982 and amounted to * * * percent in 1983. Table 12 shows exports of pads for woodwind instrument keys from Italy to the United States, the European Community (EC) (including home market sales in Italy), and other markets, for 1980-83.

Consideration of the Causal Relationship Between Alleged Material
Injury or the Threat Thereof and LTFV Imports

U.S. imports

U.S. imports of pads for woodwind instrument keys, which have come only from Italy or Mexico in recent years, declined irregularly from * * * in 1981 to * * * in 1983, or by * * * percent. Imports from Italy increased by * * * percent during the period; imports from Mexico fell by * * * percent. The share of total imports supplied by Italy increased from * * * percent in 1981 to * * * percent in 1983; the share of total imports from Mexico, which were all produced by Prestini, declined from * * * percent in 1981 to * * * percent in 1983, as shown in the following tabulation:

<u>Period</u>	<u>Imports</u> (1,000 units)			<u>Percent of total</u>		
	<u>Italy</u>	<u>Mexico 1/</u>	<u>Total</u>	<u>Italy</u>	<u>Mexico 1/</u>	<u>Total</u>
1981-----	***	***	***	***	***	***
1982-----	***	***	***	***	***	***
1983-----	***	***	***	***	***	***
Jan.-Apr.--						
1983 2/-----	***	***	***	***	***	***
1984 2/-----	***	***	***	***	***	***

1/ Consists of pads assembled in Mexico by Prestini and returned to the U.S. for further processing and distribution.

2/ * * *.

Table 12.--Pads for woodwind instrument keys: Italian capacity, production, and shipments, by markets and by firms, 1980-83

Item	1980	1981	1982	1983 <u>1/</u>
Capacity:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***
Production:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***
Ratio of production to capacity:				
Pisoni-----percent--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Average-----do-----	***	***	***	***
Shipments to the home and export markets:				
Domestic shipments to the home market in Italy, and export shipments to other EC purchasers:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***
Export shipments to the United States:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***
Export shipments to all other countries:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***
Total shipments to all markets:				
Pisoni-----1,000 units--	***	***	***	***
Balsamo-----do-----	***	***	***	***
Total-----do-----	***	***	***	***

See footnote at end of table.

Table 12. Pads for woodwind instrument keys: Italian capacity, production and shipments, by markets and by firms, 1980-83--Continued

Item	1980	1981	1982	1983 ^{1/}
Ratio of total shipments to all markets to production:				
Pisoni-----percent	***	***	***	***
Balsamo-----do	***	***	***	***
Average-----do	***	***	***	***
Ratio of export shipments to the United States to production:				
Pisoni-----percent	***	***	***	***
Balsamo-----do	***	***	***	***
Average-----do	***	***	***	***
Ratio of export shipments to the United States to total shipments:				
Pisoni-----percent	***	***	***	***
Balsamo-----do	***	***	***	***
Average-----do	***	***	***	***

^{1/} Full-year data estimated by Italian producers.

Source: Data were obtained by the Department of State in response to a request by the U.S. International Trade Commission.

Note: As stated earlier, data shown above for Balsamo are significantly understated.

Tables 13-15 present data on U.S. imports from Italy, by importers and by types of materials, for 1981-83, January-April 1983, and January-April 1984.

Prestini's Mexican operation

Prestini's subsidiary, located in Nogales, Sonora, Mexico, assembles 80 percent of the bladder pads manufactured by the company. ^{1/} For bladder pads, all materials with the exception of imported bladder are received at the U.S. facility where they are inspected, selected, and sorted. They are then sent to Mexico for cutting and assembly. Imported bladder from Italy enters the United States "in bond" and is sent directly to Mexico. For leather pads, all raw materials are received, inspected, selected, and cut in the United States. Following this, about 20 percent of the leather materials are shipped to Prestini's facility in Mexico for assembly, and the remaining 80 percent are assembled in Prestini's U.S. facility. All pads assembled in Mexico are returned free of duty under the GSP to the United States, where they undergo sorting, counting, punching, sizing, final inspection, packing, and shipping. ^{2/}

^{1/} Transcript of hearing, p. 10.

^{2/} Ibid., p. 11.

Table 13.--Pads for woodwind instrument keys: U.S. imports for consumption from Italy, by firms, 1981-83, January-April 1983, and January-April 1984

Firm	1981	1982	1983	January-April--	
				1983	1984
Quantity (1,000 units)					
Ferree's-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Yamaha-----	***	***	***	***	***
Total-----	***	***	***	***	***
Delivered value (1,000 dollars) 3/					
Ferree's-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Yamaha-----	***	***	***	***	***
Total-----	***	***	***	***	***
Unit value (cents each)					
Ferree's-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Yamaha-----	***	***	***	***	***
Average 4/-----	***	***	***	***	***
1/ * * * *					
2/ * * * *					
3/ * * * *					
4/ * * * *					

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

Table 14.--Leather pads for woodwind instrument keys: U.S. imports for consumption from Italy, by firms, 1981-83, January-April 1983 and January-April 1984

Firm	1981	1982	1983	January-April--	
				1983	1984
Quantity (1,000 units)					
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Total-----	***	***	***	***	***
Delivered value (1,000 dollars)					
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Total-----	***	***	***	***	***
Unit delivered value (cents each)					
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
Total-----	***	***	***	***	***
1/ * * *.					
2/ * * *.					
3/ * * *.					

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

Note.--Totals do not agree with those shown in table 13, because data are not available on imports by * * * by type of material.

Table 15.--Bladder pads for woodwind instrument keys: U.S. imports for consumption from Italy, by firms, 1981-83, January-April 1983, and January-April 1984

Firm	1981	1982	1983	January-April--	
				1983	1984
	Quantity (1,000 units)				
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Total-----	***	***	***	***	***
	Delivered value (1,000 dollars)				
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Total-----	***	***	***	***	***
	Unit delivered value (cents each)				
Yamaha-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Average-----	***	***	***	***	***

1/ Not available.

2/ Data are not comparable with data for January-April 1984.

3/ Less than \$500.

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

Note.--Totals do not agree with those shown in table 13, because data are not available on imports by * * * by type of material.

The number of pads assembled in Mexico by Prestini declined annually from * * * in 1981 to * * * in 1983, or by * * * percent. In 1983, Prestini's Mexican facility assembled * * * percent fewer leather pads and * * * percent fewer bladder pads than in 1981. Output increased slightly in January-April 1984, up * * * percent from that in January-April 1983, as shown in the following tabulation (in thousands of units):

<u>Period</u>	<u>Leather pads</u>	<u>Bladder pads</u>	<u>Total</u>
1981-----	***	***	***
1982-----	***	***	***
1983-----	***	***	***
January-April--			
1983-----	***	***	***
1984-----	***	***	***

U.S. importers' inventories

Inventory data were supplied by Pizzi, the principal importer of pads from Italy, and by Yamaha and LeBlanc, firms which use the pads in musical instrument production. Inventories of pads declined irregularly from * * * in 1981 to * * * units in 1983, or by * * * percent. The decline continued in January-April 1984 to * * * percent from the inventory level of January-April 1983 (table 16). As a share of total imports, inventories declined annually from * * * percent in 1981 to * * * percent in 1983, as presented in the following tabulation:

<u>Period</u>	<u>Inventories</u> <u>(1,000 units)</u>	<u>Imports</u> <u>(1,000 units)</u>	<u>Ratio of inventories</u> <u>to imports</u> <u>(percent)</u>
Dec. 31--			
1981-----	***	***	***
1982-----	***	***	***
1983-----	***	***	***

Table 16.--Pads for woodwind instrument keys from Italy: U.S. importers' inventories, by types of materials and by firms, as of Dec. 31 1981-83, Apr. 30, 1983, and Apr. 30, 1984

(In thousands of units)					
Item	Dec. 31--			Apr. 30--	
	1981	1982	1983	1983	1984
Leather pads:					
Yamaha 1/-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Total-----	***	***	***	***	***
Bladder pads:					
Yamaha 1/-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Total-----	***	***	***	***	***
Total:					
Yamaha 1/-----	***	***	***	***	***
Pizzi-----	***	***	***	***	***
LeBlanc-----	***	***	***	***	***
Total-----	***	***	***	***	***

1/ Yamaha and LeBlanc use nearly all of the pads they import in the band instruments they manufacture. Only a small portion is sold as replacement parts to repair technicians.

2/ Not available.

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

Market penetration by LTFV imports

The U.S. market share supplied by the pads imported from Italy increased by * * * percent (or 6.4 percentage points) in 1983 compared with that in 1981. U.S. producers' market share dropped from * * * percent in 1981 to * * * percent in 1982 and returned to * * * percent in 1983. Pads imported from Mexico (all by Prestini) lost market share by * * * percent (or 6.5 percentage points), as shown in the following tabulation: 1/

1/ If Prestini's U.S. production is combined with pads assembled by its firm in Mexico, Prestini accounted for * * * percent of U.S. consumption in 1981, * * * percent in 1982, and * * * percent in 1983.

Period	Share of U.S. consumption supplied by--				
	U.S. consumption (1,000 units)	Italy	Mexico 1/	Total imports (Percent)	U.S. production
1981-----	***	***	***	***	***
1982-----	***	***	***	***	***
1983-----	***	***	***	***	***
Jan.-April--					
1983-----	***	***	***	***	***
1984-----	***	***	***	***	***

1/ All pads were assembled in Mexico by Prestini.

2/ Not available.

Prices

U.S.-produced and imported Italian instrument pads compete directly in sales to U.S. manufacturers of woodwind instruments. The Commission's questionnaires requested price data for the following specifications of instrument pads, by quarters, from January-March 1982 to January-March 1984:

Product 1: Double-bladder, transparent clarinet pads, 6mm-20mm (8/32"-25/32").

Product 2: Double-bladder, transparent flute pads, 6mm-20mm (8/32"-25/32").

Product 3: Acoustic series saxophone pads with plastic resonators, 22.5mm-30mm (28/32"-1 6/32").

Product 4: Acoustic series saxophone pads with plastic resonators, 17.5mm-22.4mm (22/32"-28/32").

Price trends.--With the exception of 17.5mm-22.4mm saxophone pads, prices for U.S.-produced pads generally increased from January-March 1982 to January-March 1984, as reported by both the U.S. producer and by U.S. purchasers. The U.S. producer's weighted-average sales price for clarinet pads increased by * * * per 100 pads during this period, or by * * * percent. The sales price for flute pads increased by * * * per 100 pads over the same period, or by * * * percent (table 17). The sale price for the U.S. producer's 22.5mm-30mm

Table 17.--Instrument pads from Italy: Weighted-average prices reported by U.S. producers and importers of Italian instrument pads for sales to instrument manufacturers and margins of underselling, by types of pads and by quarters, January-March 1982-January-March 1984

Period	U.S. produced	Italian	Margins of underselling	
			Amount	Percent
Clarinet pads <u>1/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***
Flute pads <u>2/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***

1/ Double-bladder transparent clarinet pads, 6mm-20mm (8/32"-25/32").

2/ Double-bladder transparent flute pads, 6mm-20mm (8/32"-25/32").

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

saxophone pads increased by * * * per 100 pads from January-March 1982 to January-March 1984, or by * * * percent (table 18). The sales price for the U.S. producer's 17.5mm-22.4mm saxophone pads exhibited no change during this period.

Table 18.--Instrument pads from Italy: Weighted-average prices reported by U.S. producers and importers of Italian instrument pads for sales to instrument manufacturers and margins of underselling, by types of pads and by quarters, January 1982-March 1984

Period	U.S. produced	Italian	Margins of underselling	
			Amount	Percent
Saxophone pads 1/				
1982:				
Jan.-Mar	***	***	***	***
Apr.-Jun	***	***	***	***
Jul.-Sep	***	***	***	***
Oct.-Dec	***	***	***	***
1983:				
Jan.-Mar	***	***	***	***
Apr.-Jun	***	***	***	***
Jul.-Sep	***	***	***	***
Oct.-Dec	***	***	***	***
1984: Jan.-Mar	***	***	***	***
Saxophone pads 2/				
1982:				
Jan.-Mar	***	***	***	***
Apr.-Jun	***	***	***	***
Jul.-Sep	***	***	***	***
Oct.-Dec	***	***	***	***
1983:				
Jan.-Mar	***	***	***	***
Apr.-Jun	***	***	***	***
Jul.-Sep	***	***	***	***
Oct.-Dec	***	***	***	***
1984: Jan.-Mar	***	***	***	***

1/ Acoustic series saxophone pads with plastic resonators, 27.5mm-30mm (28/32"-1 6/32").

2/ Acoustic series saxophone pads with plastic resonators, 17.5mm-22.4mm (22/32"-28/32").

3/ No prices reported.

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

The Commission also requested price data from purchasers on the prices they paid for U.S. and Italian instrument pads. Prices reported by instrument manufacturers for purchases of U.S.-produced instrument pads fluctuated within a narrow band but generally showed the same basic trend (tables 19 and 20).

Table 19.--Instrument pads from Italy: Weighted-average prices paid by instrument manufacturers for U.S.-produced and imported Italian instrument pads and margins of underselling, by types of pads and by quarters, January 1982-March 1984

Period	U.S. produced	Italian	Margins of underselling or (overselling)	
			Amount	Percent
Clarinet pads <u>1/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***
Flute pads <u>2/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***

1/ Double bladder transparent clarinet pads, 6mm-20mm (8/32"-25/32").

2/ Double bladder transparent flute pads, 6mm-20mm (8/32"-25/32").

3/ No purchaser prices reported for Italian clarinet prices for this quarter.

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

Table 20.--Instrument pads from Italy: Weighted-average prices paid by instrument manufacturers for U.S.-produced and imported Italian instrument pads and margins of underselling, by types of pads and by quarters, January 1982-March 1984

Period	U.S. produced	Italian	Margins of underselling	
			Amount	Percent
Saxophone pads <u>1/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***
Saxophone pads <u>2/</u>				
1982:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1983:				
Jan.-Mar-----	***	***	***	***
Apr.-Jun-----	***	***	***	***
Jul.-Sep-----	***	***	***	***
Oct.-Dec-----	***	***	***	***
1984: Jan.-Mar-----	***	***	***	***

1/ Acoustic series saxophone pads with plastic resonators, 27.5mm-30mm (23/32"-1 6/32").

2/ Acoustic series saxophone pads with plastic resonators, 17.5mm-22.4mm (22/32"-28/32").

3/ No purchases reported.

4/ * * *.

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

Prices reported by an importer of Italian instrument pads for sales to manufacturers remained at the same level throughout the period. Clarinet pads were priced at * * * per 100 pads, flute pads at * * * per 100 pads, (table 17), and one saxophone pad specification (17.5mm-22.4mm) at * * * per 100 pads (table 18). Prices reported by instrument manufacturers for purchases of Italian clarinet and flute pads occasionally fluctuated, but with the exceptions of Italian clarinet pad prices for April-June 1983 and January-March 1984, generally remained within a narrow price band. In April-June 1983 the weighted average purchasers' price for Italian clarinet pads increased to * * * before returning to * * * the following quarter. In January-March 1984 the purchasers' average price for this Italian pad fell to * * * per 100 pads.

Margins of underselling.--Prices reported by Prestini (U.S. producer) and by Pizzi (importer) for sales to instrument manufacturers show underselling for all pads throughout January-March 1982-January-March 1984. Margins of underselling for clarinet pads were * * * percent in 1982 and * * * percent in 1983 and January-March 1984 (table 17). For flute pads, margins of underselling were * * * percent in 1982 and * * * percent in 1983 and January-March 1984 (table 17). For the two quarters (October-December 1982 and January-March 1983) in which a price was reported for an Italian saxophone pad (17.5mm-22.4mm), the margin of underselling averaged * * * percent (table 18).

Purchase prices reported by instrument manufacturers also displayed underselling, but the fluctuation was considerable. For clarinet pads, margins of underselling increased from * * * percent in January-March 1982 to * * * percent in April-June 1983 (table 19). In July-September 1983 there was a * * * percent margin of overselling before margins reverted to underselling in October-December 1983 and January-March 1984 (of * * * and * * * percent, respectively). For flute pads, the variation was somewhat greater between separate quarters (table 19). Margins of underselling declined from * * * percent in January-March 1982 to * * * percent the following quarter and increased again to * * * percent in July-September 1982. Flute margins of underselling then declined to * * * percent in January-March 1983 before increasing markedly to * * * percent in July-September 1983. They then declined to * * * percent in January-March 1984.

No Italian saxophone pad purchases were reported, so margins could not be determined for purchaser prices.

Exchange rates

Tables 21 and 22 show quarterly indexes of the cost in U.S. dollars of the Italian lira and the Mexican peso during January 1981-December 1983.

As indicated, both the lira and the peso have depreciated against the U.S. dollar since 1981. The real (inflation-adjusted) exchange-rate index for the dollar and the lira indicates a 21.8-percent depreciation by the lira against the dollar from January-March 1981 to October-December 1983. For the dollar/peso exchange rates, the real exchange-rate index shows that the peso depreciated by 34.8 percent against the U.S. dollar during the same period.

Table 21.--U.S.-Italian exchange rates: Indexes of the nominal and real exchange rates between the U.S. dollar and the Italian lira, 1/ by quarters, 1981-83

(January-March 1981=100)		
Period	Nominal exchange rate Index	Real exchange rate Index
1981:		
January-March-----	100.0 :	100.0
April-June-----	88.8 :	90.5
July-September-----	82.8 :	86.9
October-December-----	83.8 :	91.3
1982:		
January-March-----	79.7 :	89.2
April-June-----	75.7 :	86.2
July-September-----	71.7 :	83.8
October-December-----	69.6 :	84.2
1983:		
January-March-----	74.7 :	89.6
April-June-----	67.6 :	82.4
July-September-----	63.6 :	78.8
October-December-----	61.6 :	78.2

1/ Dollars per lira.

Source: International Monetary Fund, International Financial Statistics
(Washington, D.C.: IMF, May 1984).

Table 22.--U.S.-Mexican exchange rates: Indexes of the nominal, real, and unofficial ^{1/} exchange rates between the U.S. dollar and the Mexican peso, by quarters, 1981-83

(January-March 1981=100)				
Period	Nominal Exchange rate index	Real exchange rate index	Unofficial exchange rate index	
1981:				
January-March-----	100.0	100.00		100.0
April-June-----	97.6	100.5		86.2
July-September-----	94.8	102.3		81.3
October-December-----	91.5	104.3		80.9
1982:				
January-March-----	68.4	86.8		67.8
April-June-----	50.1	73.1		44.7
July-September-----	35.7	61.7	^{2/}	42.4
October-December-----	32.0	65.2		30.6
1983:				
January-March-----	23.0	59.3		19.4
April-June-----	20.4	63.8		19.2
July-September-----	18.1	63.3	^{3/}	
October-December-----	16.9	65.2	^{3/}	

^{1/} Represents the dollar/peso exchange rate used by establishments in Mexico other than those operating as banks or brokerage houses. This is not an official rate and because it has been derived from a limited number of commercial firms, primarily in Mexico City and Northern Mexico, it may not be truly representative of the "black market." It is employed here only for purposes of comparison with the nominal (par value) rate. See "Mexican Peso," International Currency Review, September 1983, p. 76.

^{2/} In August 1982, Mexico underwent a financial crisis of significant proportions, and although it represented more a crisis of illiquidity rather than insolvency, it did require a temporary suspension of payments of interest to foreign banks on its public debt. The Government of Mexico also nationalized the country's banks and temporarily suspended the retail banks' authority to convert pesos into dollars.

^{3/} Not available.

Source: International Monetary Fund, International Financial Statistics, Washington, D.C.: IMF, May 1984). "Inflation and the Peso," Foreign Exchange, October, 1983 pp. 7 and 8.

The real exchange-rate indexes listed in tables 21 and 22, represent the nominal exchange-rate index adjusted for the difference in the relative inflation rates between the United States and the respective foreign country. For all countries, wholesale price indexes compiled by the International Monetary Fund were used to measure actual inflation rates.

Lost sales

Only one producer of instrument pads, Prestini, provided the Commission with lost sales allegations during the investigation relating to sales from 1980 to May 1983. Four of the allegations concerned sales to instrument manufacturers, three allegations concerned sales to distributors, and two concerned sales to other instrument pad producers. * * *. All of these manufacturers returned purchaser questionnaires to the Commission during the investigation.

All distributors reported that they have bought Italian instrument pads from Pizzi for at least 5 years. One distributor purchased from Prestini until about 5 years ago but discontinued purchasing from him when it learned that Prestini was selling to this distributor's customers. The other two distributors reported that they have never purchased many pads from Prestini, primarily because they were unsure of the quality of the Prestini pads.

One U.S. purchaser of instrument pads reported that Prestini rather than Pizzi had initiated the low prices. The other U.S. purchaser reported that it had purchased some Italian instrument pads in 1978 but returned them because they were not the proper specifications. It has attempted to purchase no Italian pads since that time.

Information reported by individual firms involved in the lost sales allegations * * * is provided below:

* * * * *

APPENDIX A

COMMERCE'S FEDERAL REGISTER NOTICES OF ITS PRELIMINARY
AND FINAL AFFIRMATIVE LTFV DETERMINATIONS

(A-475-017)

Pads for Woodwind Instrument Keys From Italy: Preliminary Determination of Sales at Less Than Fair Value**AGENCY:** International Trade Administration, Commerce.**ACTION:** Notice.

SUMMARY: We preliminarily determine that pads for woodwind instrument keys from Italy are being sold, or are likely to be sold, in the United States at less than fair value. Therefore, we have notified the United States International Trade Commission (ITC) of our determination, and we have directed the United States Customs Service to suspend liquidation of all entries of the subject merchandise that are entered, or withdrawn from warehouse, for consumption, on or after the date of publication of this notice and to require a cash deposit or bond for each such entry in an amount equal to the estimated dumping margin as described in the "Suspension of Liquidation" section of this notice. If this investigation proceeds normally, we will make a final determination within 75 days of this preliminary determination.

EFFECTIVE DATE: April 25, 1984.

FOR FURTHER INFORMATION CONTACT: Vincent Kane, Office of Investigations, Import Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230; telephone (202) 377-5414.

Preliminary Determination

We have preliminarily determined that there is a reasonable basis to

believe or suspect that pads for woodwind instrument keys from Italy are being, or are likely to be, sold in the United States at less than fair value, as provided in section 733 of the Tariff Act of 1930, as amended (19 U.S.C. 1673b) (the Act).

We found that the foreign market value of pads for woodwind instrument keys exceeded the United States price on 65 percent of the sales compared. Margins ranged from 0.4 percent to 45 percent with an overall weighted-average margin on all sales compared of 2.35 percent of Luciano Fabbrica Accessori Strumenti Musicali. Margins ranged from 19 to 60 percent for Pads Manufacture s.r.l., within a simple arithmetic average margin of 40.4 percent. We did not have sufficient information on sales quantities to calculate a weighted-average margin for this manufacturer.

If this investigation proceeds normally, we will make a final determination within 75 days of this preliminary determination.

Case History

On November 7, 1983, we received a petition filed by Prestini Musical Instruments Corporation, the major manufacturer in the United States of pads for woodwind instrument keys (pads). In accordance with the filing requirements of section 353.36 of our regulations (19 CFR 353.36), petitioner alleged that pads from Italy are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act, and that these imports are materially injuring, or are threatening to materially injure, a United States industry. Petitioner also alleged that sales are being made at less than cost of production in Italy and that "critical circumstances" exist, as defined in section 733(e) of the Act.

After reviewing the petition, we determined that it contained sufficient grounds upon which to initiate an antidumping investigation. We notified the ITC of our action and initiated such an investigation on November 25, 1983 (48 FR 55601). On December 21, 1983, the ITC found that there is a reasonable indication that imports of pads from Italy are materially injuring, or are threatening to materially injure, a United States industry.

We presented antidumping questionnaires to two manufacturers/exporters on December 9, 1983. These are the only two Italian exporters of pads to the United States. We subsequently received responses from both manufacturers/exporters: Pads

Manufacture, s.r.l. and Luciano Pisoni
Fabbrica Accessori Strumenti Musicali.

Scope of Investigation

The merchandise covered by this investigation is pads for woodwind instrument keys currently provided for under item number 728.70 of the *Tariff Schedules of the United States* (TSUS). These pads are affixed to the keys of various woodwind instruments, e.g., saxophones, clarinets, oboes, and flutes. This investigation covers the period June 1, 1983, through November 30, 1983.

Fair Value Comparisons

To determine whether sales of the subject merchandise in the United States were made at less than fair value, we compared the United States price with the foreign market value. Where a manufacturer/exporter did not have sufficient home market or third country sales, we compared United States price to constructed value.

United States Price

As provided in section 772(b) of the Act, we used the purchase price of the subject merchandise to represent the United States price for the sales by the previously mentioned manufacturers/exporters because the subject merchandise was sold to unrelated U.S. purchasers prior to its information into the United States. We calculated purchase price on the basis of the f.o.b. factory price.

Foreign Market Value

In accordance with section 773(a) of the Act, we calculated foreign market value on the basis of home market sales of such or similar merchandise produced by Luciano Pisoni Fabbrica Accessori Strumenti Musicali (Pisoni). We calculated home market prices on the basis of sales to unrelated customers. With the exception of two items accounting for about two percent of sales, we found all of Pisoni's home market sales to be above its cost of production.

Because the home market sales of these two items were not in substantial quantities and made over an extended period of time, we determined that home market sales, including sales of the two items at less than cost, constitute the proper basis of fair value. Therefore, we calculated foreign market value based on uniform prices to the major wholesale customer in the home market and to home market musical instrument manufacturers.

We calculated foreign market value for Pads Manufacture, s.r.l. (Pads Manufacture), on the basis of constructed value using best information

available. Pads Manufacture had no sales in the home market and no sales or minimal sales to third country markets of merchandise identical to that sold for export to the United States. In addition, we did not receive sufficient information from the respondent to adjust for differences in similar merchandise that was sold in the home market or third country markets. Therefore, we were precluded from using home market or third country sales as the basis for fair value. In computing the constructed value, then, we used the cost of materials, fabrication, and general expenses as supplied in the petition as best information available in the absence of production information submitted by respondent. General expenses were in excess of the statutory minimum of 10 percent. We add the statutory minimum of 8 percent for profit to the total of materials, fabrication and general expenses.

Negative Determination of Critical Circumstances

Petitioner alleged that imports of the product under investigation present "critical circumstances." Under section 733(c)(1) of the Act, critical circumstances exist when: (A)(i) there is a history of dumping in the United States or elsewhere of the class or kind of merchandise which is the subject of the investigation or (ii) the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than fair value, and (B) there have been massive imports of the class or kind of merchandise which is the subject of the investigation over a relatively short period.

We have found no history of dumping either in the U.S. market or in third country markets.

Petitioner asserts that the major U.S. importer knew or should have known that woodwind instrument pads from Italy were being sold in the United States at less than fair value. Petitioner's assertion is based on the fact that in 1978, the major U.S. importer was a partner in a large U.S. pad production company and was knowledgeable of paid production costs at that time. We are dissuaded from a conclusion that the importer should have known the subject merchandise was being sold at less than fair value, because of knowledge of U.S. production costs in 1978 is not necessarily relevant to a knowledge of Italian production costs and thereby a knowledge of fair value in 1983. In addition, the major importer cited in the petition purchased

exclusively from Pisoni whose weighted average margin of less than fair value sales was only 2.35 percent. Therefore, we conclude that the major U.S. importer did not know and had no basis to know or suspect that sales of the subject merchandise were at less than fair value. For this reason we determine that critical circumstances do not exist with respect to paid for woodwind instrument keys from Italy.

Verification

In accordance with section 776(a) of the Act, we will verify all the information used in reaching our final determination.

Suspension of Liquidation

In accordance with section 733(d) of the Act, we are directing the U.S. Customs Service to suspend liquidation on all entries of pads for woodwind instrument keys from Italy. This suspension of liquidation applies to all merchandise entered, or withdrawn from warehouse, for consumption on or after the date of publication of this notice in the Federal Register. The Customs Service shall require a cash deposit or the posting of a bond equal to the estimated weighted-average amount by which the foreign market value of the merchandise subject to this investigation exceeds the United States price. This suspension of liquidation will remain in effect until further notice. The weighted-average margins are as follows:

Manufacturers/producers/exporters	Weighted average margin (percent)
Pads Manufacture	40.40
Pisoni	2.35

ITC Notification

In accordance with section 733(f) of the Act, we have notified the ITC of our determination. In addition, we have made available to the ITC all nonprivileged and nonconfidential information relating to this investigation.

We will allow the ITC access to all privileged and confidential information in our files, with the provision that the ITC would not disclose such information, whether publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

Public Comment

In accordance with § 353.47 of our regulations, if requested, we will hold a

public hearing to afford interested parties an opportunity to comment on this preliminary determination at 10 a.m. on May 16, 1984, at the United States Department of Commerce, Room 3703, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230.

Individuals who wish to participate in the hearing must submit a request to the Deputy Assistant Secretary for Import Administration, Room 3099B, at the above address within 10 days of this notice's publication. Requests should contain: (1) The party's name, address, and telephone number; (2) the number of participants; (3) the reason for attending; and (4) a list of the issues to be discussed. In addition, prehearing briefs in at least 10 copies must be submitted to the Deputy Assistant Secretary by May 9, 1984.

Oral presentations will be limited to issues raised in the briefs. All written views should be filed in accordance with 19 C.F.R. 353.46, within 30 days of the notice's publication, at the above address and in at least 10 copies.

This determination is being published pursuant to section 733(f) of the Act (19 U.S.C. 1673(b)).

Dated: April 16, 1984.

Alan F. Holmer,

Deputy Assistant Secretary for Import Administration.

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BILLING CODE 15-0-05-0

injure a U.S. industry. The United States Customs Service will continue to suspend liquidation on all entries of the subject merchandise entered, or withdrawn from warehouse, for consumption, on or after April 25, 1984, the date of publication of our preliminary determination of sales at less than fair value and will require a cash deposit or bond in an amount equal to the dumping margin as described in the "Suspension of Liquidation" section of this notice for each entry of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the date of publication of this notice.

EFFECTIVE DATE: July 11, 1984.

FOR FURTHER INFORMATION CONTACT: Vincent Kane, Office of Investigations, Import Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, D.C. 20230; telephone (202) 377-5414.

Final Determination

We have determined that pads for woodwind instrument keys from Italy are being sold in the United States at less than fair value, as provided in section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act).

We found that the foreign market value of pads for woodwind instrument keys exceeded the United States price on 16.2 percent of the sales compared. Margins ranged from 0.2 percent to 37 percent with an overall weighted-average margin on all sales compared of 1.09 percent.

We have also determined that critical circumstances do not exist because there has been no history of dumping in the United States or elsewhere of this product and because there is no evidence that the importers should have known that the exporters was selling the merchandise at less than fair value.

Case History

On November 7, 1983, we received a petition filed by Prestini Musical Instruments Corporation, the major manufacturer in the United States of pads for woodwind instrument keys (pads). In accordance with the filing requirements of § 353.36 of the Commerce Regulations (19 CFR 353.36), petitioner alleged that pads from Italy are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 781 of the Act, and that these imports are materially injuring, or are threatening to materially injure, a United States industry. Petitioner also alleged that sales are being made at less than the

[A-475-017]

Pads for Woodwind Instrument Keys From Italy; Final Determination of Sales at Less Than Fair Value

AGENCY: International Trade Administration, Import Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that pads for woodwind instrument keys from Italy are being sold, or are likely to be sold, in the United States at less than fair value. The United States International Trade Commission (ITC) will determine, within 45 days of publication of this notice, whether these imports are materially injuring, or threatening to materially

cost of production in Italy and that "critical circumstances" exist, as defined in section 733(e) of the Act.

After reviewing the petition, we determined that it contained sufficient grounds upon which to initiate an antidumping investigation. We notified the ITC of our action and initiated an investigation on November 25, 1983 (49 FR 55601). On December 21, 1983, the ITC found that there is a reasonable indication that imports of pads from Italy are materially injuring, or are threatening to materially injure, a United States industry.

We presented antidumping questionnaires to two manufacturers/exporters on December 9, 1983. These are the only two known Italian exporters of pads to the United States. We subsequently received responses from both manufacturers/exporters: Pads Manufacture, s.r.l. (Pads Manufacture) and Luciano Pisoni Fabbrica Accessori Strumenti Musicali (Pisoni).

On April 16, 1984, we preliminarily determined that there is a reasonable basis to believe or suspect that pads from Italy are being, or are likely to be, sold in the United States at less than fair value (49 FR 17791).

We also determined that "critical circumstances" do not exist for pads from Italy. We made this determination because we found no history of dumping in the U.S. market or in third country markets, and because on the basis of the facts in this investigation we were unable to conclude that importers knew or should have known that the subject merchandise was being sold for export to the United States at less than fair value.

Our preliminary determination notice provided interested parties an opportunity to submit views orally and in writing. We received no requests to submit views orally. We did receive written views and gave full consideration to these views in making our final determination. From April 9 through April 12, 1984, we verified the responses in Italy.

Scope of Investigation

The merchandise covered by this investigation is pads for woodwind instrument keys, currently provided for under item number 726.70 of the *Tariff Schedules of the United States* (TSUS). These pads are affixed to the keys of various woodwind instruments, e.g., saxophones, clarinets, oboes, and flutes.

This investigation covers the period June 1, 1983, through November 30, 1983.

Fair Value Comparisons

To determine whether sales of the subject merchandise in the United States were made at less than fair value, we compared the United States price with the foreign market value. Where a manufacturer/exporter did not have sufficient home market or third country sales, we compared the United States price to constructed value.

United States Price

As provided in section 772(b) of the Act, we used the purchase price of the subject merchandise to represent the United States price for the sales by the previously mentioned manufacturers/exporters because the subject merchandise was sold to unrelated U.S. purchasers prior to its importation into the United States. We calculated purchase price on the basis of the f.o.b. factory price.

Foreign Market Value

In accordance with section 773(a) of the Act, we calculated foreign market value on the basis of home market sales of such or similar merchandise produced by Pisoni. We calculated home market prices on the basis of sales to an unrelated wholesaler. With the exception of two items accounting for about two percent of sales, we found all of Pisoni's home market sales to be above its cost of production.

Because the home market sales of these two items were not insubstantial quantities and were not made over an extended period of time, we determined that home market sales, including sales of the two items at less than cost, constitute the proper basis of fair value for Pisoni. Therefore, we calculated foreign market value based on sales prices to the major wholesale customer in the home market.

Pisoni incurred higher packing, material costs and packing labor costs on home market sales. In the home market Pisoni sold pads packaged in small, sealed plastic envelopes with each envelope containing a specific, small number of pads depending on pad size. Pads had to be counted out individually for each envelope in a shipment. In the United States, Pisoni sold pads packaged in large plastic bags, each bag containing a large number of pads. Pads were not counted out individually in filling the bags but were weighed in bulk in order to determine the correct number to be placed in a bag. In calculating foreign market value, we made an adjustment to take into account the higher home market packing costs.

Pisoni's credit terms allowed for a longer payment period on home market sales than on U.S. sales. We calculated the weighted-average payment period in each market and adjusted for the additional number of days in the home market period on the basis of Pisoni's normal borrowing rate for Italian lire during the period of investigation.

We calculated foreign market value for Pads Manufacture on the basis of either third country sales or constructed value. We obtained this information after the preliminary determination, which for Pads Manufacture was based on petitioner's cost to produce as best information available at that time. Pads Manufacture had no sales in the home market. For several items exported to the U.S., Pads Manufacture had third country sales of such or similar merchandise which we used for fair value comparison purposes. For other items exported to the U.S., however, Pads Manufacture had no third country sales of such or similar merchandise. For these exports, we used constructed value as the basis of fair value.

In computing the constructed value, we used the cost of materials, fabrication, and general expenses as supplied by Pads Manufacture. General expenses were in excess of the statutory minimum of 10 percent. We added the statutory minimum of 8 percent for profit to the total of materials, fabrication and general expenses.

Negative Determination of Critical Circumstances

Petitioner alleged that imports of the product under investigation present "critical circumstances." Under section 735(a)(3) of the Act, critical circumstances exist when: (A)(i) There is a history of dumping in the United States or elsewhere of the class or kind of merchandise which is the subject of the investigation or (ii) the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than fair value, and (B) there have been massive imports of the class or kind of merchandise which is the subject of the investigation over a relatively short period.

We have found no history of dumping either in the U.S. market or in third country markets.

Petitioner asserts that the major U.S. importer knew or should have known that woodwind instrument pads from Italy were being sold in the United States at less than fair value.

Petitioner's assertion is based on the

fact that in 1976, the major U.S. importer was a partner in a large U.S. pad production company and was knowledgeable of pad production costs at that time. We do not agree that a knowledge of U.S. production costs in 1976 is necessarily relevant to a knowledge of Italian production costs and thereby a knowledge of fair value in 1983. In addition, the major importer cited in the petition purchased exclusively from Pisoni, whose weighted-average margin of less than fair value sales was only 1.16 percent. This margin is not sufficiently large to raise the presumption of knowledge of sales at less than fair value, particularly since the importer was not related to Pisoni. Therefore, we conclude that the major U.S. importer did not know and had no basis to know or suspect that sales of the subject merchandise were at less than fair value. In addition, the margins of sales at less than fair value for Pads Manufacture were also not sufficiently large to raise the presumption of knowledge of less than fair value sales from this producer. For this reason we determine that critical circumstances do not exist with respect to pads for woodwind instrument keys from Italy.

Verification

In accordance with section 776(a) of the Act, we verified the information used in making this determination. We were granted access to the books and records of both of the manufacturers under consideration. We used standard verification procedures, including examination of accounting records, financial records, and selected documents containing relevant information.

Results of Investigation

We made fair value comparisons on all sales of the subject merchandise made for export to the United States by the manufacturers under investigation. We found that foreign market value exceeded the United States prices on 16.2 percent of the sales compared. The margins of less than fair value ranged from 0.2 to 37 percent. The overall weighted-average margin on all sales compared was 1.09 percent.

Final Determination

Based on our investigation and in accordance with section 735(a) of the Act, we have reached a final determination that pads for woodwind instrument keys from Italy are being sold in the United States at less than fair value within the meaning of section 731 of the Act.

Petitioner's Comments

Comment Number 1

Petitioner contends that the Department should have calculated foreign market value based on the constructed value, rather than on home market prices, since petitioner claims home market prices to be at less than the cost of production. Petitioner contends that one of the respondents' labor costs were significantly understated, since the worker assembly rates reported in the response were unrealistically high. Petitioner claims that had the Department verified and used true labor costs, it would have concluded that home market sales were at less than the cost to produce.

DOC Position

Prior to verification we received information from the petitioner concerning the allegedly excessive worker assembly rates. As a result, we were particularly careful in verifying the assembly rates reported in the response. During verification, we reviewed worker production logs submitted by the workers and approved by their supervisors for pay purposes. We also reviewed the payrolls prepared based on the production logs. These documents confirmed the assembly rates reported in the response. In addition, as a further check, we observed workers assembling pads and timed their production over a short period. The assembly rates observed in this manner further substantiated the rates reported in the response.

Comment Number 2

Petitioner claims that the bladder yields per meter of processed bladder reported by one of the respondents was excessive based on its experience.

DOC Position

Respondent determined yield for the circular shapes cut from sheets of bladder on the basis of the square of the diameter of the circular shapes rather than on the basis of the smaller area represented by actual area of each circle. This method allowed for a substantial waste factor. During verification, we found that respondent did not cut uniform rows of circles from a bladder sheet but offset the cuts from one row to the next in order to reduce waste between cuts. Also, after large sizes were cut from a bladder, respondent reused the remnant of the bladder sheet for cutting smaller sizes which could be fit on the unused portion of the sheet. In this manner respondent was able to achieve the yield reported in the response.

Respondents' Comments

Comment Number 1

One of the respondents contends that the Department should have used a daily currency exchange rate rather than the quarterly exchange rate in converting lire to dollars. Respondent claims that the use of the daily rate would have resulted in a negative determination for this respondent based on *de minimis* margins of sales at less than fair value. Respondent states that section 353.56(b) of the Commerce Regulations gives the Department the flexibility to use a daily rather than a quarterly exchange rate. In addition, respondent cites the United States Court of Appeals for the Federal Circuit's decision in *Melanine Chemicals, Inc. v. United States* (CAFC 1984), as precedent for the Department to use a daily rate in this investigation.

DOC Position

Section 353.56(b) of our regulations directs us to make an allowance for margins created solely by temporary exchange rate fluctuations, fluctuations that are obviously beyond the control of the exporter. Respondent's case, however, differs from that envisioned by section 353.56(b). The movement of the exchange rate during the period of investigation served to reduce margins of less than fair value rather than to create margins. In addition, the steady movement of the exchange rate did not constitute the "temporary" fluctuations contemplated by the regulations. The rates show a steady, non-volatile progression downward. Furthermore, the exporter did not act within a reasonable period of time to take into account the price differences resulting from sustained changes in the prevailing rates as required by § 353.56(b) of the Commerce Regulations. In fact, when respondent established its home market price in January of 1983, there were clearly margins of less than fair value based on the currency conversion rate in effect at that time. The steady depreciation of the lire against the dollar during 1983 served to reduce these margins rather than create them as envisioned by § 353.56(b). Therefore, we have determined that use of the special provisions of § 353.56(b) would not be appropriate. We have used the daily rate for certain sales under review, only when the daily rate differed by 5 percent or more from the quarterly rate, as provided in § 353.56(a) of the regulation and section 522 of the Act (31 U.S.C. 372).

We note also that § 353.56(b) of the Commerce Regulations provides for

temporary and rapid fluctuations in the exchange rate. Since the lire showed a steady depreciation against the dollar over a long period of time, § 353.56(b) would not apply.

Regarding the appeals court decision on melamine from the Netherlands, it is abundantly clear that the court was concerned with temporary and volatile exchange rate fluctuations occurring during the period of investigation that created margins which would not have otherwise existed. Under these conditions, the court approved the use of exchange rates in effect during an earlier more stable period. The exchange rate behavior in our present investigation differs markedly from that in melamine and, as stated earlier, tends to reduce rather than create margins.

Comment Number 2

Respondents priced pads by setting a single price for all pad sizes within a given range of sizes rather than by setting a separate price for each pad size. The price for a particular range of sizes was based on the average size within the range and, to some extent, on projected sales volumes of the various sizes within the range. Although this pricing method was used in both the U.S. and the home market, the ranges in one market did not always correspond with those of the other market. Consequently, the Department's comparison of the sales price for a particular pad size sold in one market with the sales price of the identical pad size sold in the second market might result in the pairing of prices from disparate size ranges. Since this method of comparison sometimes results in the comparison of prices from disparate size ranges, one of the respondents contends that this method is unfair. Respondent suggests that the Department restructure the pricing in the home market when necessary to achieve alignment of the size ranges in each market. In addition, certain home market size ranges included a model with a metal resonator along with models with plastic resonators, whereas the U.S. size ranges included only the less expensive plastic resonator models. An adjustment should be made for the additional cost of the metal resonator.

DOC Position

Although we considered restructuring the home market size ranges and associating weighted-average prices with the new ranges based on price increments among the existing size ranges, we ultimately disregarded this alternative in favor of the more straightforward approach of simply comparing the sales price of a particular

pad size in the U.S. market with the sales price of the identical pad size and model in the home market. We did not consider an attempt to restructure the home market pricing to be appropriate, since it resulted in an adjustment for what appeared to be respondent's deliberate pricing strategy in each of the markets under review.

For the same reason, we considered an adjustment for metal resonator pads included in several of the home market price groupings to be inappropriate. The fact that a metal resonator pad was grouped for pricing purposes with plastic resonator pads in the home market, again reflected the deliberate pricing strategy of the respondent, but did not warrant an adjustment on sales comparisons of identical merchandise in each of the markets under review.

Comment Number 3

One of the respondents claims that the Department should have been willing to verify information on adjustments for differences in the merchandise and differences in quantities submitted subsequent to the verification conducted in early April. Respondent claims that adjustments for these differences would have resulted in a negative determination on its sales.

DOC Position

We received details regarding the proposed adjustments on June 19, 1984, just 10 days prior to the due date for our final determination. We determined that in the time remaining it would not have been possible to verify the information, prepare a report of verification, and provide petitioner with an adequate opportunity to comment on the adjustments. Therefore, we did not verify the information and have not used it in our final determination. Should this investigation result in an antidumping duty order, we will consider the information relating to these adjustments during our review of the order as provided in section 751 of the Act.

Continuation of Suspension of Liquidation

Liquidation will continue to be suspended on all entries of the subject merchandise that are entered, or withdrawn from warehouse, for consumption. The United States Customs Service will continue to require the posting of a bond or a cash deposit in the following amounts:

Manufacturer/exporter	Percent of f.o.b. value
Picorl	1.16
Pads Manufacture	1.09

ITC Notification

In accordance with section 735(d) of the Act, we have notified the ITC of our determination. In addition, we have made available to the ITC all nonprivileged and nonconfidential information relating to this investigation. 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, whether 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 the 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, however, the ITC determines that such injury does exist, we will issue an antidumping order directing Customs officers to assess an antidumping duty on pads for woodwind instrument keys from Italy entered, or withdrawn from warehouse, for consumption on or after the suspension of liquidation, equal to the amount by which the foreign market value of the product exceeds the United States price. This determination is being published pursuant to section 735(d) of the Act (19 U.S.C. 1673d).

Dated: June 29, 1984.

Alan F. Holmer,

Acting Assistant Secretary for Trade Administration.

[FR Doc. 84-18294 Filed 7-10-84; 8:45 am]

BILLING CODE 3510-08-M

APPENDIX B

U.S. INTERNATIONAL TRADE COMMISSION'S FEDERAL REGISTER NOTICE OF
INSTITUTION OF ITS FINAL ANTIDUMPING INVESTIGATION

on or before July 9, 1984, and the Commission will make its final injury determination on or before August 23, 1984 (19 CFR 207.25).

FOR FURTHER INFORMATION CONTACT: John MacHatton, Supervisory Investigator, Office of Investigations, U.S. International Trade Commission, telephone 202-523-0439.

SUPPLEMENTARY INFORMATION:

Background

On December 21, 1983, the Commission notified the Department of Commerce that, on the basis of the information developed during the course of its preliminary investigation, there is a reasonable indication that an industry in the United States is materially injured by reason of alleged LTFV imports of pads for woodwind instrument keys from Italy. The preliminary investigation was instituted in response to a petition filed on November 7, 1983, on behalf of Prestini Musical Instruments Corp., Nogales, Ariz.

Participation in the Investigation

Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in section 201.11 of the Commission's Rules 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 section 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)).

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 June 22, 1984, pursuant to section 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 July 12, 1984, 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 July 2, 1984. 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 July 6, 1984, in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is July 3, 1984.

Testimony at the public hearing is governed by section 207.23 of the Commission's rules (19 CFR 207.23). 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). Post hearing briefs must conform with the provisions of section 207.24 (19 CFR 207.24), and must be submitted not later than the close of business on July 17, 1984.

Written Submission

As mentioned, parties to this 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 July 17, 1984. A signed original 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

[Investigation No. 731-TA-152 (Final)]

Pads for Woodwind Instrument Keys From Italy

AGENCY: United States International Trade Commission.

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

EFFECTIVE DATE: April 25, 1984.

SUMMARY: As a result of an affirmative preliminary determination by the U.S. Department of Commerce that there is a reasonable basis to believe or suspect that imports from Italy of pads for woodwind instrument keys, provided for in item 728.70 of the Tariff Schedules of the United States, are being, or are likely to be, sold in the United States at less than fair value (LTFV) within the meaning of section 731 of the Tariff Act of 1930 (19 U.S.C. 1673), the United States International Trade Commission hereby gives notice of the institution of Investigation No. 731-TA-152 (Final) under section 735(b) of the act (19 U.S.C. 1673(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 in the United States is materially retarded, by reason of imports of such merchandise. Unless the investigation is extended, the Department of Commerce will make its final dumping determination in the case

with the requirements of § 201.8 of the Commission's rules (19 CFR 201.8).

For further information concerning the conduct of the investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedures, Part 207, subparts A and C (19 CFR Part 207) and Part 201, subparts A through E (19 CFR Part 201).

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

By order of the Commission.

Issued: May 7, 1984.

Kenneth R. Mason,

Secretary.

[FR Doc. 84-13211 Filed 5-15-84; 8:45 am]

BILLING CODE 7020-02-M

APPENDIX C

**CALENDAR OF WITNESSES WHO APPEARED AT
THE PUBLIC HEARING**

TENTATIVE CALENDAR OF PUBLIC HEARING

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

Subject : Pads for Woodwind Instrument Keys
from Italy

Inv. No. : 731-TA-152 (Final)

Date and time: July 12, 1984 - 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 antidumping duties:

P.M.I. Corporation, Nogales, Arizona

Jerry Bitticks, Sales Manager

In opposition to the imposition of antidumping duties:

Larry E. Klayman--Counsel
Washington, D.C.
on behalf of

Luciano Pisoni and Enzo Pizzi, Inc.

Ronald Pizzi, Vice President

Ms. Teresa M. Polino--OF COUNSEL

