OIL COUNTRY TUBULAR GOODS FROM BRAZIL, KOREA, AND SPAIN

Determinations of the Commission in Investigations Nos. 701-TA-215 Through 217(Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigations

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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CONTENTS

CONTENTS

Tables

CONTENTS

CONTENTS

Note.--Data which would disclose confidential operations of individual concerns may not be published and therefore have been deleted from this report.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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Investigations Nos. 701-TA-215 through 217 (Final)

OIL COUNTRY TUBULAR GOODS FROM BRAZIL, KOREA, AND SPAIN

Determinations

On the basis of the record 1/ developed in investigations Nos. 701-TA-215 and 701-TA-217 (Final), the Commission determines, 2/ pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)), that an industry in the United States is materially injured by reason of imports from Brazil and Spain of oil country tubular goods, 3/ provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized.

On the basis of the record 1/ developed in investigation No. 701-TA-216 (Final), the Commission determines 4/ pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)), that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of imports from Korea of oil country tubular goods, provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized.

Background

The Commission instituted these investigations effective September 12, 1984, following preliminary determinations by the Department of Commerce that

1/ The record is defined in sec 207.2(i) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(i)).
2/ Vice Chairman Liebeler and Commissioner Lodwick dissenting.
3/ Except drill pipes.
4/ Commissioners Eckes and Rohr dissenting.

manufacturers, producers or exporters of the subject merchandise in Brazil, Korea, and Spain receive subsidies. Notice of the institution of the Commission's investigations and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing it in the Federal Register on October 29, 1984 (49 FR 43526). The hearing was held in Washington, DC, on November 29, 1984, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION

As the result of our investigation, the Commission determines that the domestic oil country tubular goods (OCTG) industry is materially injured by reason of subsidized imports of OCTG from Brazil and Spain, except for imports of drill pipe. 1/ The Commission also determines that the domestic OCTG industry is not materially injured or threatened with material injury by reason of subsidized imports of OCTG from Korea. 2/ 3/ Because of our differing views on the impact of the imports from these countries, we have set forth our causation analyses in our additional views.

In the following joint views, we discuss the question of the definition of the domestic industry and the condition of the domestic industry. We agree that an industry producing OCTG is experiencing material injury. This determination is based upon data indicating substantial decreases in domestic production, employment, sales, profitability, and other indicators of industry health during the period of investigation. We disagree as to whether all the subsidized imports are a cause of the material injury.

Definition of the domestic industry

The term "industry" is defined in section 771(4)(A) of the Act as "[t]he domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." 4/ The term "like product," in

1/ Vice Chairman Liebeler and Commissioner Lodwick disagree with these determinations. See their additional views. Commissioner Eckes does not exclude imports of drill pipe.
2/ Commissioners Eckes and Rohr disagree with this determination. See their additional views.
3/ Material retardation is not an issue in these investigations and will not be discussed further.
4/ 19 U.S.C. § 1677(4)(A).

turn, is defined in section 771(10) as being "[a] product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation . . . ." 5/

The imports under investigation are OCTG which are used in drilling oil and gas wells and for conducting oil and gas to the surface. OCTG specifically include oil well casing, 6/ tubing, 7/ and drill pipe 8/ of carbon or alloy steel, whether welded or seamless, produced to either American Petroleum Institute (API) 9/ or non-API (e.g., proprietary or limited service) specifications. The imports under investigation include OCTG in all these categories, either finished or semifinished. OCTG of these different types are all produced in the United States.

The Commission considered whether certain types of OCTG should be classified as separate like products, by dividing OCTG into seamless and welded OCTG or into casing, tubing, and drill pipe. We also considered whether "green tubes" are a separate like product.

5/ 19 U.S.C. § 1677(10).

6/ Imported and domestically produced casing is used to provide a firm foundation for the drill string by supporting the walls of the hole to prevent caving both during drilling and after the well is completed and to prevent contamination of the oil or gas at the surface by water, sand, or other matter. Casing must be sufficiently strong to resist both external pressure and internal pressure within the well.

7/ Oil well tubing is used to conduct the oil or gas from the subsurface strata to the surface. It must be strong enough to support its own weight, that of the oil or gas, and any pumping equipment suspended on the drill string.

8/ Drill pipes are used to transmit power from ground level to below the surface in order to rotate the bit and are also used to conduct drilling fluid down to flush drill cuttings to the surface, where they can be removed.

9/ The API sets nonbinding standards for characteristics, such as strength, which are used by the oil industry to set standards for pipes to be used in different oil wells.

Respondents argued that seamless and welded OCTG are separate like products. 10/ Although seamless and welded pipes and tubes are produced by different manufacturing processes, that is by different machines, the characteristics and uses of most seamless and welded OCTG appear to be the same. 11/ Respondents have argued that welded pipes and tubes are used for shallow oil wells, where less strength is required, and seamless pipes and tubes are used for deep oil wells. However, certain welded pipes and tubes, such as Lone Star's products, are substitutable for the seamless pipes and tubes in deep well drilling and will be substituted if the price is cheaper. 12/ We, therefore, conclude that seamless and welded OCTG are one like product. 13/

The Commission also considered whether casing, tubing, and drill pipe are separate like products. There is evidence on the record that casing is

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10/ Respondents have argued that in past cases involving pipes and tubes, the Commission has separated welded from seamless pipes and tubes. However, as noted in the preliminary investigations, in all of those past cases, OCTG were considered separate products that were not like the specific pipes and tubes under investigation. See Certain Seamless Steel Pipes and Tubes from Japan, Inv. No. 731-TA-87 (Final), USITC Pub. 1347 at 4 (1983); Certain Welded Carbon Steel Pipes and Tubes from the Republic of Korea, Inv. No. 701-TA-168 (Final), USITC Pub. 1345 (1983); Certain Welded Carbon Steel Pipes and Tubes from the Republic of Korea and Taiwan, Invs. Nos. 731-TA-131 and 132 (Preliminary), USITC Pub. 1389 (1983).

11/ The metallurgical qualities of welded OCTG are different at the weld along the pipe, whereas in seamless OCTG, the metallurgical qualities are uniform throughout the pipe. Lone Star, the petitioner, however, makes its welded OCTG by a process in which the entire tube is heated, thereby also making the metallurgical qualities uniform throughout the pipe.

12/ Although only seamless pipe is suitable for drill pipes, API specifications for many grades of casing and tubing specify that either seamless or welded pipe is acceptable.

13/ There is evidence that seamless OCTG for certain high strength applications could be considered a separate like product. The domestic producers have testified, however, that such products represent less than two percent of the market for OCTG. Further, the Commission does not have the data to break out production for seamless OCTG for high strength applications.

substitutable for tubing in certain situations. For example, casing is substituted for tubing in certain high volume wells, such as on the North Slope of Alaska. 14/ Further, neither petitioners nor respondents argued for separate casing and tubing industries. We, therefore, conclude that casing and tubing are one like product.

In contrast to casing and tubing, drill pipe has distinct characteristics and uses. Casing and tubing are used to conduct oil or gas to the surface. Drill pipe, on the other hand, is used to transmit power from ground level to below the surface in order to rotate the bit. In contrast to casing and tubing, drill pipe is thicker and is made from only seamless pipe. These are some of the reasons why domestic producers testified that casing and tubing cannot be substituted for drill pipe. 15/ We, therefore, conclude that drill pipe should be considered a separate like product. 16/ 17/

Finally, the Commission considered whether semifinished "green tubes" should be considered a separate like product. The Tubular Corporation of

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14/ See GC Memorandum, GC-H-206 at 5.
15/ See Transcript of the hearing (Tr.) at 43-44.
16/ Commissioners Eckes and Lodwick disagree with this determination. See their additional views.
17/ See discussion at 10.

America, Inc. (TCA), a processor of OCTG, has argued that the Commission should consider semifinished "green tubes" as separate like products. 18/

TCA, however, has admitted that the imported "green tubes" can be used in shallow wells, as limited service or API, low end, H-40 material. 19/ This was confirmed in a conversation with a buying agent for a small end user in Houston, Texas, who, after examining the specifications for "green tubes" in the questionnaire, stated that, if the "green tubes" were threaded and coupled in the United States, he would use them down hole in shallow wells. 20/

TCA replies that, although its "green tubes" could be used in the limited service market, they are too expensive. From posthearing submissions, however, it appears that "green tubes" are sold at prices which are competitive with the prices of limited service OCTG. 21/ We, therefore, conclude that since the characteristics and uses of "green tubes" as defined by TCA are the same as those of other imported OCTG, they are the same like product.

18/ TCA defined "green tubes" in the preliminary investigation as semifinished hollow seamless products of circular cross section suitable for further advancement, by processing such as austenitizing, quenching and tempering, straightening, and threading, to a condition conforming to API specifications for oil well casing, tubing, or drill pipe. In the final investigation, TCA defines "green tubes" as:

> A hollow steel product of circular cross section meeting the following characteristics:
> 1. The product must be seamless, and;
> 2. The steel must have not more than 0.30 percent carbon content, and;
> 3. The steel must have not more than 1.40 percent manganese content, and;
> 4. The steel must have a ferritic [certain chemical] structure, and;
> 5. The product must be intended for further advancement, by heat treating and other processing, to a condition that meets or exceeds API specifications for oil well casing, tubing, or drill pipe.

19/ Tr. at 225.

20/ *See* GC Memorandum, GC-H-330 at 4.

21/ Report of the Commission (Report) at A-16.

Finally, the staff has contacted the major seamless OCTG producers in the country and asked them whether they could break out their data for "green tube" production. Three of the producers that accounted for over 67 percent of U.S. producers' shipments of seamless OCTG in January-September 1984 stated that they could not break out their data in such a manner. In cases where we cannot obtain separate data on production of the like product, section 771(4)(D) authorizes the Commission to examine the next largest group of products for which data are available, in this case all OCTG except drill pipe.

For the above reasons, we conclude that there is one domestic OCTG industry producing seamless and welded casing and tubing, including semifinished "green tubes." 22/

Condition of the domestic industry

The domestic OCTG industry experienced a tremendous boom in 1981. Following this, the industry suffered a precipitous decline which reached its nadir in 1983. Although there has been a substantial upturn in 1984, all indicators continue to show material injury.

Domestic production of OCTG declined 87 percent from 4.5 million short tons in 1981 to 578,000 short tons in 1983. Capacity utilization fell dramatically from 97 percent in 1981 to 11 percent in 1983, although capacity increased slightly during the period. During 1983, most of the OCTG productive facilities in the United States were closed for a portion of the year.

U.S. producers' shipments of OCTG, including exports, followed the same trend as production, declining from 4.9 million short tons in 1981 to 833,000

22/ The data for this industry include some data for drill pipe, but because drill pipe represents less than three percent of domestic shipments, inclusion of this data will not distort the data for the entire domestic industry.

short tons in 1983. During the same period, the ratio of inventories to shipments increased from 6 percent in 1981 to 24 percent in 1983.

During the period of investigation, employment declined sharply by 85 percent from 25,808 workers in 1981 to 3,868 workers in 1983. As a result of wage concessions from employees, total compensation per hour decreased by 10 percent from $19.50 per hour in 1981 to $17.63 per hour in January-September 1984.

During the reporting period, net sales plunged by 91 percent from $6.1 billion in 1981 to $540 million in 1983. Operating income plummeted from a positive $1.8 billion, or 29.5 percent of net sales in 1981, to an operating loss of $331 million, or 61.4 percent of net sales, in 1983.

One of the 19 reporting firms sustained an operating loss in 1981, eight firms sustained operating losses in 1982, and 16 firms sustained such losses in 1983. The number of firms sustaining operating losses during interim 1984 was 11 firms, as compared with 13 firms during the corresponding period of 1983.

We note, however, that domestic industry indicators improved in the first three quarters of 1984 as compared to the same period of 1983. Production increased substantially, capacity utilization improved, shipments increased, inventories were reduced, and employment levels rose. The domestic industry sustained an aggregate operating loss of $129 million, or 14.7 percent of net sales, during interim 1984, as compared with an operating loss of $188 million, or 58.0 percent of net sales, during the corresponding period of 1983. However, all indicators were still at substantially lower levels than at the beginning of the investigative period.

<u>Imports of drill pipe</u>

Since there are no imports of drill pipe from Brazil, Korea, or Spain, we have concluded that they are not a cause of material injury to the domestic OCTG industry and should be excluded from this investigation.

ADDITIONAL VIEWS OF CHAIRWOMAN PAULA STERN

I have found, as have the majority of my colleagues, that the domestic OCTG industry is materially injured by reason of subsidized imports from Brazil and Spain, 1/ and is not materially injured by reason of subsidized imports from Korea. 2/ While I agree with the thrust of the arguments proffered by my colleagues concerning material injury to the domestic industry by reason of imports from Brazil and Spain, I have found it appropriate in this case to cumulate these imports, with each other as well as with unfairly traded imports of the same products from Mexico and Argentina. I am also in agreement with my colleagues' reasoning and conclusion concerning imports from Korea, although my analysis incorporates additional justification. I therefore set forth these separate views.

1/ Except for imports of drill pipe. The Commissioners supporting this finding are Commissioners Eckes and Rohr. (Commissioner Eckes did not exclude drill pipe.)

2/ The Commissioners supporting this finding are Vice Chairman Liebeler and Commissioner Lodwick.

I. Material Injury by Reason of Imports from Brazil and Spain

Although several factors in addition to imports from the countries under investigation have been mentioned as explanation for the injury suffered by the domestic industry, 3/ it is clear the market share captured by these unfairly traded imports have contributed to the injury suffered by the domestic industry. The presence of very low priced unfairly traded imports in the market during an industry downturn has served to capture domestic market share, as well as to further suppress prices. While these imports generally have tracked consumption, and most industry indicators have shown significant improvement in 1984, domestic market share has not shown a parallel recovery, falling from 60 percent in 1981 to 42.3 percent during January-March 1984.

3/ Primary factors mentioned were the precipitous decline in demand for oil drilling products in late-1982 and 1983, a subsequent inventory level which doubled between 1981 and 1983, and increases in imports from other countries (not subject to this investigation).

Cumulation 4/

In this investigation, factors and conditions of trade are such that I have found it appropriate to cumulate imports from Brazil and Spain, as well as imports from Argentina and Mexico, 4a/ which have also been

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4/ For cumulation to be appropriate, it must be demonstrated that "the factors and conditions of trade in the particular case show its relevance to the determination of injury." S.Rep. No. 93-1298, 93d Cong., 2d Sess. 180 (1974). There are no specific references to cumulation in the Trade Agreements Act of 1979 or its legislative history, although a general reference to "the conditions of trade and competiton" is found in S.Rep. 96-249, 96th Cong., 1st Sess., 74 (1979).

This investigation was brought prior to the enactment of the Trade and Tariff Act of 1984. However, I am cognizant of its direction to the Commission to cumulate unfairly traded imports when they are directly competitive with each other and with those products of the domestic industry.

4a/ It should be noted that while the inclusion of these imports strengthens my affirmative finding, their inclusion is not dispositive.

found by the Department of Commerce to be subsidized. 5/ 6/

First, these imports are directed to the same end-users and to the same geographical market. Most OCTG enters the U.S. through the port of Houston, 7/ since most domestic drilling activity is situated in the Gulf Coast and Southwestern U.S. OCTG pass through the same channels of distribution. Imports from these countries are also similarly priced at the low end of the market.

5/ The subsidy margins are .90 percent ad valorem for the product from Argentina and 5.84 percent ad valorem for the product from Mexico. Import penetration for Argentina was 0.3 percent in 1981, 0.4 percent in 1982, 1.1 percent in 1983, 1.0 percent in January-September 1983, and 0.6 percent in January-September 1984. Import penetration for Mexico was 0.1 percent in 1981, less than 0.05 percent in 1982, 0.8 percent in 1983, 0.5 percent in January-September 1983, and 1.8 percent in January-September 1984. Because neither Argentina nor Mexico is a signatory to the subsidies code, material injury to the domestic OCTG industry need not be established. Nevertheless, if conditions of trade are such that cumulation is warranted, it is permissible.

6/ I did not, however, find it appropriate to cumulate the unfairly traded imports from Korea with the unfairly traded imports of the other foreign OCTG producers. The Department of Commerce found a subsidy of .53 percent for imports from Korea, in contrast to simple average rates of 20.52 percent for Brazil and 19.8 percent for Spain. Because the Korean imports are not a contributing cause of the domestic industry's injury, and because the competitiveness of the Korean product is attributable to factors other than their unfair advantage, Korean imports are not included in my analysis of cumulation. See my analysis of causation regarding Korea, infra.

7/ See petitioner's prehearing brief at 23.

Moreover, imports from each of these countries have simultaneously increased from their 1981 level. 8/ Cumulated, import market share of Brazil, Spain, Argentina and Mexico rose from 2.4 percent in 1981, to 4.3 percent during the January-September 1983 period, to 6 percent in interim 1984.

Imports from Brazil and Spain

Although cumulated imports from Brazil and Spain alone fell 77 percent from 1981 to 1983, from 167,000 short tons to 38,000 short tons, along with the precipitous drop in consumption of oil country tubular goods, domestic shipments fell 83 percent during the same time period and apparent consumption decreased 81 percent. Consequently, Brazilian and Spanish market share steadily rose throughout the period from 2.1 percent in 1981 to 2.6 percent in 1983. When apparent consumption and domestic shipments increased substantially in interim 1984, imports from Brazil and Spain also increased 76 percent, from 29,000 short tons in January-September 1983 to 106,000 short tons, in January-September 1984 9/ Thus

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8/ The ratio of Brazilian imports to apparent U.S. consumption was .7 in 1981, .9 in the interim January-September 1983 period, and 1.6 in the interim 1984 period.

The ratio of Spanish imports to apparent U.S. consumption was 1.4 in 1981, 1.9 in the interim 1983 period and 2.0 in interim 1984.

The ratio of Argentine imports to apparent U.S. consumption was .3 in 1981, 1.0 in the interim 1983 period and .6 in the interim 1984 period.

The ratio of Mexican imports to apparent U.S. consumption was .1 in 1981, .5 in the interim 1983 period and 1.8 in interim 1984.

9/ Table 17, Report at A-26.

imports as a share of apparent consumption continued to rise in 1984, from 2.8 percent during the January-September 1983 period to 3.6 percent in interim 1984.

Although available pricing data on imports from Brazil and Spain did not allow for an analysis of trends, imports from both countries undersold the domestic product by substantial margins in each quarter where comparisons could be made.

In the case of Brazil, margins of underselling ranged from 4.3 percent to 39.3 percent. 10/ Regarding Spain, margins of underselling ranged from 28 percent to 44 percent in the five quarters where comparisons with the domestic product could be made. 11/ This substantial and apparently consistent underselling of the domestic product by Brazilian and Spanish OCTG imports, which is largely attributable to the amount of subsidization 12/ accounts at least in part for the steep fall in producers prices throughout the period, and is responsible in a major way for the failure of U.S. prices to rebound when OCTG consumption increased. 13/

10/ Report at A-32, and Table 22.

11/ Report at A-33 and Table 22.

12/ The Brazilian and Spanish subsidies, calculated by the Department of Commerce were 11.35 percent and 25.24 percent in the case of Brazil, and between 11.29 percent and 24.74 percent in the case of Spain.

13/ See Tables 20 through 22, Report at A-30-32.

Thus, I conclude that unfair imports, rather than domestic producers, have benefitted from the return of demand for oil country tubular goods and the reduction of domestic inventories. The continuous increase in import penetration of Brazil and Spain to its most recent level of 3.6 percent, and its combination with the unfair imports from Mexico and Argentina, totalling a market share of 6 percent, is indeed materially significant in light of the decline in U.S. producer market share from 60 percent in 1981, to 55.4 percent in 1983, and its continued, and even more abrupt decline to 42.3 percent in the most recent period. The volume of imports from Brazil and Spain, their impact on domestic OCTG prices and the consequent impact of these imports, along with those from Argentina and Mexico, establish that the domestic industry has suffered material injury by reason of unfairly traded imports, pursuant to section 771(7)(B) of the Tariff Act of 1930.

II. No Material Injury or Threat of Material Injury by Reason of Unfair Imports from Korea

Imports from Korea have also tracked consumption, falling slightly from 122,000 short tons to 115,000 short tons between 1981 and 1982, and then abruptly to 48,000 short tons in 1983. In 1984, when demand recovered, imports from Korea increased fivefold from 34,000 short tons in January-September 1983 to 205,000 short tons in the corresponding period of 1984. Korean market share, like that of Brazil and Spain, has risen over the course of the investigation, from 1.5 percent in 1981, to 3.2 percent in 1983, and to its highest level of 6.9 percent during January-September 1984. 14/

Considering their growing presence in the U.S. market, what distinguishes the imports from Korea from the imports from Brazil and Spain? We are directed by the statute (section 771(7)(B)) to examine the volume of imports, their impact on domestic prices and their consequent impact on the domestic industry. The statute also clearly mandates in section 771(C)(ii) that the Commission consider certain factors in "evaluating the effects of imports" in our analysis of causation. Increased import volume, market penetration, and even underselling of the domestic product, do not alone establish the causal link to an industry's material injury, if it cannot also be shown that the unfairly traded imports had a traceable effect on the industry's material injury.

In the case of imports from Korea, there is no such traceable effect of these imports on the condition of the domestic industry.

First, there has been no tangible price effect of these imports on prices of the most directly competitive domestic product. Korean imports since 1983 have consisted only of welded casing and tubing, most of which

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14/ Report at Tables 17 and 18, A-26-28.

is commodity steel grade J-55. Since September 1983, available pricing data from questionnaire respondents show that domestic prices of the comparable domestic product have consistently climbed back toward their originally high level of 1981. 15/ Although they are still some distance from their peak, there is a clear upward trend, indicating that domestic producers in competition with Korean imports, in contrast to those from Brazil and Spain, have been able to participate in the upswing in domestic consumption.

Moreover, it is clear that when profit and loss data are broken down by product grouping, the financial injury experienced by domestic producers is far more pronounced for seamless OCTG. 16/ There are no Korean imports, at least after 1983 of this product. Although profit levels for both seamless and welded OCTG were basically the same in 1981 and 1982, in 1983 seamless losses were 145 percent greater than those for welded OCTG. In the interim period ending in September 1983, seamless losses were similarly 126 percent more than welded losses. The trend continued into 1984, when profit levels for both seamless and welded began to move toward the break-even point. However, seamless OCTG were still almost three times further away from the black than welded OCTG. Thus, questionnaire data which reveal little negative impact of the Korean

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15/ See Table 21 and Table 22, Report at A-31 and 32.
16/ Compare Table C-9 and Table C-10, Report at A-76 and A-77.

product on U.S. producer prices is apparently borne out by profit and loss data disaggregated by product line.

No Threat of Material Injury

I concur with my colleagues that the absence of threat of material injury is demonstrated by the relatively low level of importers' inventories of Korean OCTG in the most recent period, particularly in comparison to domestic inventories, and the increasing prices of the Korean product. 17/ We have no information concerning increases in Korean capacity for production of OCTG. 18/

The Subsidized Amount of the Korean Imports Has Had No Material Effect on the Conditions of the Domestic Industry

Properly included in an assessment of the impact of the unfairly traded imports on the condition of the domestic industry is consideration of the amount by which the imports are being subsidized. Such consideration allows for an analysis of the extent to which the competitiveness of the imports in the U.S. market and the injury to U.S. producers is accounted for by the subsidized character of the imports, or whether this can be attributed to other factors. 18a/ Furthermore, the

17/ Report at Table 9 and Table 21.

18/ In this regard it should be noted that domestic producers should be able to increase their market share considerably insofar as beginning January 1, 1985, Customs has been directed to limit imports of oil country tubular goods from the EC to 8.8 percent of the U.S. market. During January-September 1984 the EC accounted for more than 20 percent of U.S. apparent consumption.

18a/ It should be noted that LTFV and subsidized sales on the part of signatories to the Subsidies Code are not necessarily "unfair." Under Title VII such sales are unfair only when shown to result in material injury to domestic producers.

countervailing and antidumping provisions of the Tariff Act are aimed only at subsidies and sales below fair value, not at imports _per se_. Thus, the remedy afforded by the statute is a special additional duty to offset the subsidy or the amount by which the product is sold at less than fair value. Common sense suggests, therefore, that the amount of harm and the magnitude of the remedy are related. Under normal circumstances, the harm caused by the LTFV or subsidized sales is small when the subsidy calculated by the Department of Commerce is tiny or negligible. If the competitive advantage of imports is much greater, perhaps indicated by large margins of underselling, then logic suggests that most of the injury results from conditions having nothing to do with Title VII. 18b/

18b/ Even if a minor, yet material portion of the injury can be tied to LTFV or subsidized sales, an affirmative decision is mandated.

This is clearly the situation in the case of OCTG imports from Korea. For all firms, the Department of Commerce calculated a weighted average subsidy margin of .53 percent, .03 percentage points above what the Department commonly recognizes as not legally cognizable. However, Korea was able to undersell the domestic product by margins ranging from 1 to 23 percent. It is apparent from this comparison that subsidies have not contributed in any perceptible fashion to the ability of Korean producers to successfully compete in the U.S. market. Had the Commission found affirmatively and a countervailing duty gone into effect, Korean producers would still be able to undersell the U.S. industry to the same extent and domestic producers would still be injured in the same degree. Therefore, though the subsidy margins were not *de minimus*, their economic impact was. 18c/

18c/ This conclusion also dictates the advisability of not cumulating the Korean imports with the other subject imports. The conditions of competition are too markedly different.

Petitioners, among others, have made the argument that as a matter of law the scope of the subsidy margin found by the Department of Commerce is irrelevant to the Commission's determination. Should a negative determination be based on the size of the subsidy, petitioners argue, it would be, in effect, a circumvention of the Commerce Department decision. They continue to state that

> "nowhere in the law is there any requirement or even authority for the Commission to investigate the link between injury or threat and the level of subsidization,"

and that

> "a majority of the Commission has consistently adhered to the view that injury or threat is not to be linked with the subsidy margin, but rather with the imports."

Petitioners add that in the most recent amendments to the antidumping law, contained in the Trade and Tariff Act of 1984, Congress purposefully left language unchanged which petitioners interpret direct the Commission to consider imports, and not the margin provided by the Department of Commerce. 19/

I would like to respond to each of these arguments.

First, connecting the unfair trade practices found by the Department of Commerce to the material injury they do or do not cause in no way overrules decisions made by the Department of Commerce, as petitioners suggest. To take into account the margin of subsidization as one of the factors considered in an analysis of causation is merely

19/ See Transcript at 27-28.

to evaluate "how the effects of the net bounty or grant relate to the injury," as admonished by the Senate Finance Committee in 1979. 20/

20/ The Senate Finance Committee's "Report on the Trade Agreements Act" (Senate Report) directs the Commission to continue its practice of looking to the effects of the net subsidy in its countervailing duty determinations:

> In determining whether injury is "by reason of" subsidized imports, the ITC now looks at the effects of such imports on the domestic industry. The ITC investigates the conditions of trade and competition and the general condition and structure of the relevant industry. It also considers, among other factors, the quantity, nature, and rate of importation of the imports subject to the investigation, and how the effects of the net bounty or grant relate to the injury, if any, to the domestic industry. Current ITC practice with respect to which imports will be considered in determining the impact on the U.S. industry is continued under the bill. (Emphasis added.)
>
> Senate Comm. on Finance, Trade Agreements Act of 1979, S. Rept. No. 96-249, 96th Cong., 1st Sess. (1979) at 57.

With even greater significance and clarity, the Senate Report goes on to add:

> While injury caused by unfair competition, such as subsidization, does not require as strong a causation link to imports as would be required in determining the existence of injury under fair trade import relief laws, the Commission must satisfy itself that, in [the] light of all the information presented, there is a sufficient causal link between the subsidization and the requisite injury. (Emphasis added.)
>
> *Ibid.* at 58.

A review of the drafting of the Subsidies and Antidumping Codes contains background on what should be used to determine causation of material injury --

> [T]he language finally agreed upon provided that: "[i]t must be demonstrated that subsidized imports are, through the effects of the subsidy, causing injury within the meaning of this Agreement."
>
> Richard Rivers and John Greenwald: The Negotiation of a Code on Subsidies and Countervailing Measures: Bridging Fundamental Policy Differences, 11 L. & Pol'y Int'l Bus. 1447, 1457 (1979).

(Footnote 20 continued on next page)

Presumably, petitioners base their conclusion on the literal reading of the statute which states that the Commission shall determine whether material injury is "by reason of imports of the merchandise." 21/ Even though the statute also directs the Commission to examine "the effects of the subsidized imports," according to this view the statute does not say the Commission is to determine whether injury is by reason of the amount of the subsidy or the amount by which the goods are priced below fair value.

Indeed, in light of the legislative history behind the Trade Agreements Act, 22/ Commission precedent of substantial magnitude which both precedes and follows its

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(Footnote 20 continued from previous page)

The Director-General of GATT in April of 1979 described the negotiations at the Tokyo Round on this same issue:

> Many participants took the firm position that . . . [t]he existence of a significant material injury must be proven and the causal link between injury and the particular subsidy established.
>
> Director-General of GATT, The Tokyo Round of Multilateral Trade Negotiations, 59.

See also U.S. Office of Special Trade Representative, Background Papers on MTN, Subsidies and Countervailing Duties (May 2, 1979).

21/ E.g., section 701(a), 703(a) and 705(b) -- which deal with the countervailing duty determinations of the Commission -- employ this phrase, along with 731(a), 733(a) and 735(b) which concerns antidumping determinations.

22/ See note 5, supra.

enactment, _23/_ the consistency of such precedent with the International Subsidies Agreement negotiated in the

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_23/_ For the most exhaustive treatment of prior Commission practice regarding margins analysis see N. David Palmeter, "Countervailing Subsidized Imports: The International Trade Commission Goes Astray," 2 Pacific Basin Law Journal 1983, at pp. 6-17.

Examples of the long-standing adoption of the Commission under the 1921 Act, linking the dumping margin to the injury are:

- o _Plastic Mattress Handles from Canada_, Inv. No. AA1921-57, T.C. Pub. 198, Oct. 1969.
- o The most recent unanimous determination expressing this reasoning is _Welded Stainless Steel Pipe and Tube from Japan_, Inv. No. AA1921-180, USITC Pub. 889, July 1979.
- o _Certain Zoris from the Republic of China_, Inv. No. 303-TA-1, USITC Pub. No. 787, Sept. 1976.
- o _Welded Stainless Steel Pipe and Tube from Japan_, Inv. No. AA1921-180, USITC Pub. 899, July 1978.
- o _Certain Fish from Canada_, Inv. No. 303-TA-3, USITC Pub. No. 919, Sept. 1978.
- o _Unlasted Leather Footwear Uppers from India_, Inv. No. 701-TA-1 (Final), USITC Pub. No. 1045, March 1980.
- o _Certain Iron-Metal Castings from India_, Inv. No. 303-TA-13 (Final), USITC Pub. No. 1098, Sept. 1980.

Examples of adoption of margins analysis by a minority of the Commission are:

- o _Carbon Steel Wire Rod from Brazil, Trinidad and Tobago_, 731-TA-113 and 114 (P), USITC Pub. No. 1316, Nov. 1982.
- o _Certain Welded Carbon Steel Pipes and Tubes from the Republic of Korea and Taiwan_, 731-TA-131, 731-TA-132 (F), USITC Pub. No. 1519., April, 1984.
- o _Certain Carbon Steel Products from Spain_, Inv. Nos. 701-TA-155 through 160 and 162 (Final), USITC Pub. 1331 (Dec. 1982).

Although the majority of the Commission did not treat the subsidy amount as "among the factors" they considered, they did suggest the subsidy level may merit consideration as a "factor within the meaning of section 771(7)(B) of the Act which directs the Commission to consider "among other factors" the volume and effect of imports. 19 U.S.C. 1671(F)(B)(1981).

Tokyo Round 24/ and common sense, the Commission has the authority to consider and should consider "margins analysis" (or in this case, subsidy impact analysis) as one necessary factor in its consideration of a causal nexus. I submit that contrary to petitioners' arguments, the intent of the drafters of both the subsidies code and the Trade Agreements Act was not that we must necessarily analyze the effect of the subsidized imports on the domestic industry with "blinders," altogether ignoring the Department's determination. To do so would overlook the purpose behind the transmittal of these margins to the Commission, the timing of the concurrent investigations undertaken by the Commission and the Department, and indeed, our bifurcation of responsibilities. 25/

24/ The International Subsidies Agreement, which placed limits on the use of subsidies in international trade and authorized countervailing duties in accordance with its terms provides:

> It must be demonstrated that the subsidized imports are, through the effects of the subsidy, causing injury within the meaning of this agreement. There may be other factors which at the same time are injuring the domestic industry, and the injuries caused by other factors must not be attributed to the subsidized imports.

Subsidies agreement at Article 6, para. 4 (emphasis added), Agreements Reached in the Tokyo Round of the Multilateral Trade Negotiations, H.R. Doc, No. 153, 96th Cong., 1st Sess. Pt. 1, 259-309 (1979).

25/ See Lloyd Granet, "ITC Injury Determination in Countervailing Duty Investigations," Law and Policy in International Business, Vol. 15, No. 3, 1983, especially pp. 1000-1001, where the author suggests one reason for requiring the ITC to wait for Commerce's preliminary investigation is that Congress believed Commerce's preliminary indication of the nature and amount of the subsidy would be a significant input into the ITC investigation.

Analogous arguments of congressional intent are found in Congress's direction regarding the Commission's consideration of threat under section 771(7)(E)(i) and in the construction of section 104(b) of the Trade Agreements Act, which provides for review investigations of outstanding countervailing duty orders.

Section 771(7)(E)(i) provides:

> Nature of Subsidy -- In determining whether there is threat of material injury, the Commission shall consider such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement) provided by a foreign government and the effects likely to be caused by the subsidy. 26/

In section 104(b) investigations, the Commission must, by necessity, examine the Department's subsidy margin in order to assess what effect an outstanding order has had on pricing and other marketing strategies of the importers and exporters subject to it. 27/ Other than the fact that the analysis is essentially prospective in nature, there is little difference in the statutory criteria under which the Commission determines the effects of imports.

26/ The Commission has relied on section 771(7)(E)(i) in Leather Wearing Apparel from Uruguay, Inv. No. 701-TA-68 (F), USITC Pub. No. 1144, May 1981; Hot Rolled Carbon Steel Plate from Brazil, Inv. No. 701-TA-84(P), USITC Pub. No. 1207, Jan. 1982, and Hot Rolled Carbon Steel Plate from Brazil, Inv. No. 701-TA-87 (P), USITC Pub. 1221, Feb. 1982.

27/ One 104(b) investigation where a unanimous Commission, in effect, performed "margins analysis" was Bottled Green Olives from Spain, Inv. No. 104-TAA-22, USITC Pub. No. 1531, May, 1984, at pp. 9-10.

Finally, petitioners note that no amendments to the antidumping law were contained in the Tariff and Trade Act of 1984 which specifically enunciate the appropriateness of margins analysis as a discretionary analytic tool. They conclude this indicates the intent of Congress that the Commission ignore the effect of subsidies on the domestic industry. Rather, I believe the fact that language concerning "the effects of the subsidized imports" was left unchanged, and that Congress made no negative reference to previous legislative history or to 25 years of Commission precedent, demonstrates that Congress's intent in 1984, as it was in 1979, is that margins analysis remain as it is, completely consistent with the International Subsidies Agreement of the Tokyo Round.

Additional Views of Vice Chairman Liebeler and Commissioner Lodwick

Overview of the Oil Country Tubular Goods Market

The injury that the domestic industry experienced from 1981 to 1983 had its origin not in subsidized imports from abroad, but in the declining market for oil and natural gas. From 1979 through 1981, as oil prices rose and price controls were phased out, the industry expected drilling for oil and natural gas to increase. From 1979 to 1981 actual consumption roughly doubled and imports quadrupled. Inventories were expanded significantly over this period in order to supply demand from anticipated growth in drilling activity.

In 1981 OPEC began to weaken and with it oil prices fell. As a result, exploration and drilling activity declined sharply. Because of the large stocks available, demand for OCTG was satisfied mainly out of inventory and domestic production was brought almost to a halt. Imports reflected this drop in demand. From 1981 to 1983, apparent consumption declined by 81 percent and imports by 79 percent. The actual decline in aggregate imports exceeded 2.5 million tons. This factor indicates that subsidized imports were not the reason for the injury, but instead the decline in drilling was responsible.

The following paragraphs individually discuss imports from Brazil, Spain, and Korea. In all three cases imports dropped sharply from 1981 to 1983, indicating that the imports from none of the countries under investigation caused material injury to the domestic industry. As market conditions improved in 1984 import volumes also rebounded. However, imports from Spain remained below earlier levels and imports from Brazil merely returned to previous levels. Imports from Korea did expand beyond previous levels, but had no material affect on the domestic industry, as domestic prices and all of the primary indicators of the condition of the industry improved substantially.

No material injury or threat of material injury by reason of the subject imports

On the basis of the information developed in these investigations, we conclude that imports from Brazil, imports from Spain, and imports from Korea are not causes of material injury or threat of material injury to the domestic industry. Our determinations are based on consideration of, among other factors, the volumes of the subject imports, the effect of those imports on prices in the United States for the like product, and the impact of such imports on shipments by the domestic industry.

Brazil. The volume of imports from Brazil has remained at a low level throughout the period of investigation. The general stability of import volumes is seen in the reported import figures of 53 thousand tons in 1981, 56 thousand tons in 1982 and 54 thousand tons for the twelve months ending September 1984, the latest period for which data is available. In 1983, the year in which virtually all indicators of the health of the domestic industry were at their low point, import volumes sank to only 15 thousand tons, roughly 70 percent below the previous level. Not only has the volume of imports remained steady, but the market penetration has remained minimal. Over the twelve month period ending September 1984, imports averaged only 1.5 percent of apparent consumption. Given all of the factors prevailing in this market, we conclude that such volumes, trends in volume, and market penetrations are too small to cause material injury in this case.

With respect to the question of threat of material injury, additional pertinent information includes that importer inventories are small, actual inventory levels have declined, and the ratio of stocks to shipments has fallen. Further, production capacity of the Brazilian exporters is minimal relative to U.S. consumption, and the two Brazilian producers who produce primarily for export have not increased their capacity since 1981. Thus, we find no threat of material injury.

Spain. The volume of imports from Spain declined substantially from 1981 to 1982 and decreased sharply again in 1983. Import volumes have partially recovered in 1984, but the import total of 65 thousand tons for the twelve month period ending September 1984 is still less than 60 percent of the 1981 figure. In addition, the market penetration has remained minimal. Over the twelve month period ending September 1984, imports averaged just 1.8 percent of apparent consumption. We conclude that such volumes and market penetrations are too small to cause material injury in this case.

Additional information germaine to the question of threat of material injury includes the following: 1) importer inventories, though up from year earlier totals, have declined slightly in relation to importer shipments, and the actual level of stocks remains miniscule. 2) The most current data on the production capacity of the Spanish producers shows a sharp curtailment between 1981 and 1983. I conclude that imports from Spain pose no real and imminent threat of material injury to the domestic industry.

Korea. The volume of imports from Korea declined slightly from 1981 to 1982 and then fell sharply in 1983. The 1983 import level was approximately 60 percent below the 1981 volume. In 1984 imports rose, and the volume of imports during the twelve months ending September 1984 33
exceeded the total for 1981.

In examining the effects of the subject imports on prices in the United States and the impact of such imports on the domestic industry, we find no evidence of material injury by reason of these imports. Although domestic prices are currently below the levels achieved during the demand peak, prices declined to their low point in mid-1983 while Korean imports were still declining sharply. Since mid-1983 domestic prices for products comparable to those imported from Korea have risen approximately 15 percent as Korean imports have increased. Virtually all of the other indicators of the health of the U.S. industry also strengthened substantially during the most recent period while Korean imports increased. For instance, financial data supplied by U.S. producers on their operations producing welded OCTG, the only variety imported from Korea, show that their aggregate gross margin, which represents the relationship between revenues received from sales and the cost of the goods sold, improved by 39 percentage points from the year 1983 to the nine month period ending September 1984. Based on the information available we find no material injury due to imports from Korea.

On the question of threat of material injury we further find 1) that importers are maintaining relatively low inventory levels, with the ratio of inventories to shipments at the end of September 1984 being only about one half of the ratio for U.S. producers, and 2) that since 1983 Korean prices have risen, and have risen in a manner comparable to prices for domestically produced material. We conclude that the evidence indicates no real and imminent threat of material injury to the domestic industry.

ADDITIONAL VIEWS OF COMMISSIONER LODWICK

Definition of the Domestic Industry

I have considered whether certain types of OCTG should be classified as separate like products by dividing OCTG into casing and tubing, and drill pipe. I conclude that casing and tubing and drill pipe should be considered one like product. The record suggests that OCTG are most commonly considered one drilling unit. Further, neither petitioners nor respondents have argued for separate casing and tubing, and drill pipe industries.

With respect to other issues regarding the definition of the domestic industry I concur with the preceding views of the Commission.

Cumulation

I have determined that cumulation is not appropriate for these investigations. The decision whether to cumulate is discretionary, and is made on a case-by-case basis. Among the factors the Commission generally considers are:

-The volume and trend in volume of the subject imports

-The fungibility of imports

-Competition for end users

-Channels of distribution

-Simultaneous impact

-Coordinated action by importers.

The volumes and trends in volume of the imports from Brazil, Spain, and Korea have been previously described. For all three foreign industries the actual volumes are small. With respect to trends in volumes, imports from Spain have been generally declining, imports from Brazil have been steady, and imports from Korea, after declining initially, have recently risen. The import trends from Spain and Brazil tend to mirror trends in production capacity. The capacity of the Spanish industry has been sharply curtailed since 1981. Conversely, capacity in Brazil has been stable. No evidence on capacity in the Korean industry is available.

Though I have concluded that OCTG is one like product, this does not mean that all OCTG is fungible. A like product determination is based on similarity of characteristics and uses. For instance, petitioners assert that in 98 percent of applications, API specifications state that either seamless or welded product is acceptable. This indicates a high degree of similarity in characteristics and uses. Conversely, fungibility of products implies that users do not differentiate between them. In these investigations, purchaser responses to Commission questionnaires indicate that on the average 48 percent of the product they purchase must be of seamless construction. This implies a lack of fungibility. The Korean producers supply only welded OCTG to the U.S. market. The majority of Spanish imports are seamless OCTG. In addition, all of Spain's exports are unfinished, and Spain supplies the so called green tubes which have been previously discussed in the Commission's joint views. Brazilian producers supply both welded and seamless OCTG. The majority of imports are welded, but the newest Brazilian entrant to the U.S. market, starting in 1983, produces seamless OCTG. There are also indications that the quality, as opposed to the grade, of the Korean OCTG is comparable to domestic output, while the Brazilian and Spanish OCTG is perceived as inferior.

With respect to other competition for end users among the producers in the three nations, it is noteworthy that pricing practices appear to be different. Though head to head comparisons are limited, prices for Korean and Spanish material have risen since 1983 while prices for Brazilian OCTG have fallen. Also, prices for Korean product appear to be notably higher than comparable Brazilian prices, while Brazilian and Spanish prices are more similar.

Finally, the channels of distribution are similar and the imports impact the market coincidentally. However, no indications of coordinated action by importers were discerned.

Based on the above information and the overall record I conclude that cumulation is not warranted for these cases.

VIEWS OF COMMISSIONER ECKES ON CAUSATION

The Commission agrees that the domestic OCTG industry has been and continues to be experiencing material injury. The evidence, in my view, indicates clearly that injury to the industry is occurring by reason of subsidized imports from each of the three countries subject to this investigation -- Brazil, Korea, and Spain.

In reaching this conclusion, I am cognizant that factors other than imports have contributed to the unhealthy condition of the domestic industry. However, Congress has directed the Commission not to weigh causes of injury in Title VII cases, but to ascertain whether there is a causal link between any material injury found and the unfair imports in question. The Commission must consider, among other factors, the volume of imports, the effect of imports on the prices of the like product in the United States, and the impact of imports on domestic producers.

When considering the volume of imports, the Commission should be guided by section 771(7)(C) of the 1979 Trade Agreements Act which makes it clear that significant volume or significant absolute increases in volume are not the only indicators of a potentially injurious situation. Finding a small absolute volume of imports does not preclude finding a causal connection between those imports and material injury to the domestic industry producing the like product. The Commission also has an obligation under this section of the Act to consider any significant increase in import volume relative to production or consumption of the product in the United States.

It is the relative increase in imports from each of the three countries under investigation that I find significant in these cases.

During the January to September 1984 period when the market for OCTG turned up and domestic producers' shipments increased 151 percent over the same period in 1983, the domestic industry's share of U.S. consumption declined 12.5 percentage points while the share for imports from each of the three countries investigated increased. The extent of those increases is discussed on a country-by-country basis below.

When imports from the three countries under investigation are aggregated, the volume in the 1984 interim period was not large--only 311,000 short tons. 1/ However, this represents a 427 percent increase over the volume for the same period in 1983. Imports from the three countries totaled $120 million in the 1984 interim compared to $24 million during the same period in 1983. More importantly, the ratio of aggregate imports to consumption climbed four percentage points in the 1983-1984 interim comparison. The aggregate share of consumption held by imports from the three countries reached 10.5 percent in the 1984 interim period, almost triple the 1981 ratio.

Two Commissioners have cumulated imports to reach affirmative determinations in this investigation and thus will stress aggregate data. Under current law, the Commission has discretion to cumulate in these cases, although I did not find it necessary. Each case warranted an affirmative determination on its own merits in my view.

On another issue I differ from the majority of my colleagues. I do not find drill pipe a separate like product and thus do not exclude it from this investigation. The fact that the three countries investigated apparently have

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1/ Data discussed in these views are taken from the staff report on this investigation.

not shipped drill pipe to the U.S. during the January 1981-September 1983 period is not reason enough to separate drill pipe from other OCTG in these cases. Until drill pipe is fitted with a bit and drill collars, it is distinctive only in that it is a strong, thick-walled form of seamless tubing. The API specifications for drill pipe include a range of thicknesses which reportedly overlap to some degree the specifications for certain casing. It does not seem reasonable, therefore, to exclude drill pipe on the basis of distinctive characteristics and uses.

The Commission staff did collect some separate data on domestic drill pipe for this investigation, but the data is far from complete. Therefore, they have included data on drill pipe with that for other OCTG in reporting domestic industry performance in the Commission report. Although the Commission may be able to collect adequate, separate data on drill pipe in a future investigation, for these cases, I believe section 771(4)(D) requires the Commission to include drill pipe in the larger class for which we do have data--OCTG.

Brazil

The volume of OCTG imports from Brazil followed the pattern of imports from Spain and Korea as well as domestic shipments by decreasing sharply between 1982 and 1983. However, in the January to September 1984 period, the volume of imports from Brazil climbed more than 488 percent over the comparable 1983 period. The share of U.S. consumption captured by imports from Brazil during interim 1984 was almost double the share during the comparable 1983 period. Although the absolute import volume and share of U.S. consumption during the 1984 period were small, the rate of increase in volume and in penetration of the U.S. market were significant.

Brazilian imports of OCTG undersold the domestic product in all instances where the Commission could make comparisons. Margins of underselling ranged from 4.3 percent to 39.3 percent for comparable types of OCTG during the time periods covered.

The petitioners claim that since their price lists are published, importers could undercut their prices without their knowledge. Therefore, they did not not provide specific instances of lost sales to the Commission. Other domestic producers did claim sales lost to imports from Brazil on the basis of price and one instance was confirmed by Commission staff. Also several claims of lost revenues were confirmed--instances in which domestic producers lowered their prices to meet Brazilian import competition.

Korea

The rise in imports of OCTG from Korea during the January to September 1984 period was an even more dramatic 503 percent compared to the same period in 1983. Although the absolute volume of imports amounted to only 16 percent of the total for domestic shipments during the period, the rate of increase in the volume and in the ratio of imports to consumption were significant. The import share of consumption increased from 3.7 percent in the 1983 interim period to 6.9 percent in 1984. This is a substantial increase from the 1.5 percent share held by Korea in 1981.

In 20 out of 24 instances in which direct price comparisons could be made by Commission staff, imports from Korea undersold domestic OCTG during the investigation period by margins that ranged from 1 percent to 23 percent. Larger margins of underselling--up to 44 percent--were estimatd by staff for ERW-normalized tubing in 1984. The Commission did not confirm any sales lost to imports from Korea, but they did confirm lost revenues on two transactions.

The Commerce Department has determined an average subsidy rate for Korean OCTG imports that is much lower than those found for imports from various firms in Spain and Brazil. However, the Korean rate is not considered de minimis by Commerce. That administering authority has determined the presence of subsidized Korean OCTG imports in the U.S. marketplace.

The Commission's task is to determine whether those subsidized imports are injuring the domestic industry. If there were ever any doubt about whether Congress intended the Commission to consider the relative size of a subsidy rate in determining injury causation, that doubt should be dispelled by reading the debate on the 1984 Trade and Tariff Act. 2/ Margin analysis was excluded deliberately from the realm of Commission consideration by those forming that legislation. Therefore, the Commission should not allow the small subsidy rate found for OCTG imports from Korea to color its injury analysis in this investigation.

Spain

Imports of OCTG from Spain also increased a substantial 247 percent in January - September 1984 when compared to the same period in 1983. There was only a slight increase in the ratio of imports from Spain to U.S. consumption in the interim comparison, but that ratio increased at a time when the ratio of domestic shipments to consumption was decreasing.

Spanish OCTG undersold U.S.-produced tubing by margins ranging from 28 to 44 percent during the five quarters for which the Commission staff could make pricing comparisons. Although the staff could not confirm any specific sales lost to imports from Spain, one instance of lost revenue was confirmed.

2/ Congressional Record, July 26, 1984, H7908-H7909.

Summary

The volume of imports from each of the three countries under investigation, although small in absolute terms, increased at a significant rate in 1984. The volume from each country has grown as a share of U.S. consumption while domestic shipments have decreased as a share of consumption. The market for OCTG may have turned up in 1984, but the domestic producers were not able to take full advantage of that upturn either in terms of their shipments or their pricing.

OCTG is essentially fungible and the market is therefore price-sensitive. Both the data collected by the Commission and reports of OCTG buyers confirm that subsidized imports from Brazil, Korea, and Spain are substantially underselling the domestic product. This has put pressure on the domestic industry to reduce prices for their product, and reductions since 1982 are evident in the data collected by the Commission.

The domestic industry has suffered two disasterous years and is still operating at a substantial loss. The industry is very vulnerable to injury from even a small volume of subsidized imports. In 1983 apparent U.S. consumption of OCTG had declined 81 percent from 1981 and imports from all sources had captured almost 45 percent of the U.S. market. Under such conditions, any increase in the volume of unfairly traded imports such as occurred in 1984 must be injurious. Therefore, I find that subsidized imports from Brazil, Korea, and Spain respectively are a cause of material injury to the domestic OCTC industry.

ADDITIONAL VIEWS OF COMMISSIONER ROHR

I have determined that subsidized imports of OCTG, as defined in the joint views of the Commission to exclude drill pipe from Brazil, Korea, and Spain are causing material injury to the domestic industry producing such OCTG in the United States. I concur with my colleagues in the joint views as to the issues of like product/domestic industry and with the description of the OCTG industry as one which is experiencing material injury. In these additional views I am setting forth the reasons for my conclusion that subsidized imports from the countries under investigation, Brazil, Korea, and Spain are a cause of that injury.

Looking first at the imports from the countries under investigation individually, imports from Brazil increased slightly from 1981 to 1982, dropped in 1983 and then have increased during the first nine months of 1984 more than three times the level for all of 1983. 1/ As a share of apparent consumption, Brazilian imports climbed from .7 percent in 1981 to 1.3 percent in 1982, declining slightly to 1.0 percent in 1983. The Brazilian market share for the first nine months of 1984 was 1.6 percent compared with 0.9 percent for the comparable period of 1983, reflecting continuing growth in Brazilian imports. 2/

With respect to the prices of these imports, the Commission investigation has revealed that for each of the quarters for which comparisons can be made Brazilian OCTG has undersold the comparable U.S. products by margins ranging from approximately 4 to 39 percent. 3/ The Commission's investigation

1/ Report at A-26, Table 17.
2/ Report at A-27, Table 18.
3/ Report at A-32.

confirmed three instances of lost sales to Brazilian imports, accounting for somewhat less than 1000 tons and 2 instances of lost revenues, which cannot be definitively linked to the Brazilian imports.

Korean imports decreased slightly from 122,000 tons to 115,000 tons between 1981 and 1982, dropped substantially to 48,000 tons in 1983 before increasing to a record level of 205,000 tons in the first nine months of 1984. 4/ As a percentage of apparent consumption, Korean imports have increased steadily from 1.5 percent in 1981 to 2.6 percent in 1982 to 3.2 percent in 1983. In the first nine months of 1984 Korean imports accounted for 6.9 percent of apparent consumption compared to 3.7 percent for the comparable period of 1983. 5/

With respect to prices, the Commission was able to obtain comparative price data between U.S. and Korean prices for a substantial amount of Korean imports during the period of investigation. These prices reveal a consistent pattern of underselling in 20 to 24 instances of comparison. 6/ The margins of underselling ranged from 1 percent to 23 percent. There were several instances in which the Commission has confirmed that sales of domestic OCTG were lost to Korean imports and in which domestic companies were forced to lower prices to meet Korean competition.

Spanish imports of OCTG decreased from 114,000 tons in 1981 to 54,000 tons in 1982. Imports continued to decrease in absolute terms to 23,000 tons in 1983 before increasing to 59,000 tons in the first nine months of 1984. 7/

4/ Report at A-26, Table 17.
5/ Report at A-27, Table 18.
6/ Report at A-32.
7/ Report at A-26, Table 17.

However, as a percentage of apparent consumption Spanish imports decreased slightly from 1.4 percent in 1981 to 1.2 percent in 1982 and increased to 1.6 percent in 1983. They have continued to increase in the first nine months of 1984 to 2.0 percent as compared to 1.9 percent in the comparable period of 1983.8/

The Commission has received limited pricing data regarding Spanish OCTG, primarily relating to the latter half of 1983 and 1984. This information however reflects substantial price underselling ranging from 28 to 44 percent.9/ The effect of the price of Spanish imports on domestic producers is further supported by the Commission's investigation of lost sales and lost revenue allegations.

Petitioners in this investigation argue that the Commission should look at the cumulative effect of all unfairly traded OCTG rather than the imports from individual countries. In this investigation, based upon both preexisting Commission practice or upon the standards set forth in the Tariff and Trade Act of 1984, I believe it is appropriate to cumulate at least imports from the three countries under investigation. 10/ The principal market for imports of all three countries is in the oil fields of Texas, Oklahoma, and Louisiana. In 1984 virtually all imports from Brazil, Korea, and Spain entered the United States from the Gulf Coast ports of Texas and Louisiana.11/ The OCTG from all three countries are sold through the same channels of distribution, as is domestic pipe. As the Commission

8/ Report at A-27, Table 18.
9/ Report at A-32.
10/ It may also be appropriate to cumulate imports from other countries, but it is not necessary to do so to reach my conclusion. In the interest of efficiency and economy, I decline to address the theoretical issue of whether to cumulate, for example, imports from Argentina and Mexico.
11/ Report at A-16, Table 8.

investigation revealed, many distributors of OCTG buy imported pipe from all three of these countries as well as from other countries and domestic producers, creating the classic situation in which cumulation is appropriate.

Looking at the cumulative effect of imports, the volume of imports from the three countries under investigation declined between 1981 and 1983 and, as in the case of each individual country showed very considerable increases in the first nine months of 1984.[12/] The import penetration ratio rose from 3.6 percent in 1981 to 5.1 percent in 1982, to 5.9 percent in 1983. Nine month data for 1984 show imports from these three countries under investigation rising to 10.5 percent of apparent consumption compared with 6.5 percent in the comparable period of 1983.[13/] As indicated previously, the prices of OCTG from each country were substantially below U.S. domestic prices and followed the same declining trends.

Based upon the foregoing, I conclude that subsidized imports of OCTG excluding drill pipe from Brazil, Korea, and Spain are causing material injury to the domestic industry producing OCTG.

12/ Report at A-26, Table 17.
13/ Report at A-27, Table 18.

INFORMATION OBTAINED IN THE INVESTIGATIONS

Introduction

On June 13, 1984, counsel for Lone Star Steel Co. and CF&I Steel Corp. filed countervailing duty petitions with the U.S. International Trade Commission and the U.S. Department of Commerce alleging that an industry in the United States was materially injured and was threatened with material injury by reason of imports from Brazil, Korea, and Spain of oil country tubular goods provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States (TSUS), which are alleged to be subsidized. 1/ On July 23, 1984, the Commission unanimously determined that there was a reasonable indication that an industry in the United States was materially injured by reason of such imports. 2/ 3/ On September 12, 1984, Commerce published in the Federal Register its preliminary affirmative determinations that the manufacturers, producers, or exporters of oil country tubular goods in Brazil, Korea, and Spain receive subsidies. The Commission, effective September 12, 1984, instituted final countervailing duty investigations Nos. 701-TA-215 through 217 (Final) under the provisions of the Tariff Act of 1930 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 into the United States. Commerce published its final subsidy determinations on November 27, 28, and 30 1984, respectively and the statute directs that the Commission make its final injury determinations within 45 days after the final determinations by Commerce, or, in these investigations, by January 10, 11, and 14, 1985 respectively.

Notice of the institution of the Commission's investigations and of a hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of October 29, 1984 (49 FR 43526). 4/ The hearing was held in Washington, DC, on November 29, 1984. 5/ The briefing and vote on these investigations were held on January 2, 1985.

1/ On Aug. 3, 1984, LTV Steel Co. also became a petitioner in these investigations.

2/ Chairwoman Stern found that there was a reasonable indication that an industry in the United States was materially injured or threatened with material injury by reason of such imports.

3/ Oil Country Tubular Goods from Argentina, Brazil, Korea, Mexico, and Spain: Determinations of the Commission in Investigations Nos. 701-TA-215 through 217 (Preliminary) . . ., USITC Publication 1555, July 1984.

4/ Copies of the Commission's and Commerce's notices are presented in app. A.

5/ A list of witnesses appearing at the hearing is presented in app. B.

Other Investigations Concerning Oil Country Tubular Goods

On June 12, 1984, the Commission determined in investigation No. TA-201-51, on carbon and certain alloy steel products, under section 201 of the Trade Act of 1974, that increased imports of steel pipes and tubes were not a substantial cause of serious injury, or threat thereof, to the domestic industry producing articles like or directly competitive with the imported articles. 1/ The steel pipes and tubes which were the subject of the section 201 investigation included the oil country tubular goods that are the subject of the instant investigations, as well as other pipes and tubes that are not the subject of these investigations.

On June 13, 1984, at the same time the petitions for the instant investigations were filed, counsel for the petitioners filed countervailing duty petitions with Commerce concerning imports of oil country tubular goods from Argentina and Mexico. Since these countries are not signatories to the Subsidies Code of the General Agreement on Tariffs and Trade, the Commission is not required to make injury determinations concerning imports from these countries which are alleged to be subsidized. On September 12, 1984, Commerce published in the Federal Register its final affirmative determinations that the manufacturers, producers, or exporters of oil country tubular goods in Argentina and Mexico receive benefits which constitute subsidies. The subsidy margins are 0.90 percent ad valorem for the product from Argentina and 5.84 percent ad valorem for the product from Mexico. As a result of these subsidy determinations, Customs will begin collecting additional duties on imports of oil country tubular goods from these countries entered on or after September 12, 1984.

On June 13, 1984, counsel for the petitioners also filed antidumping petitions with the Commission and Commerce concerning imports of oil country tubular goods from Argentina, Brazil, Korea, Mexico, and Spain. On July 23, 1984, the Commission unanimously determined that there was a reasonable indication that an industry in the United States was materially injured by reason of such imports. 2/ 3/ Commerce is scheduled to make its preliminary determinations in these antidumping investigations on or before January 9, 1985.

1/ Carbon and Certain Alloy Steel Products: Report to the President on Investigation No. TA-201-51 . . ., USITC Publication 1553, July 1984.

2/ Chairwoman Stern found that there was a reasonable indication that an industry in the United States was materially injured or was threatened with material injury by reason of such imports.

3/ Oil Country Tubular Goods from Argentina, Brazil, Korea, Mexico, and Spain: . . .Determinations of the Commission in Investigations Nos. 731-TA-191 through 195 (Preliminary) . . ., USITC Publication 1555, July 1984.

Description and Uses

The term "oil country tubular goods (OCTG)" refers to casing, tubing, and drill pipe for use in drilling oil and gas wells and for transporting oil and gas to the surface.

Casing is used in the drill hole to provide a firm foundation for the drill string by supporting the walls of the hole to prevent caving, both during drilling and after the well is completed. After the casing is set, concrete is pumped between the outside of the casing and the wall of the hole to provide a secure anchor. Casing also serves as a surface pipe to prevent contamination of the recoverable oil and gas from surface water, gas, sand, or limestone. Casing must be sufficiently strong to resist both external pressure and pressure within the well. Because the amount of open hole that can be drilled at any one time is limited, a string of concentric layers of casing is used for larger wells.

Tubing is used within the casing to conduct the oil or gas from the subsurface strata to the surface either through natural flow or through pumping. Casing is often substituted for tubing in high-volume wells. Tubing must be strong enough to support its own weight, that of the oil or gas, and any pumping equipment suspended on the drill string.

Drill pipe is used to transmit power from ground level to below the surface in order to rotate the bit, and it is also used to conduct drilling fluid (mud) down to the bit to flush drill cuttings to the surface, where they can be removed. Drill pipe must have sufficient tensile strength to support its own weight and that of drill collars and the drill bit. Brazil, Korea, and Spain have not exported drill pipe to the United States during January 1981-September 1984.

During January 1983-September 1984, according to data received in response to Commission questionnaires, casing accounted for 79.1 percent of U.S. producers' shipments, on a tonnage basis, tubing accounted for 19.2 percent, and drill pipe 0.3 percent. Other tubes (including green tubes) accounted for 1.5 percent of U.S. producers' shipments.

Oil country tubular goods are generally produced according to standards and specifications established by the American Petroleum Institute (API). The American Petroleum Institute is a trade organization involved in writing basic minimum design standards for materials used in the oil and gas industries to ensure safety, reliability, and interchangeability of parts. The API has been instrumental in standardizing dimensions and properties in oil country tubular goods specifications for casing, tubing, and drill pipe (API STD 5A), high-strength casing, tubing, and drill pipe (API STD 5AX), and casing and tubing with restricted yield strengths (API STD 5AC). These standards, which are sometimes used by the Government as Federal standards, were adopted by API after careful research and industry consensus. They offer oil country tubular goods purchasers a guide for selecting equipment with proper outside diameters, wall thicknesses, and steel grades to perform under nearly every combination of stresses. The vast majority of oil country tubular goods in use today meets API ratings for such items. However, there are items for use in specialized applications which do not carry an API rating only because these oil country tubular goods have not been sufficiently used or tested for API to write standards for this equipment. Firms also produce products to their own proprietary specifications, and these products compete with products made to API specifications. Other nonAPI and nonproprietary material may be used in shallow wells and under drilling conditions where high-strength and high-quality pipe are not required. Oil country tubular goods are inspected and tested at various stages in the production process to ensure strict conformity to API or proprietary specifications. Oil country tubular goods are of either seamless or welded construction and can be produced from various grades of steel. Most oil country tubular goods are of carbon steel. Almost half of all casing and tubing and virtually all drill pipe produced in the United States are of seamless construction.

Ten producers, which accounted for 74 percent of total shipments in 1983, provided information concerning their shipments of API and nonAPI oil country tubular goods. According to this information, 80 percent of total shipments conformed to API specifications, 12 percent were low-grade, limited-service products, and 8 percent were high-grade products made to proprietary specifications. Less than 0.5 percent of the shipments in 1983 were green tubes.

According to questionnaire responses, all of the imports of oil country tubular goods from Brazil and Korea conformed to API specifications. Of the imports from Spain, * * * percent were green tubes and * * * percent were API products.

Seamless oil country tubular goods are produced by forming a central cavity in solid steel stock. The central cavity may be formed either through the rotary piercing and rolling process or through extrusion. Most seamless oil country tubular goods are produced through the rotary piercing method, the more traditional method for producing such material. Rotary piercing is described by AISI in its publication, <u>Steel Products Manual</u>: <u>Steel Specialty Tubular Products</u>, as follows:

> <u>Rotary Piercing and Rolling</u> operations produce the great bulk of seamless steel tubular products. A conditioned steel round of proper grade, diameter and weight is heated to a suitable forging temperature and rotary pierced in one of several available types of mills which work the steel and cause it to flow helically over and around a so-called piercer-point yielding a seamless hollow billet. This billet is then roller elongated either in a succession of plug mills or in one of several mandrel mills. Finally the elongated steel is sized by further rolling without internal support in one or more of the sizing mills. . . the tension mill stretches the material between stands and actually makes wall reduction possible; the rotary sizing mill frequently is used in conjunction with one of the other mills to make final precision sizing of the outside diameter.

The extrusion process is described in the same AISI publication as follows:

> Extrusion process also starts with a conditioned steel round of desired grade, diameter and weight. This billet may be cold drilled and hot expanded, or hot punched-pierced either separately or in the extrusion process. The drilled or punched billets are hot extruded by axially forcing the material through a die and over a mandrel.

Welded oil country tubular goods are formed by passing flat-rolled products through a series of forming rollers which form the products into cylindrical shapes to be seam welded. The most commonly used process for welding oil country tubular goods is electric resistance welding (ERW) in which the cylinder edges are heated to a very high temperature with an electric resistance welder and are forced together under pressure exerted by rolls. After welding, the tube is then treated to make the molecular structure of the weld identical to that of the rest of the tube. Although most of the welded oil country tubular goods are electric resistance welded, some large-diameter (over 24 inches) material which is used in offshore drilling is submerged arc welded. Under this process the cylinder edges are connected using molten metal from a welding rod. Regardless of welding process, the wall thicknesses of all welded oil country tubular goods are uniform, whereas the wall thicknesses of seamless oil country tubular goods are less uniform.

Seamless and welded oil country tubular goods are used interchangeably in several applications. API specifications for most grades of casing and tubing specify that either seamless or welded pipe is acceptable. Exceptions include drill pipe and extremely thick casings, which API specifies must be seamless. According to responses to Commission questionnaires completed by 16 purchasers of oil country tubular goods, on the average 48 percent of the product they purchase must be of seamless construction. The remainder may be of either welded or seamless construction. These purchasers accounted for approximately 25 percent of apparent U.S. consumption of oil country tubular goods during January-September 1984.

The ends of almost all oil country tubing are processed through an operation known as upset ending. Upset ending is a forging process under which the end of the tubing is flared and thickened by heating and forcing it through a die and over a mandrel. This process adds tensile strength to the tubing walls, thereby compensating for the tensile strength which is lost when the material is threaded. Other finishing operations for oil country tubular goods may include quenching and tempering (heat treating) to raise minimum yield strength and hardness (typically for high-strength casing), threading, and application of a rust-preventative coating.

U.S. Tariff Treatment

The imported oil country tubular goods which are the subject of these investigations are classified under items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the TSUS. The rates of duty for imports of oil country tubular goods from most-favored-nations (MFN's) (col.1), 1/ and designated Communist countries (col.2), 2/ are presented in table 1.

Nature and Extent of Commerce's Findings of Subsidies

Commerce determined that the manufacturers, producers, or exporters of oil country tubular goods in Brazil, Korea, and Spain receive benefits from several Government programs which constitute subsidies. These programs are summarized by Commerce in its Federal Register notices (app. A). The average subsidy rates, as calculated by Commerce, are as follows (in percent ad valorem):

Brazil:	
Confab Industrial, S.A	24.97
Mannesmann, S.A	25.24
Persico Pizzamiglio, S.A	11.35
Korea (all firms)	0.53
Spain:	
Altos Hornos de Vizcaya, S.A	11.29
Babcock & Wilcox Espanola, S.A	24.74
Tubos Reunidos, S.A	18.37
Transformaciones Metalurgicas Especiales, S.A	24.74
Tubacex C.E. de Tubos per Extrusion, S.A	19.87

U.S. Market

The United States accounts for an estimated 65 percent of worldwide consumption of oil country tubular goods. Apparent U.S. consumption plummeted from a record 8.0 million short tons in 1981 to 1.5 million short tons in 1983, representing a decrease of 81 percent. Apparent consumption subsequently increased by 225 percent in January-September 1984 compared with

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

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

Table 1.— Oil country tubular goods: U.S. rates of duty as of Jan. 1, 1981, Jan. 1, 1984, and Jan. 1, 1987

(Cents per pound; percent ad valorem)

TSUS item No.	Oil country tubular goods covered	Rate of duty: Col. 1: Jan. 1, 1981	Rate of duty: Col. 1: Jan. 1, 1984	Rate of duty: Col. 1: Jan. 1, 1987	Rate of duty: Col. 2
	Pipes and tubes and blanks therefor of iron (except cast iron) or steel:				
	Welded, jointed or seamed, with walls not thinner than 0.065 inch and of circular cross section:				
610.32	0.375 inch or more in outside diameter, other than alloy steel	0.3¢	1.9%	1.9%	5.5%
610.37	0.375 inch or more in outside diameter, of alloy iron or steel	4.9% 1/	4.9% 1/	4.9% 1/	10% 1/
	Other:				
	Steel pipe conforming to A.P.I. specifications for oil well casing whether welded or seamless having a wall thickness not less than 0.156 inch:				
	Not threaded and not otherwise advanced:				
610.39	Other than alloy steel	0.1¢	0.5%	0.5%	1%
610.40	Alloy steel	0.1¢ +4% 1/	3.8% 1/	3.3% 1/	8.5% 1/
	Threaded or otherwise advanced:				
610.42	Other than alloy steel	7.5%	6.8%	6%	20%
610.43	Alloy steel	11% 1/	8.6% 1/	6.2% 1/	28% 1/
	Other:				
	Not suitable for use in the manufacture of ball or roller bearings:				
610.49	Other than alloy iron or steel, except hollow bars	10.5%	9.3%	8%	25%
610.52	Alloy iron or steel, except hollow bars	13% 1/	10.3% 1/	7.5% 1/	35% 1/

1/ Additional duties are assessed on imports under this item depending on the content of chromium, molybdenum, tungsten, and vanadium, as provided for in headnote 4, schedule 6, part 2, subpart B of the TSUS.

Source: Tariff Schedules of the United States Annotated.

the level of consumption in the corresponding period of 1983. Apparent U.S consumption is presented in the following tabulation (in thousands of short tons):

	Apparent consumption
1981	7,980
1982	4,424
1983	1,481
January-September--	
1983	910
1984	2,960

Throughout 1981, market analysts were projecting higher and higher levels of oil and gas well drilling, thus, distributors of oil country tubular goods bought all the product they could in order to be able to supply the anticipated demand. A large portion of U.S. producers' shipments and imports of oil country tubular goods were not actually used in oil and gas well drilling in 1981. Instead, these shipments and imports were held in inventory by the distributors. By yearend 1981, the level of inventories held by distributors was more than 70 percent higher than the level held at the beginning of the year (table 2).

Table 2.--Oil country tubular goods: Inventories, 1/ imports, U.S. producers' domestic shipments, and estimated actual consumption, 1981-83

(In thousands of short tons)

Item	1981	1982	1983
Beginning inventory	2,664	4,569	5,850
Imports from--			
Brazil	53	56	15
Korea	122	115	49
Spain	114	54	23
Subtotal	289	225	87
All other countries	2,901	2,291	575
Total imports	3,190	2,517	661
U.S. producers' domestic shipments	4,790	1,907	820
Ending inventory	4,569	5,850	3,975
Estimated actual consumption	6,075	3,143	3,356

1/ Inventories held primarily by distributors and end users.

Source: Inventories, Lone Star Steel Yard Survey; imports, compiled from official statistics of the U.S. Department of Commerce; U.S. producers' domestic shipments, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

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

By late 1981, however, it became apparent that demand for oil and gas was not going to increase as anticipated and, as a consequence, exploration for oil and gas dropped sharply. The level of drilling dropped to such an extent that inventories of oil country tubular goods continued to increase in 1982. In 1983, distributors of oil country tubular goods began to draw down this large inventory overhang and inventories decreased. Thus, in 1983, although drilling activity was higher than in 1982, U.S. producers' shipments and imports decreased as distributors supplied more than 50 percent of consumption from inventory.

Estimated consumption of oil country tubular goods (distributors' beginning inventory, plus imports, plus U.S. producers' domestic shipments, less distributors' ending inventories) decreased from 6.1 million short tons in 1981 to 3.1 million short tons in 1982, or by 48 percent. Estimated consumption then increased by 7 percent to 3.4 million short tons in 1983. The trend in estimated consumption followed the trend in the level of U.S. oil and gas drilling fairly closely.

The vast majority of U.S.-produced and imported oil country tubular goods is either of the J-55 or K-55 grades of steel. These two grades are used in shallow wells and in the shallower portion of deep wells. The distribution of U.S.-produced and Brazilian, Korean, and Spanish oil well casing during January 1983-September 1984, by grades, is presented in the following tabulation (in percent):

Steel grade	U.S. producers	Brazilian	Korean	Spanish
J-55	34	65	100	47
K-55	34	35	0	32
Subtotal	68	100	100	79
All other	32	0	0	21
Total	100	100	100	100

Shallow wells are those which are 5,000 feet or less in depth. 1/ Information on the depth of oil and gas wells is collected by the Oil and Gas Journal. 2/ This information shows that the average depth of the wells drilled in the United States varied little during 1981-84, as shown in the following tabulation (in feet):

	Average Depth of Wells
1981	4,547
1982	4,557
1983	4,211
1984 (Estimated)	4,292

1/ Posthearing brief of the petitioners, exhibit E, LTV Steels Tubular Division Response, p. 4.

2/ Oil and Gas Journal, Oct. 1, 1984.

U.S. oil drillings, and hence, U.S. consumption of oil country tubular goods, is concentrated in Texas, Oklahoma, and Louisiana. According to Hughes Tool Co., a producer of oil drilling equipment and supplies which gathers information on the number of oil drilling rigs worldwide, these three States accounted for 64 percent of the total active rigs in the United States, in March 1984, as shown in the following tabulation (in percent):

	Share of active rigs nationwide
Texas	36
Oklahoma	14
Louisiana	14
Subtotal	64
Kansas	5
Wyoming	5
California	4
New Mexico	3
All other	19
Total	100

Oil country tubular goods are sold by domestic mills either directly to the end users in the oil drilling industry (12 percent of total sales) or to distributors (87 percent of total sales) which in turn sell the pipes to the end users. Distributors are middlemen which buy large quantities of oil country tubular goods, typically at discount prices, warehouse the product, and sell smaller quantities to end users. The distributor typically buys either unfinished or finished oil country tubular goods from the mill and finishes the product, if necessary, before selling it. The finishing operations performed by distributors include threading, upsetting, testing, and cutting the material to length.

The Processors

Another type of middleman, the processor, has emerged in recent years. The processor may buy unfinished material (some of which is referred to as "green tubes") from the mill, finish the material on its own equipment, and sell the material either directly to end users or to distributors; or, the processor may perform operations on material owned by the mill or by the end user. The operations performed by processors include heat treating, quenching and tempering, as well as upsetting, threading, coupling, testing, and cutting to length.

The Tubular Corp. of America (TCA), an oil country tubular good processor, and counsel for the Spanish producers argue that "green tubes" are a separate like product and, thus, should not be included within the scope of the investigation. The petitioners, however, argue that "green tubes" are merely unfinished oil country tubular goods which require only a minimum of additional processing before they can be used in oilfield applications. Both TCA and the petitioners agree that the U.S. oil country tubular goods producers would be unable to provide the Commission with meaningful profit-and-loss data concerning their "green tube" operations.

The petitioners assert that green tubes, when threaded and coupled, can be used as limited service oil country tubular goods without any further processing. 1/ The limited service product does not meet API specifications for oil country tubular goods. It is either mill reject material or it is made to special order. TCA states that green tubes can theoretically be used as limited service pipe; however, according to TCA, purchasers would not be willing to buy high-priced green tubes from Spain and substitute them for low-priced noncertified limited service pipes. 2/ The Commission collected the following information concerning recent prices of green tubes and limited service pipes (per short ton):

* * * * * * *

The API began to issue licenses to process oil country tubular goods in early 1983. There are now 12 U.S. firms which have been granted such licenses. Nine firms process both welded and seamless oil country tubular goods; two firms, Tooltech Inc. and TCA, process only the seamless product; one firm, Fort Worth Pipe Co., processes only welded pipe.

Several of the processors have been involved in servicing the oil drilling industry for a number of years. For example, 8 of the processors are distributors of oil country tubular goods and 11 are independent testers of the tubes. In addition, several have previously been operating as API-licensed end finishers of oil country tubular goods engaged in upsetting, threading and coupling operations.

During January-September 1984, these firms processed about 172,000 short tons of oil country tubular goods, or about 6 percent of apparent U.S. consumption. TCA accounted for about * * * percent of the tonnage processed.

These 12 companies processed the bulk of this tonnage, about 80 percent, for resale to other distributors or end users. The processors also perform operations on material owned by the U.S. oil country tubular goods producers or by the end users. Such operations accounted for the remaining 20 percent of the oil country tubular goods processed in the United States.

These firms buy about 20 percent of their unprocessed oil country tubular goods from U.S. producers. They import the remainder from France, Italy, Japan, Mexico, Spain, the United Kingdom, West Germany, and Venezuela.

The processors handle all grades of oil country tubular goods. The most popular steel grades are as follows:

1/ Posthearing brief of petitioners, Dec. 6, 1984, pp. 7 and 8.
2/ Prehearing brief of TCA, Nov. 26, 1984, pp. 15 and 16.

Grade	Number of firms which handle
J-55	11
K-55	9
N-80	8
P-110	7
L-80	5
S-95	4
C-95	4
X	2

TCA processes only the higher grade, N-80 and P-110, pipes. The firm says that it is not economically feasible for it to process the low-grade J-55 pipes in its $50 million processing plant, and it has stopped taking orders for this grade. 1/ As a consequence, TCA does not buy unprocessed oil country tubular goods to make into J-55 product. Another processor, * * *, stated that because of his low debt ratio, he can profitably process all grades of oil country tubular goods in his * * * plant.

The U.S. Industry

There are 22 firms which are known to produce oil country tubular goods in the United States. The largest producers are Lone Star Steel Co., LTV Steel Corp., and U.S. Steel Corp., as shown in the following tabulation (in percent):

Firm and plant locations	Share of U.S. producers' shipments, January-September 1984
Lone Star Steel Co	***
Fort Collins, CO	
Lone Star, TX	
LTV Steel Corp.	
Jones & Laughlin Steel Inc	***
Aliquipa, PA	
Indiana Harbor, IN	
Youngstown, OH	
Republic Steel Corp	***
Chicago, IL	
Youngstown, OH	
Total LTV Steel Corp	***
U.S. Steel Corp	***
Duquesne, PA	
Fairfield, AL	
Gary, IN	
Lorain, OH	
Subtotal	***
Other firms	***
Total	100

1/ Transcript of the hearing, p. 235.

Three firms, National Pipe & Tube Co., Bethlehem Steel Corp., and Quanex Corp., ceased producing oil country tubular goods in December 1982, March 1983, and October 1984, respectively. These firms together accounted for * * * percent of U.S. producers' shipments in 1981. Two other firms, Maverick Tube Corp. and Central Steel Tube Co., which accounted for * * * percent of U.S. producers' shipments in 1981, have filed for reorganization under the provisions of the bankruptcy laws.

The Foreign Industries

Brazil

Three firms produce oil country tubular goods in Brazil. Two of the firms, Persico Pizzamiglio, S.A. and Confab Industrial, S.A., produce and export low-grade welded oil country tubular goods which are used in shallow wells. Production of oil country tubular goods by Confab and Persico * * * from * * * short tons in 1981 to * * * short tons in 1983. Production of these two firms then * * * to * * * short tons in January-September 1984 (table 3). Exports to the United States accounted for * * * percent of their total production in January-September 1984.

Table 3.--Oil country tubular goods: Production, capacity, and exports to the United States by Confab Industrial, S.A. and Persico Pizzamiglio, S.A., 1981-83, January-September 1983, and January-September 1984

* * * * * * *

The third Brazilian producer of oil country tubular goods, Mannesmann, S.A., a subsidiary of a German firm, produces seamless oil country tubular goods. It accounted for about * * * of Brazil's exports of oil country tubular goods to the United States in 1983, the first year it sold the product to the United States (table 4). The home market accounted for * * * percent of the firm's shipments during January-September 1984, and the U.S. market accounted for * * * percent of shipments in that period.

Table 4.--Oil country tubular goods: Production, capacity, and shipments by Mannesmann, S.A., 1981-83 and January-September 1984

* * * * * * *

Korea

Five firms produce oil country tubular goods in Korea--Dong Jin Steel Co., Ltd.; Hyundai Pipe Co., Ltd.; Korea Steel Pipe Co., Ltd.; Pusan Steel Pipe Industry Co., Ltd.; and Union Steel Manufacturing Co., Ltd. These firms produce and export welded carbon steel pipes and tubes which meet the lowest grade of the API oil country tubular goods specifications. There was no home market for oil country tubular goods in Korea during 1981-83. Virtually all of Korea's shipments of oil country tubular goods are exported to the United States, as shown in table 5.

Table 5.--Oil country tubular goods: Korean production and shipments, 1981-83, January-September 1983, and January-September 1984

Item	1981	1982	1983	Jan.-Sept.--	
				1983	1984
Production--1,000 short tons--	120	47	95	43	229
Shipments to--					
Home market					
1,000 short tons--	0	0	0	0	0
United States----------do----	112	43	88	37	206
All other--------------do----	0	1/	0	0	13
Total----------------do----	112	43	88	37	219
Shipments to the United States:					
as a share of total					
shipments-----------percent--	100	100	100	100	94

1/ Less than 500 short tons.

Source: Compiled from data submitted by counsel for the producers in Korea.

Spain

Altos Hornos de Vizcaya, S.A., and its subsidiary Laminaciones de Lesaca, S.A.; Babcock & Wilcox Espanola, S.A.; Tubos Reunidos, S.A.; Transformaciones Metalurgicas Especiales, S.A.; and Tubacex C.E. de Tubos per Extrusion, S.A., are the only known Spanish producers and exporters of oil country tubular goods to the United States. Data on the production, capacity, and exports of the Spanish mills are presented in table 6. The United States is Spain's single largest market for oil country tubular goods.

According to counsel for the Spanish exporters, 60 to 70 percent of Spain's exports of oil country tubular goods are seamless. The remainder is welded. All of the exports are unfinished, comprising the so called "green tubes" and plain-ended tubing and casing.

Table 6.--Oil country tubular goods: Spanish production, capacity, and exports, 1981-83

Item	1981	1982	1983
Production------------------1,000 short tons--:	106	47	55
Capacity--------------------------------do----:	128	58	61
Capacity utilization-----------------percent--:	83	81	90
Exports to--			
United States-------------1,000 short tons--:	116	63	22
All other markets---------------------do----:	3	13	12
Total--------------------------------do----:	119	76	34
Shipments to the United States as a share of total exports----------------------percent--:	97	83	65

Source: Compiled from data submitted by counsel for the Spanish producers.

Drilling rigs abroad

Home-market demand for oil country tubular goods is dependent upon the level of oil and gas drilling. Information on the level of drilling in Brazil, Korea, and Spain, as measured by the number of active rigs, is presented in table 7. These three countries operated a total of 71 rigs in March 1984, or about 3 percent of the 2,206 rigs operated in the United States during the same period.

Table 7.--Active oil and gas drilling rigs in Brazil, Korea, and Spain in March of 1982, 1983, and 1984

Country	1982	1983	1984
Brazil--------------------------:	93	98	65
Korea---------------------------:	0	0	1
Spain---------------------------:	14	9	5
Total------------------------:	107	107	71

Source: Hughes Tool Co. as published in the Oil & Gas Journal.

U.S. Importers

There are dozens of firms which import oil country tubular goods into the United States. In general, two types of concerns--independent trading companies and U.S. subsidiaries of foreign producers--import the product. Importers frequently act as distributors, warehousing the product and filling orders from inventory.

The vast majority of U.S. imports of oil country tubular goods from Brazil, Korea, and Spain enter through Houston, TX; New Orleans, LA; and Dallas-Fort Worth, TX, as shown in table 8.

Table 8.--Oil country tubular goods: Distribution of U.S. imports from Brazil, Korea, and Spain, by customs districts, January-September 1984

(In percent)

Customs district	Brazil	Korea	Spain
Houston, TX	86	80	74
New Orleans, LA	8	4	8
Dallas-Fort Worth, TX	0	0	15
All other	6	16	3
Total	100	100	100

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

Information concerning inventories held by importers of oil country tubular goods from Brazil, Korea, and Spain is presented in table 9.

Table 9.--Oil country tubular goods: Importers' end-of-period inventories and shipments of the product imported from Brazil, Korea, and Spain, 1981-83, January-September 1983, and January-September 1984

Item	1981	1982	1983	January-September--	
				1983	1984
Brazil:					
Inventories---short tons	***	***	***	***	4,424
Shipments---do	***	***	***	***	17,730
Ratio of inventories to shipments---percent	***	***	***	1/ ***	1/ 19
Korea:					
Inventories---short tons	10,446	20,971	8,617	11,803	21,548
Shipments---do	57,095	34,916	49,270	33,969	171,028
Ratio of inventories to shipments---percent	18	60	17	1/ 26	1/ 9
Spain:					
Inventories---short tons	***	***	***	***	***
Shipments---do	***	***	15,153	11,456	***
Ratio of inventories to shipments---percent	***	***	***	1/ ***	1/ ***

1/ Based on annualized shipments.

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

Consideration of Material Injury

The information presented in this section of the report was obtained from responses to questionnaires of the U.S. International Trade Commission. All known U.S. producers responded to the questionnaires. Some small firms, which accounted for 8 percent of total U.S. producers' shipments in 1981, were unable to complete all sections of the questionnaires.

Data in this section are for all oil country tubular goods. Drill pipe accounted for less than 3 percent of U.S. producers' shipments during January 1981-September 1984. Data on drill pipe are included in the information presented in this section. Should drill pipe be excluded, the trends in capacity, production, shipments, inventories, employment, and profitability would be the same.

The petitioners assert that seamless and welded oil country tubular goods are one like product. They state that in 98 percent of the applications, API specifications state that either seamless or welded product is acceptable. They also state that the prices of high-quality welded products are the same as the prices of comparable seamless products and that certain customers make no distinction between the seamless and welded product. In addition, the petitioners state that the U.S. producers of seamless oil country tubular goods make significant sales of low-grade oil country tubular goods which "compete in the same market in which low-grade welded [imported product] is sold." 1/

Counsel for the foreign producers argue that the Commission has always found that seamless and welded pipes and tubes were distinct like products and that the Commission should make a similar finding in these investigations. 2/ The welded product, they state, is potentially weaker than the seamless product. In addition, seamless and welded oil country tubular goods are produced and finished by different processes. As a consequence, according to counsel for the foreign producers, the seamless product is used in certain special applications, such as drill pipe, offshore drilling, and deep wells; welded oil country tubular goods are used in shallow wells. Another indication that seamless and welded oil country tubular goods are two like products, according to counsel, is the difference in prices: the prices of seamless oil country tubular goods are higher than the prices of welded oil country tubular goods.

Information concerning welded and seamless oil country tubular goods is separately presented in appendix C.

1/ Posthearing brief of the petitioners, pp. 2-4.

2/ The arguments on the distinction between seamless and welded oil country tubular goods can be found in the posthearing brief of the Korea Iron & Steel Association, p. 4; the posthearing brief of Confab and Persico, p. 2; and the posthearing brief of Mannesmann, pp. 1-7.

U.S. producers' capacity and production

U.S. producers' capacity to produce oil country tubular goods increased from 4.6 million short tons in 1981 to 5.1 million short tons in 1983, resulting in an increase of 9 percent in 2 years (table 10). It increased further, by 6 percent in January-September 1984 compared with the level of capacity in the corresponding period of 1983.

Table 10.--Oil country tubular goods: U.S. production, capacity, and capacity utilization, 1981-83, January-September 1983, and January-September 1984

Period	Production	Capacity	Capacity utilization
	1,000 short tons		Percent
1981	4,516	4,646	97
1982	1,963	5,053	39
1983	578	5,078	11
January-September--			
1983	350	3,784	9
1984	1,190	4,014	30

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

In 1981, several firms initiated programs to expand their capacity to produce oil country tubular goods. Many firms either abandoned or delayed their planned expansions in 1982 and 1983, when their production of oil country tubular goods plummeted.

U.S. production of oil country tubular goods decreased dramatically from 4.5 million short tons in 1981 to 578,000 short tons in 1983, or by 87 percent in 2 years. Production increased by 240 percent in January-September 1984 compared with the level of production in the corresponding period of 1983.

With the decrease in production, utilization of productive capacity devoted to the production of oil country tubular goods fell from 97 percent in 1981, to 39 percent in 1982, and 11 percent in 1983. In 1983, most of the U.S. oil country tubular goods productive facilities were closed for a portion of the year. U.S. producers utilized 30 percent of their productive capacity in January-September 1984.

U.S. producers' shipments

U.S. producers' shipments of oil country tubular goods followed the same trend as production (table 11). Total shipments decreased by 83 percent from 1981 to 1983 and then increased by 148 percent from January-September 1983 to the corresponding period of 1984. Exports accounted for 2 percent of total shipments during January 1981-September 1984.

Table 11.--Oil country tubular goods: U.S. producers' shipments, 1981-83, January-September 1983, and January-September 1984

(In thousands of short tons)

Period	Domestic shipments	Export shipments	Total
1981	4,790	72	4,862
1982	1,907	66	1,973
1983	820	13	833
January-September--			
1983	499	10	509
1984	1,253	8	1,261

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

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

U.S. producers' inventories

U.S. producers' yearend inventories of oil country tubular goods were equivalent to 6 percent of total annual shipments in 1981 (table 12). Inventories then increased to 21 percent and 24 percent of shipments in 1982 and 1983, respectively. Inventories have decreased to 18 percent of annualized shipments, as of September 30, 1984.

Table 12.--Oil country tubular goods: U.S. producers' inventories and shipments, 1981-83, January-September 1983, and January-September 1984

Period	Inventories	Shipments 1/	Ratio of inventories to shipments
	1,000 short tons		Percent
1981	278	4,806	6
1982	410	1,957	21
1983	201	822	24
January-September--			
1983	264	498	2/ 40
1984	292	1,220	2/ 18

1/ Shipments of firms which reported data on inventories.
2/ Based on annualized shipments.

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

Employment

The number of workers engaged in the production of oil country tubular goods decreased from 25,808 in 1981 to 3,868 in 1983, or by 85 percent (table 13). The producers reported that all of the decrease in employment can be attributed to lack of orders. The number of workers then increased to 7,289 in January-September 1984, up 115 percent from the number of workers in the corresponding period of 1983. Most of these workers belong to the United Steelworkers of America. Their total compensation decreased by 10 percent, from $19.50 per hour in 1981 to $17.63 per hour in January-September 1984. This decrease can be attributed to wage concessions negotiated between the unions and the employers.

Table 13.--Average number of production and related workers engaged in the manufacture of oil country tubular goods, hours worked by such workers, wages paid, and total compensation, 1981-83, January-September 1983, and January-September 1984

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	---------Per hour---------	
1981	25,808	53,131	$13.27	$19.50
1982	12,863	24,208	13.60	19.91
1983	3,868	7,042	12.82	19.77
January-September--				
1983	3,394	4,403	13.64	21.45
1984	7,289	11,347	12.89	17.63

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

Income-and-loss experience of U.S. producers

Nineteen firms supplied usable income-and-loss data concerning their operations producing oil country tubular goods. These 19 firms accounted for about 97 percent of U.S. shipments of such goods in January-September 1984. The 1981-83 period was one in which sales of oil country tubular goods plunged dramatically and profits turned to losses. Sales of such goods increased during interim 1984 compared with the corresponding period of 1983, and losses decreased somewhat during this period.

The income-and-loss experience of 19 U.S. producers on their operations producing oil country tubular goods is presented in table 14. Net sales plunged from $6.1 billion in 1981 to $540 million in 1983, a decline of 91 percent. During the interim period ending September 1984, net sales were

Table 14.--Income-and-loss experience of 19 U.S. producers on their operations producing oil country tubular goods, accounting years 1981-83, interim 1983, and interim 1984 1/

Item	1981	1982	1983	Interim period ended September 30-- 1983	Interim period ended September 30-- 1984
Net sales---1,000 dollars--	6,103,461	2,614,285	539,766	323,438	876,430
Cost of goods sold---do----	4,195,662	2,116,491	796,469	461,848	947,839
Gross income or (loss) do----	1,907,799	497,794	(256,703)	(138,410)	(71,409)
General, selling, and administrative expenses do----	108,128	135,822	74,394	49,337	57,092
Operating income or (loss) do----	1,799,671	361,972	(331,097)	(187,747)	(128,501)
Other income or (expense) 2/-------do	10,012	(33,136)	(47,638)	(21,995)	(21,421)
Net income or (loss) before income taxes--do----	1,809,683	328,836	(378,735)	(209,742)	(149,922)
Depreciation and amortization 3/----------do----	49,660	59,197	48,884	30,800	28,667
Cash flow from operations do----	1,859,343	388,033	(329,851)	(178,942)	(121,255)
Ratio to total net sales of--					
Gross income or (loss) percent--	31.3	19.0	(47.6)	(42.8)	(8.2)
Operating income or (loss)-----------do----	29.5	13.8	(61.4)	(58.0)	(14.7)
Net income or (loss) before income taxes do----	29.7	12.6	(70.2)	(64.8)	(17.1)
Cost of goods sold do----	68.7	81.0	147.6	142.8	108.2
General, selling, and administrative expenses do----	1.8	5.2	13.8	15.2	6.5
Number of firms reporting					
Operating losses----------	1	8	16	13	11
Net losses---------------	1	10	16	13	12

1/ Data for the 2 interim periods are for 17 producers.
2/ Only 9 of the reporting producers supplied "other income or expense" data.
3/ There were 16 producers which supplied depreciation and amortization data for 1981-83, and 13 of those firms supplied such data for the 2 interim periods.

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

$876 million, up 171 percent from the $323 million in net sales reported for the corresponding period of 1983. 1/

Operating income plummeted from a positive of $1.8 billion, or 29.5 percent of net sales, in 1981 to an operating loss of $331 million, or 61.4 percent of net sales, in 1983. The 19 firms sustained an aggregate operating loss of $129 million, or 14.7 percent of net sales, during interim 1984, compared with an operating loss of $188 million, or 58.0 percent of net sales, during the corresponding period of 1983.

One of the 19 reporting firms sustained an operating loss in 1981, 8 firms sustained operating losses in 1982, and 16 firms sustained such losses in 1983. The number of firms sustaining operating losses declined to 11 firms during interim 1984, compared with 13 firms during the corresponding period of 1983.

The 19 firms reported positive cash flows of $1.9 billion and $388 million, respectively, in 1981 and 1982, but sustained negative cash flows in the other reporting periods, ranging from $330 million in 1983 to $121 million during interim 1984. 2/

Capital expenditures.--In 1981, the year of record sales, several U.S. producers of oil country tubular goods initiated programs to expand and improve their capacity to produce the product. As a consequence, capital expenditures, as reported by 11 firms, nearly doubled from $53 million in 1981 to $103 million in 1982 (table 15). In 1982, shipments of oil country tubular goods plunged and the expansion programs were abandoned or delayed. In 1983, capital expenditures declined to * * * percent of their level in 1982, and in 1984 such expenditures continued to decrease.

Investment in productive facilities.--Eleven firms supplied data concerning their investment in productive facilities employed in the production of oil country tubular goods. As shown in table 16, their aggregate investment in facilities employed in the production of oil country tubular goods, valued at cost, ranged from a low of $768 million, as of the end of 1981 to a high of $834 million, as of September 30, 1984. The book value of such facilities ranged from a high of $518 million, as of the end of 1982 to a low of $* * * million, as of the end of 1983.

1/ During 1983, U.S. producers' customers pared their inventories of oil country tubular goods by returning such goods to the seller. For example, * * * reported net sales of $* * * in 1981 and negative net sales of * * *.

2/ The positive cash flows are understated and the negative cash flows are overstated as 3 firms did not provide depreciation and amortization data.

Table 15.--Oil country tubular goods: U.S. producers' capital expenditures, 1/ 1981-83, January-September 1983, and January-September 1984

(In thousands of dollars)

Item	1981	1982	1983	January-September-- 1983	January-September-- 1984
Land and land improvements	***	2,303	***	***	***
Buildings and leasehold improvements	***	1,948	***	***	***
Machinery, equipment, and fixtures	41,218	98,879	***	***	12,380
Total	53,016	103,130	***	***	12,493

1/ Data are for 11 firms.

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

Table 16.--Oil country tubular goods: U.S. producers' valuation of fixed assets, 1/ 1981-83, January-September 1983, and January-September 1984

(In thousands of dollars)

Item	1981	1982	1983	January-September-- 1983	January-September-- 1984
Original cost	768,270	820,687	793,856	797,177	833,925
Book value	485,057	517,930	***	482,772	470,981

1/ Data are for 11 firms.

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

Research and development expenses.--Five firms supplied data concerning their research and development expenses incurred in the production of oil country tubular goods. Such expenditures increased from $* * * in 1981 to $* * * in 1982, and then declined to $* * * in 1983. Research and development expenses amounted to $* * * during January-September 1984, compared with $* * * during the corresponding period of 1983, as shown in the following tabulation (in thousands of dollars):

*   *   *   *   *   *   *

The Question of Threat of Material Injury

In its examination of the question of threat of material injury to an industry in the United States, the Commission may take into consideration such factors as the rate of increase of the allegedly subsidized imports, the rate of increase of U.S. market penetration by such imports, the quantities of such imports held in inventory in the United States, and the capacity of the foreign producers to generate exports (including the availability of export markets other than the United States).

Trends in imports and U.S. market penetration are discussed in the section of this report that addresses the causal relationship between the alleged injury and the imports which are subsidized. Available information regarding the capacity of the foreign producers to generate exports and importers' inventories are presented in the sections on the foreign industries and the U.S. importers.

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

Imports

Imports of the oil country tubular goods under investigation (including both those meeting and those not meeting API specifications) as well as tubular goods not under investigation frequently entered the United States under the same item numbers of the Tariff Schedules of the United States Annotated during January 1981-March 1984. The Department of Commerce has compiled a concordance of the TSUSA items for several broad categories of steel pipes and tubes. This concordance is based on an analysis of information contained in the Special Steel Summary Invoices (SSSI's), special customs documents completed for all imports of steel products. One of the pipe and tube categories in the concordance is oil country tubular goods. For each TSUSA item, the concordance specifies the quantity which is oil country tubular goods and the quantity which is other types of steel pipes and tubes. The import data presented here are compiled from official statistics of the U.S. Department of Commerce utilizing this concordance. 1/

U.S. imports of oil country tubular goods from all countries decreased from 3.2 million short tons in 1981 to 661,000 short tons in 1983, or by 79 percent. Imports increased threefold from 411,000 short tons in January-September 1983 to 1.7 million short tons in January-September 1984. The principal sources of these imports in 1983 and January-September 1984 were Japan, Italy, West Germany, and Korea, as shown in the following tabulation (in percent):

1/ The concordance is presented in app. D.

Source	1983	January-September 1984
Japan	40.4	30.5
Italy	21.2	13.5
West Germany	7.7	14.2
Korea	7.3	12.0
Spain	3.5	3.5
Argentina	2.4	1.1
Brazil	2.3	2.8
Mexico	1.8	3.2
All other	13.3	19.3
Total	100.0	100.0

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

As a share of U.S. apparent consumption, U.S. imports from all countries increased from 40.0 percent in 1981 to 56.9 percent in 1982, and then declined to 44.6 percent in 1983. This share was 45.2 percent in January-September 1983 and 57.7 percent in January-September 1984.

The pipe and tube embargo.--On November 29, 1984, the U.S. Customs Service banned all imports of carbon steel pipes and tubes, including oil country tubular goods, from the European Community (EC), until December 31, 1984. It was initiated at the direction of the Secretary of Commerce, after he determined that the EC was in "flagrant violation of the terms of the U.S.-EC Pipe and Tube Arrangement." 1/ This Arrangement, concluded in 1982, called for consultations should exports of steel pipes and tubes from the EC exceed 5.9 percent of apparent U.S. consumption and exports of oil country tubular goods exceed 8.8 percent of consumption.

Beginning on January 1, 1985, Customs has been directed to limit imports of oil country tubular goods from the EC to 8.8 percent of the U.S. market. In comparison, during January-September 1984, the EC accounted for more than 20 percent of apparent U.S. consumption of oil country tubular goods.

Brazil.--Imports from Brazil increased from 53,000 short tons in 1981 to 56,000 short tons in 1982, or by 6 percent, and then decreased 73 percent to 15,000 short tons in 1983. Imports increased more than fourfold from 8,000 short tons in January-September 1983 to 47,000 short tons in the corresponding period of 1984 (table 17). As a share of apparent consumption, such imports increased from 0.7 percent in 1981 to 1.3 percent in 1982 and then declined to 1.0 percent in 1983. In January-September 1984, this share was 1.6 percent (table 18).

1/ Letter from the Secretary of Commerce to the Secretary of the Treasury, Nov. 14, 1984, with attached Statement by Secretary Baldrige on EC Pipe and Tube.

Table 17.--Oil country tubular goods: U.S. imports, by selected sources, 1981-83, January-September 1983, and January-September 1984

Source	1981	1982	1983	January-September-- 1983	January-September-- 1984
	Quantity (1,000 short tons)				
Countries under investigation:					
Brazil	53	56	15	8	47
Korea	122	115	48	34	205
Spain	114	54	23	17	59
Total	289	225	86	59	311
Argentina	23	17	16	9	1/ 18
Japan	1,469	1,257	267	163	520
Italy	289	302	140	92	230
Mexico	5	2	12	5	54
West Germany	592	289	51	21	243
Other countries	524	424	89	61	329
Total	3,190	2,517	661	411	1,707
	Value (million dollars)				
Countries under investigation:					
Brazil	36	44	6	4	21
Korea	59	58	16	11	76
Spain	71	38	12	9	23
Total	166	140	34	24	120
Argentina	15	15	8	5	1/ 9
Japan	1,268	1,309	156	105	289
Italy	204	262	86	56	97
Mexico	3	2	5	2	23
West Germany	419	279	26	13	107
Other countries	453	404	56	41	163
Total	2,528	2,411	371	246	808

1/ Data revised to reflect imports from Venezuela of 4,189 short tons ($1,274,993) entered under TSUSA item 610.3925 and incorrectly listed in official statistics as imports from Argentina.

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

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

Table 18.—Oil country tubular goods: U.S. imports for consumption, by specified sources, domestic shipments, and apparent consumption, 1981-83, January-September 1983, and January-September 1984

Period	Countries under investigation			Sub-total	All other imports	All imports	U.S. producers' domestic shipments	Apparent consumption
	Brazil	Korea	Spain					
	Quantity (1,000 short tons)							
1981	53	122	114	289	2,901	3,190	4,790	7,980
1982	56	115	54	225	2,292	2,517	1,907	4,424
1983	15	48	23	87	575	661	820	1,481
Jan.-Sept.—								
1983	8	34	17	59	352	411	499	910
1984	47	205	59	311	1,396	1,707	1,253	2,960
	Ratio of imports to consumption (percent)							
1981	0.7	1.5	1.4	3.6	36.4	40.0	60.0	100.0
1982	1.3	2.6	1.2	5.1	51.8	56.9	43.1	100.0
1983	1.0	3.2	1.6	5.9	38.8	44.6	55.4	100.0
Jan.-Sept.—								
1983	0.9	3.7	1.9	6.5	38.7	45.2	54.8	100.0
1984	1.6	6.9	2.0	10.5	47.2	57.7	42.3	100.0

Source: Data for imports, compiled from official statistics of the U.S. Department of Commerce. Data for U.S. producers' domestic shipments, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

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

Korea.--Imports from Korea decreased 61 percent from 122,000 short tons, or 1.5 percent of consumption, in 1981 to 48,000 short tons, or 3.2 percent of consumption, in 1983. They increased fivefold from 34,000 short tons in January-September 1983 to 205,000 short tons in the corresponding period of 1984. These imports accounted for 6.9 percent of apparent consumption in January-September 1984.

Spain.--Imports from Spain decreased 80 percent from 114,000 short tons, or 1.4 percent of apparent consumption, in 1981 to 23,000 short tons, or 1.6 percent of apparent consumption, in 1983. Such imports increased to 59,000 short tons, or 2.0 percent of apparent consumption, in January-September 1984.

Cumulated imports.--Cumulated imports of oil country tubular goods from Brazil, Korea, and Spain decreased 70 percent from 289,000 short tons in 1981 to 87,000 short tons in 1983. The share of apparent consumption represented by such imports, however, increased from 3.6 percent in 1981 to 5.9 percent in 1983. The volume of such imports increased in January-September 1984, as the share of apparent consumption expanded to 10.5 percent. Imports from the five countries which have been determined by Commerce to subsidize the exportation of oil country tubular goods, Argentina and Mexico as well as Brazil, Korea, and Spain, increased from 4.0 percent of apparent consumption in 1981 to 12.9 percent in January-September 1984. The U.S. producers' share of the market declined from 60.0 percent in 1981 to 55.4 percent in 1983 and 42.3 percent in January-March 1984.

Green tubes.--The only U.S. importer of "green tubes" from Spain, TCA, and the Spanish producers of these products assert that "green tubes" are not oil country tubular goods, and, hence, should be excluded from the scope of the Commission's investigations. Green tubes accounted for * * * percent of total oil country tubular goods exported from Spain during January-September 1984. Imports of these products by the TCA are presented in table 19.

Table 19.--Imports of "green tubes" by the Tubular Corp. of America, Inc., by sources, 1983, January-September 1983, and January-September 1984

* * * * * * *

Prices

U.S. producers of oil country tubular goods generally quote their prices (in either dollars per ton or dollars per foot or hundred-feet) on an f.o.b. mill basis. Some producers publish price lists. U.S. producers often equalize freight with the domestic mill nearest to the specific customer. 1/ Importers generally quote prices on an f.o.b. port-of-entry or f.o.b. U.S. warehouse basis. The price of a given oil country tubular goods product

1/ In the practice of freight equalization, a U.S. producer supplying a customer located closer to a competing producer will absorb any differences in freight. The more distant producer charges the customer's account for freight costs as if the product were shipped from the closer producer.

depends on several factors, including the method of production, wall thickness, outside diameter, steel grade, and the extent and type of end finishing.

During these investigations the Commission requested that U.S. producers of oil country tubular goods and importers of the products from Brazil, Korea, and Spain provide their weighted-average net f.o.b. selling prices to distributors for four representative items, as follows:

1. API oil field casing, 5-1/2 inches in outside diameter by 13.7 pounds per foot for plain end and 14.0 pounds per foot for threaded and coupled, J-55;

2. API oil field casing, 4-1/2 inches in outside diameter by 10.23 pounds per foot for plain end and 10.50 pounds per foot for threaded and coupled, J-55;

3. API oil field tubing, 2-3/8 inches in outside diameter, 4.43 pounds per foot for plain end and 4.70 pounds per foot for threaded and coupled, external upset end, J-55; and

4. API oil field drill pipe, 4-1/2 inches in outside diameter by 16.6 pounds per foot, internal-external upset, Grade E, seamless, plain end.

Since there are no imports of drill pipe from Brazil, Korea, and Spain, these prices, as reported by U.S. producers, will not be discussed further. The producers and importers were requested to provide their selling prices of the casing and tubing products by production methods (ERW-annealed, ERW-normalized, or seamless), and by types of end finishing (plain end or threaded and coupled). These are average prices charged in many different transactions and do not include freight to the purchasers' locations. Domestic delivery costs paid by purchasers 1/ for shipping oil country tubular goods to their locations typically range from 3 to 7 percent of the delivered price and generally are not a major factor when choosing a supplier. 2/

Fourteen U.S. producers of oil country tubular goods, 1 importer of Brazilian oil country tubular goods, 11 importers of Korean oil country tubular goods, and 1 importer of Spanish oil country tubular goods reported price data as requested, but not necessarily for each product, or each period. The 14 reporting U.S. producers accounted for 82 percent of all U.S.

1/ In addition, the Commission requested purchasers to furnish the delivered prices they paid for the domestic and imported oil country tubular goods. Only a few purchasers, however, reported the requested price data, which did not provide any direct price comparisons.

2/ Based on telephone conversations between Commission staff and Lone Star and several purchasers in the course of investigating lost sales allegations (November and December 1984).

producers' domestic shipments of oil country tubular goods in January-September 1984. During this same period, the reporting importers accounted for * * * percent of total U.S. imports of Brazilian oil country tubular goods, 89 percent of total U.S. imports of Korean oil country tubular goods, and * * * percent of total U.S. imports of Spanish oil country tubular goods.

As mentioned, the Commission collected pricing data for oil country tubular goods produced by three methods of production: ERW seam annealed, ERW full-body normalized, and seamless. In the seam-annealed method, the seam is strengthened by heating a 4-inch area along the seam. A full-body-normalized tube is competely heated, making the metallurigical qualities more uniform throughout the tube. Seamless oil country tubular goods have the most uniform metallurgical qualities. A comparison of U.S.-producers' prices for oilfield tubing, by each of these production methods, is presented in table 20. These data show that the normalized product is 33 to 88 percent more expensive than the seam-annealed product. A comparison of the prices of U.S.-produced casing also shows a wide range between the prices of the seam-annealed and normalized products. Because of the large difference in the price of U.S.-produced welded products, the analysis that follows will compare imported seam-annealed pipes with U.S.-produced seam-annealed pipes, and imported ERW-normalized oil country tubular goods with the U.S.-produced normalized product.

Table 20.--API oilfield tubing: 1/ U.S. producers' prices 2/, by methods of manufacture and by quarters, January 1982-September 1984

(Per short ton)

Period	ERW seam annealed	ERW normalized	Seamless
1982:			
January-March	$1,103	$***	$1,470
April-June	931	***	1,466
July-September	790	***	1,459
October-December	759	***	960
1983:			
January-March	649	***	1,072
April-June	604	***	1,002
July-September	634	***	1,170
October-December	659	***	917
1984:			
January-March	653	***	998
April-June	633	***	1,004
July-September	635	***	1,063

1/ 2-3/8 inches in outside diameter by 4.70 pounds per square foot, threaded and coupled, J-55, external upset end.
2/ Weighted-average net selling prices to distributors, f.o.b. mill.

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

Price trends.--U.S. producers' and importers' prices of oil country tubular goods decreased, dramatically during January 1982-September 1984. For example, U.S. producers prices of 4-1/2 inch casing decreased by 35 percent from January-March 1982 to July-September 1983 (table 21). The price then increased by 15 percent during the next four quarters. However, the price in July-September 1984 was still 25 percent below the price in January-March 1982. The prices of Korean oil country tubular goods followed a similar trend (tables 21 and 22). There are not sufficient data available to develop trends for the prices of the Brazilian and Spanish products.

Table 21.--API oilfield casing: 1/ U.S. producers' prices and prices of the product imported from Brazil and Korea, 2/ by quarters, January 1982-September 1984

(Per short ton)

Period	4-1/2 inches			5-1/2 inches	
	U.S. producers'	Brazil	Korea	U.S. producers'	Korea
1982:					
January-March	$636	3/	$628	3/	$637
April-June	504	3/	564	$625	3/
July-September	470	3/	485	460	450
October-December	458	3/	458	450	380
1983:					
January-March	434	3/	412	440	371
April-June	424	$***	410	440	391
July-September	416	3/	389	440	408
October-December	454	3/	403	463	415
1984:					
January-March	449	3/	432	490	429
April-June	479	***	443	515	440
July-September	480	3/	542	515	450

1/ ERW seam annealed, J-55, plain end. For the product which is 4-1/2 inches in outside diameter, 10.23 pounds per square foot; for the product which is 5-1/2 inches in outside diameter, 13.7 pounds per square foot.

2/ Weighted-average net selling prices to distributors, f.o.b. mill for U.S. producers and f.o.b. U.S. point of shipment for the U.S. importers.

3/ No data reported.

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

Table 22.--API oilfield tubing: 1/ U.S. producers' prices and prices of the product imported from Brazil, Korea, and Spain, 2/ by methods of manufacture, by end finishes, and by quarters, January 1982-September 1984

(Per short ton)

Period	ERW, seam annealed, plain end		Seamless, threaded and coupled		
	U.S. producers'	Korea	U.S. producers'	Brazil 3/	Spain
1982:					
January-March	$***	$590	$1,470	4/	4/
April-June	4/	510	1,466	4/	4/
July-September	4/	573	1,459	4/	4/
October-December	4/	500	960	4/	4/
1983:					
January-March	4/	451	1,072	4/	4/
April-June	4/	394	1,002	4/	4/
July-September	4/	439	1,170	$***	$***
October-December	***	425	917	4/	***
1984:					
January-March	***	448	998	***	***
April-June	***	474	1,004	***	***
July-September	4/	484	1,063	***	***

1/ 2-3/8 inches in outside diameter, by 4.43 pounds per square foot for plain end, and 4.70 pounds per square foot for threaded and coupled, J-55, external upset end.

2/ Weighted-average net selling prices to distributors, f.o.b. mill for U.S. producers and f.o.b. U.S. point of shipment for the U.S. importers.

3/ U.S. producers reported prices only for the threaded and coupled product, whereas the importers of Brazilian tubing reported prices for the plain-end product. The Commission derived prices for Brazilian threaded and coupled tubing by adding an average threading and coupling cost of $211 per short ton to the Brazilian prices of the plain-end tubing.

4/ No data reported.

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

Brazil.--In each of the seven quarters for which comparisons can be made, Brazilian oil country tubular goods undersold the U.S. product. Margins of underselling ranged from 4.3 percent * * * to 39.3 percent * * *. Six of the comparisons are presented in tables 21 and 22. The seventh comparison involved * * *. During this period, the imported casing undersold the U.S.-produced casing by 18 percent.

U.S. producers reported prices for threaded and coupled seamless tubing, whereas the importers of Brazilian oil country tubular goods reported prices for plain-end tubing. Almost all oil country tubular goods are ultimately sold threaded and coupled. In order to compare the prices of U.S.-produced and Brazilian seamless tubing, the Commission added an average cost of threading and coupling to the Brazilian product. These costs were obtained from five end finishers recommended by Lone Star. Their average threading and coupling costs for the specific tubing product were $211 per short ton. These costs included upsetting, threading, hydrostatic testing, drifting, stencil marking, weighing, thread protectors (either metal or plastic), and coupling.

Korea.--In 20 of the 24 instances in which direct price comparisons can be made, the Korean product undersold U.S.-produced oil country tubular goods. The margins of underselling ranged from 1 percent * * * to 23 percent * * *. There were three instances of overselling, and one instance in which the prices were the same.

In addition, the Commission has pricing information for U.S.-produced and Korean ERW-normalized tubing. The prices of the U.S.-produced tubing were for sales of threaded and coupled products, whereas the prices of the Korean tubing were for sales of plain end products. When the estimated threading and coupling costs of $211 per short ton are added to the Korean prices, the margins of underselling for each quarter during January-September 1984 ranged from * * * to * * * percent.

Spain.--In each of the five quarters for which pricing comparisons can be made, Spanish-produced oil country tubular goods undersold the U.S.-produced tubing. The margins of underselling ranged from 28 to 44 percent.

Exchange rates

The Brazilian, Korean, and Spanish currencies each depreciated against the U.S. dollar since January-March 1982. The real value of each of these currencies, when indexed to reflect inflation rates in each country, have depreciated about 15 percent since then (table 23).

Lost sales

Four U.S. producers of oil country tubular goods reported lost sales as requested, 1/ citing 31 specific instances where they allegedly lost sales of their oil country tubular goods to imports from Brazil, Korea, and Spain. The allegations amounted to 37,400 tons and covered the period from January 1982 through November 1984. 2/ During the preliminary and final investigations the

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1/ Thirteen other U.S. producers indicated in the questionnaire that they had lost sales to the subject imported oil country tubular goods, but were unable to document specific instances of lost sales as requested.

2/ The bulk of the lost sales allegations involved imported Korean oil country tubular goods. The distribution of lost sales allegations by country of origin is as follows:

Brazil--9 allegations totaling approximately 4,112 tons,
Korea--15 allegations totaling approximately 29,697 tons, and
Spain--7 allegations totaling approximately 3,590 tons.

Table 23.--Real exchange rate indexes between the U.S. dollar and the Brazilian cruzeiro, Korean won, and the Spanish peseta, by quarters, January 1982-September 1984

(January-March 1982=100.0)

Quarter	Brazilian cruzeiro	Korean won	Spanish peseta
1982:			
January-March	100.0	100.0	100.0
April-June	103.8	97.8	97.9
July-September	103.0	95.6	93.4
October-December	98.0	95.5	89.2
1983:			
January-March	86.2	94.8	87.4
April-June	77.9	91.7	83.8
July-September	82.4	88.7	78.6
October-December	85.1	87.4	78.8
1984:			
January-March	84.3	86.5	81.3
April-June	83.8	86.0	83.7
July-September	84.8	85.2	1/

1/ Not available.

Source: International Monetary Fund.

Commission staff investigated 22 allegations which involved 14 purchasers and amounted to 36,953 tons. 1/

The three petitioners, Lone Star, CF&I, and J&L, did not provide the Commission with information concerning specific instances of lost sales. At the request of the Commission, the petitioners gave the following explanation concerning their inability to supply the lost sales information, as requested.

> It is extremely difficult for Petitioners to provide the Commission with instances of lost sales and lost revenues because of their method of pricing and distribution. Lone Star and LTV Steel publish their own price lists. CF&I Steel prices its products by references to Lone Star's and U.S. Steel's price lists. Thus, Petitioners' actual selling prices, which may reflect a particular percentage discount which is also published, are known to their distributors and all prospective ultimate purchasers. These distributors and ultimate purchasers, fully aware of Petitioners' prevailing prices, are then able to negotiate with foreign producers, including producers in Brazil, Korea, and Spain, in order to obtain an even better price. If and when they are able to negotiate a

1/ In addition to the lost sales allegations presented here, the staff also investigated allegations during the course of the preliminary investigations. These are presented in app. E.

> contract with a foreign producer, it is extremely unlikely that Petitioners will know of its existence, much less know the actual prices or volume involved since they might never have dealt directly with the prospective purchaser. For these reasons, i.e., the use of published prices and discounts and the selling through distributors, Petitioners are unable to provide a significant number of instances of lost sales and revenues.
>
> Petitioners have, however, clearly demonstrated that their sales have fallen and that there has been severe price undercutting by OCTG producers in Brazil, Korea, and Spain. . . A strong inference exists that this price undercutting leads to lost sales since we have shown that price is the primary customer consideration in buying OCTG. 1/

* * * cited * * *, * * * involving * * * tons of Spanish oilfield * * * during * * *. * * * stated that his firm purchased only 200 tons of oilfield * * * during this period, from * * *--a U.S. producer, and that Korean rather than Spanish steel was being quoted to him at the time. * * * stated that * * *'s price of $* * * per ton was somewhat less than the price of the Korean tubing but he could not recall by how much; quality of the domestic and Korean * * * were comparable. * * * stated that he purchases the subject foreign oil country tubular goods only when it is priced at least 5 to 10 percent below the domestic material. According to * * *, in 1982 delivered prices of the Brazilian, Korean, and Spanish oil country tubular goods were generally less than those of U.S. producers but that in 1983 and 1984 U.S. mini-mill delivered prices of oil country tubular goods have generally been equal to or less than prices of the subject imported oil country tubular goods.

* * * cited * * * involving * * * tons of Brazilian oilfield * * * during * * *. * * * stated that his firm purchased the * * * tons of Brazilian tubing at $* * * per ton, or approximately 6 percent below * * *'s price of $* * * per ton. According to * * * he bought the foreign steel instead of the domestic steel primarily because of the lower price. * * * said he has generally found the Brazilian oil country tubular goods to be the lowest in price and quality in the U.S. market, but has found the Korean and Spanish oil country tubular goods to be higher in price and of better quality (equal to domestic quality) than the Brazilian steel; oil country tubular goods from the three subject foreign countries, however, have generally been priced below competing domestic oil country tubular goods.

* * * cited * * * involving * * * tons of Spanish oilfield * * * during * * *. * * * of * * * would not discuss the lost sale allegation on the telephone.

* * * cited * * * involving * * * tons of Brazilian oilfield * * * during * * *. * * *, stated that his firm purchased only 20 tons of the Brazilian oil country tubular goods, which was on a sample basis and he was not considering any domestic steel as an alternative.

1/ Posthearing brief of the petitioners, exhibit D, pp. 6-7.

* * * cited * * * involving * * * tons of Brazilian oilfield * * * during * * *. * * * of * * * stated that he could not recall the instances cited and did not have the time to comment further.

* * * cited * * * involving * * * tons of Korean oilfield * * * during * * *. * * * of * * * stated that his firm has not purchased any oil country tubular goods since July 1984 because of the weak market. According to * * * the Korean oil country tubular goods are comparable in quality to the domestic oil country tubular goods, but the Brazilian and Spanish oil country tubular goods are of lesser quality than the domestic steel. * * * also stated that, although the oil country tubular goods from all three foreign countries has generally been priced (on a delivered basis) less than the domestic oil country tubular goods, prices of the Brazilian oil country tubular goods have generally been the lowest in the U.S. market.

* * * cited * * * involving * * * tons of Korean oilfield * * * during * * *. * * * stated that his firm purchased this tonnage from * * * at about $* * * per ton and that the Korean steel was quoted to him at about the same price.

Lost revenue

Three U.S. producers of oil country tubular goods reported lost revenue as requested, 1/ citing 31 specific instances in which they allegedly sold their oil country tubular goods products at reduced prices due to competition from the imported Brazilian, Korean, and Spanish material. The allegations, which covered the period from January 1982 through November 1984, amounted to approximately 17,448 tons. 2/ The Commission staff investigated nine allegations that involved seven purchasers and amounted to 11,826 tons.

* * * cited * * * involving * * * tons of Brazilian oilfield * * * during * * *. * * * stated * * * his firm purchased the * * * tons of * * * from * * * at $* * * per ton, or approximately 2 percent below its initial price quote of $* * * per ton. According to * * *, * * * reduced its price in this * * * instance in response to competing price quotes from * * * --another U.S. producer and from suppliers of the Korean * * *.

1/ Thirteen other U.S. producers reported in the questionnaire that they were forced to sell their oil country tubular goods at reduced prices due to competition from the subject imported oil country tubular goods, but they were unable to provide specific instances as requested.

2/ The bulk of the lost revenue allegations involved the imported Korean OCTG. The distribution of lost revenue allegations by country of origin are as follows:

Brazil--6 allegations totaling approximately 1,395 tons,
Korea---17 allegations totaling approximately 14,143 tons, and
Spain---8 allegations totaling approximately 1,910 tons.

* * * cited * * * involving * * * tons of Spanish oilfield * * * during * * *. * * * stated that his firm purchased the * * * tons of * * * from * * * at $* * * per ton, or approximately 3 percent below its initial price quote of $* * * per ton. According to * * *, * * * reduced its price in this instance in response to a competing price quote of $* * * per ton for Spanish * * *.

*   *   *   *   *   *   *

* * * cited * * * involving * * * tons of Korean oilfield * * * during * * *. * * * stated that his firm purchased this tonnage from * * * at the original price quote of $* * * per ton and not at the alleged reduced price of $* * * per ton. According to * * *, the Korean * * * was also selling for about $* * * per ton at this time.

*   *   *   *   *   *   *

* * * cited * * * involving * * * tons of Korean oilfield * * * during * * *. * * * of * * * stated that his firm purchased this tonnage from * * * at about $* * * per ton, or about 14 percent below * * *'s initial price quote of $* * * per ton. According to * * *, * * * reduced its price in this instance in response to a competing price quote of $* * * per ton for the Korean * * *.

* * * cited * * * involving * * * tons of Brazilian oilfield * * * during * * *. * * *, stated that his firm purchased this tonnage from * * * at about $* * * per ton, or about 18 percent below * * *'s initial price quote of $* * * per ton. According to * * *, * * * reduced its price in this instance in response to several competing price quotes, which included other domestic * * * as well as the Brazilian * * *.

APPENDIX A

THE *FEDERAL* *REGISTER* NOTICES

INTERNATIONAL TRADE COMMISISON

[Investigations Nos. 701-TA-215 through 217; Final]

Oil Country Tubular Goods From Brazil, Korea, and Spain

AGENCY: United States International Trade Commission.

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

SUMMARY: As a result of affirmative preliminary determinations by the U.S. Department of Commerce that there is a reasonable basis to believe or suspect that the manufacturers, producers, or exporters in Brazil, Korea, and Spain of oil well tubing, casing, and drill pipes, provided for in items 610.32, 610.37, 610.39, 610.40, 610.42, 610.43, 610.49, and 610.52 of the Tariff Schedules of the United States, receive benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930 (19 U.S.C. 1671), the United States International Trade Commission hereby gives notice of the institution of investigations Nos. 701-TA-215 through 217 (Final) under section 705(b) of the act (19 U.S.C. 1671d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such merchandise. The Department of Commerce is scheduled to make its final determinations in these cases on or before November 20, 1984, and the Commission will make its final injury determinations by January 9, 1985 (19 CFR 207.25).

EFFECTIVE DATE: September 12, 1984.

FOR FURTHER INFORMATION CONTACT: Abigail Eltzroth (202-523-0289), Office of Investigations, U.S. International Trade Commission.

SUPPLEMENTARY INFORMATION:

Background

On July 23, 1984, the Commission determined, on the basis of the information developed during the course of its preliminary investigations, that there was a reasonable indication that an industry in the United States was materially injured by reason of allegedly subsidized imports of oil well tubing, casing, and drill pipes from Brazil, Korea, and Spain. The preliminary investigations were instituted in response to petitions filed on June 13, 1984, by counsel on behalf of Lone Star Steel Co., and CF&I Steel Corp.

Participation in the Investigations

Persons wishing to participate in these investigations 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 Chairwoman, 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 investigations, pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)). Each document filed by a party to these investigations must be served on all other parties to the investigations (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 these investigations will be placed in the public record on November 16, 1984, pursuant to § 207.21 of the Commission's rules (19 CFR 207.21).

Hearing

The Commission will hold a hearing in connection with these investigations beginning at 10 a.m., on November 29, 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 November 16, 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 a.m., on November 21, 1984, in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is November 26, 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 analysis, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with section 207.22 (19 CFR 207.22). Posthearing 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 December 6, 1984.

Written Submissions

As mentioned, parties to these investigations 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 investigations may submit a written statement of information pertinent to the subject of the investigations on or before December 6, 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 with the requirements of section 201.6 of the Commission's rules (19 CFR 201.6).

For further information concerning the conduct of the investigations, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and C (19 CFR Part 207), 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).

Issued: September 26, 1984.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 84-28562 Filed 10-26-84; 11:27 am]

BILLING CODE 7020-02-M

[C-351-403]

Final Affirmative Countervailing Duty Determination; Oil Country Tubular Goods From Brazil

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Brazil of oil country tubular goods. The net subsidy is 24.97 percent *ad valorem* for Confab, 25.24 percent *ad valorem* for Mannesmann, and 11.35 percent *ad valorem* for Persico. We have notified the United States International Trade Commission (ITC) of our determination. We are directing the U.S. Customs Service to continue to suspend liquidation of all entries of oil country tubular goods from Brazil that are entered, or withdrawn from warehouse, for consumption, on or after September 12, 1984, and to require a cash deposit or bond on entries of these products in the amount equal to the net subsidy.

EFFECTIVE DATE: November 27, 1984.

FOR FURTHER INFORMATION CONTACT: Alain Letort or Stuart Keitz, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, D.C. 20230; telephone: (202) 377-5050 or 377-1769.

SUPPLEMENTARY INFORMATION:

Final Determination

Based upon our investigation, we determine that certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to manufacturers, producers, or exporters in Brazil of oil country tubular goods. For purposes of this investigation, the following programs are found to confer subsidies:

- Preferential Working Capital Financing for Exports (Resolutions 674 and 882)
- Export Financing Under the CIC-CREGE 14-11 Circular
- IPI Export Credit Premium
- Export Profits Exemption from Corporate Income Tax
- Funding for Expansion Through IPI Tax Rebates

We determine the net subsidy to be 24.97 percent *ad valorem* for Confab, 25.24 percent *ad valorem* for Mannesmann, and 11.35 percent *ad valorem* for Persico.

Case History

On June 13, 1984, we received a petition from the Lone Star Steel Company of Dallas, Texas, and the CF&I Steel Corporation of Pueblo, Colorado, on behalf of the U.S. industry producing oil country tubular goods. In compliance with the filing requirements of § 355.26 of our regulations (19 CFR 355.26), the petition alleged that manufacturers, producers, or exporters in Brazil of oil country tubular goods receive, directly or indirectly, benefits which constitute subsidies within the meaning of section 701 of the Act, and that these imports are materially injuring, or threatening material injury to, a U.S. industry.

We found that the petition contained sufficient grounds upon which to initiate a countervailing duty investigation, and on July 3, 1984, we initiated such an investigation (49 FR 28290). We stated that we expected to issue a preliminary determination by September 6, 1984. On August 3, 1984, the petition was amended and the LTV Steel Company of Cleveland, Ohio became co-petitioner.

Since Brazil is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. Therefore, we notified the ITC of our initiation. On July 30, 1984, the ITC determined that there is a reasonable indication that these imports are materially injuring, or threatening material injury to, a U.S. industry (49 FR 31782).

We presented a questionnaire concerning the allegations to the government of Brazil in Washington, D.C., on July 13, 1984. On August 17, 1984, we received a response to the questionnaire. On September 12, 1984, we published our preliminary determination that benefits constituting subsidies within the meaning of the countervailing duty law were being provided to manufacturers, producers, or exporters in Brazil of oil country tubular goods (49 FR 35827).

At the request of both petitioners and respondents, we held a hearing on October 24, 1984, to allow the parties an opportunity to address the issues arising in the investigation. Both petitioners and respondents filed briefs discussing these issues before and after the hearing.

Scope of the Investigation

The products covered by this investigation are oil country tubular goods (OCTG), which are hollow steel products of circular cross-section intended for use in the drilling of oil or gas. These products include oil well casing, tubing, and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or proprietary specifications. This investigation covers both finished and unfinished oil country tubular goods.

The provisions of the *Tariff Schedules of the United States, Annotated (TSUSA)* covering all steel pipe and tube, including oil country tubular goods, were changed as of April 1, 1984. We have reviewed the classification of steel pipe and tube by the U.S. Customs Service and determined that our original listing of the products subject to this investigation should be amended. As a result of the changes mentioned above, oil country tubular goods now comprise TSUSA item numbers 610.3216, 610.3219, 610.3233, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4225, 610.4235, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, and 610.5244.

There are three known producers and exporters in Brazil of oil country tubular goods to the United States. We have received information from the government of Brazil regarding Confab Industrial S.A. (Confab), Mannesmann S.A. and Mannesmann Commercial S.A. (Mannesmann), and Persico-Pizzamiglio S.A. (Persico). The period for which we are measuring subsidization ("the review period") is calendar year 1983.

Analysis of Programs

Throughout this notice, we refer to general principles applied to the facts of the current investigation. These principles are described in the Subsidies Appendix attached to the notice of "Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina; Final Affirmative Countervailing Duty Determination and Countervailing Duty Order," which was published in the April 26, 1984, issue of the **Federal Register** (49 FR 18006).

Petitioners have alleged that both Mannesmann and Persico are uncreditworthy. As we have determined that no long-term loans or loan guarantees are being provided to these companies on terms that are inconsistent with commercial considerations, their creditworthiness is of only secondary importance in this investigation. Because no long-term loan benchmarks are required, creditworthiness only figures into the calculation of the discount rate for firms receiving benefits that are treated as grants. Persico did not receive any such benefits. Therefore our creditworthiness analysis has been limited to Mannesmann.

Based upon our review of Mannesmann's financial statements, we found Mannesmann to have been profitable in all but two of the last six fiscal years; in the first half of 1984, the company returned to profitability. Cash flow generated from operations exceeded interest and principal payments in all years, except 1979. In general, the financial position of the company has been favorable. Therefore, we determine Mannesmann to be creditworthy.

For purposes of this determination, we are calculating an *ad valorem* subsidy rate for each company because of the material differences in the programs under which subsidies were received and in the subsidy rates of each company. We allocated the benefits received by each respondent in 1983 over the total sales value or export value, as appropriate, of each respondent.

Based upon our analysis of the petition, the responses to our questionnaire, our verification, and comments filed by petitioners and respondents, we determine the following:

I. Programs Determined To Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers, or exporters in Brazil of oil country tubular goods under the following programs.

A. Preferential Working Capital Financing for Exports (Resolutions 674 & 882)

Resolution 882 financing, administered by the Carteira do Comércio Exterior (CACEX) of the Banco do Brasil, is a form of short-term lending of working capital to purchase inputs for the production of goods destined for export. On January 1, 1984, Resolution 882 superseded Resolution 674, under which such financing was previously granted. Eligibility for 674/882 financing is determined on the basis of past exports or an acceptable export plan. The amount of available financing is calculated by making a series of adjustments to the dollar value of exports.

Following CACEX approval of their applications, participants in the program receive certificates representing portions of the total dollar amount for which they are eligible. The certificates may be presented to banks in return for cruzeiros at the exchange rate in effect on the date of presentation. Use of a certificate establishes a loan obligation with a term of up to one year (360 days). Certificates must be used within 12 months of the date of issue and loans incurred as a result of their use must be repaid within 18 months of that date.

During the review period, the interest rate ceiling on loans obtained under the program was raised from 40 to 60 percent. Resolution 882 changed the interest rate to full monetary correction plus three percent, the interest and principal being payable in one lump sum at the expiration of the loan. Confab, Mannesmann, and Persico have participated in the program. Since 674/882 financing is contingent on export performance, and provides funds to participants at interest rates lower than those available from commercial sources, we determine that this program confers an export subisdy.

In our investigation of Certain Carbon Steel Products from Brazil [Final Affirmative Countervailing Duty Determinations (49 FR 17988)], we used an interest rate reflecting compensating balances as our benchmark. Since that determination, we have gathered information that Brazilian banks do not uniformly require compensating balances of their customers. In many cases, because banks lend only to a few favored clients, they do not require compensating balances since their clients maintain a sufficient volume of business overall. Moreover, when compensating balances are required, the size and terms of the requirement may vary widely.

While the Department has stated in the Subsidies Appendix its preference for using effective rates, we do this only when we have sufficient information to calculate an effective rate. Because there is no evidence of a uniform requirement for compensating balances and no publication gives a definitive measure of the extent to which compensating balances are actually used, we have determined not to use compensating balances in calculating our benchmark interest rate. Therefore, we are using the minimum nominal discount rate of accounts receivable, which does not reflect compensating balances, as published in *Analise/Business Trends*, as our benchmark in calculating the subsidy.

Moreover, in earlier cases where we have used the nominal discount rate of accounts receivable, we used an uncompounded rate as our benchmark for Resolution 674 loans. We now feel that this rate is inappropriate, since compounding is necessary in order to equate the charges on a 30-day loan with an annual loan. Accordingly, we compounded the benchmark described above in our calculations.

To calculate the benefit, we compared the interest rates charged with the appropriate benchmark and applied the difference to the principal amounts, based on the dates interest was paid. We allocated the benefit over the total value of all exports by each company under investigation, and calculated a subsidy rate of 13.08 percent *ad valorem* for Confab, 6.19 percent *ad valorem* for Mannesmann, and 4.56 percent *ad valorem* for Persico.

B. Export Financing Under the CIC-CREGE 14-11 Circular

Under its CIC-CREGE 14-11 circular ("14-11"), the Banco do Brasil provides 180- and 360-day cruzeiro loans for export financing, on the condition that companies applying for these loans negotiate fixed-level exchange contracts with the bank. Companies obtaining a 360-day loan must negotiate exchange contracts with the bank in an amount equal to twice the value of the loan. Companies obtaining a 180-day loan must negotiate an exchange contract equal to the amount of the loan. In addition to requiring exchange contracts, the Banco do Brasil requires that these loans be fully secured by collateral in the form of tangible property. The bank normally requires that the value of collateral equal at least 130 percent of the amount of the loan. The bank also charges a commission on all such loans.

All exporters of manufactured products with production cycles of less than 180 days may apply for these loans. The maximum level of eligibility is based on the value of the applicant's exports in the previous year. Companies receiving Resolution 882 loans have a maximum eligibility of 10 percent. All others have a maximum eligibility of 15 percent.

Although this program does in certain aspects appear to operate on a purely commercial basis, the government of Brazil has not supplied sufficient data to support its assertion that commissions, exchange contract requirements and collateral requirements serve to raise the effective cost of these laons to a level of comparability with those on short-term loans from other commercial sources. Without such data, we must compare unadjusted nominal rates on 14–11 loans with our short-term benchmark interest rate, *i.e.*, the nominal discount rate of accounts receivable, as the best information available. This comparison shows that the nominal interest rate on 14–11 loans is below the benchmark.

Confab and Persico both obtained loans under this program. To calculate the benefit, we compared the interest rates charged with the appropraite benchmark and applied the difference to the principal amounts, based on the dates interest was paid. We then allocated the benefit over the total value of each company's exports, which resulted in a subsidy rate of 0.38 percent *ad valorem* for Confab and 1.04 percent *ad valorem* for Persico.

C. IPI Export Credit Premium

Brazilian exporters of manufactured products are eligible for a tax credit on the Impôsto sôbre Produtos Industrializados (Industrialized Products Tax, or IPI). The IPI export credit premium has been found to confer a benefit in previous countervailing duty investigations involving Brazilian products. After having suspended this program in December 1979, the government of Brazil reinstated it on April 1, 1981, in accordance with Ministry of Finance "Portaria" (Notice) No. 270 (amended by Portaria No. 252 on November 29, 1982).

Subsequent to April 1, 1981, this credit premium was partially phased out in accordance with Brazil's commitment pursuant to Article 14 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade ("the Subsidies Code"). The government of Brazil reduced the benefit from 15 percent to 14 percent on March 31, 1982; from 14 percent to 12.5 percent on June 30, 1982; and from 12.5 percent to 11 percent on September 30, 1982.

We divided the credits earned in 1983 by each respondent over the value of each company's exports of oil country tubular goods in that year, and calculated a net subsidy of 10.5 percent *ad valorem* for Confab, 10.87 percent *ad valorem* for Mannesmann, and 5.75 percent *ad valorem* for Persico.

D. Export Profits Exemption From Corporate Income Tax

Under Decree-Laws 1158 and 1721, exporters of oil country tubular goods are eligible for an exemption from income tax of a portion of profits attributable to export revenue. Confab and Mannesmann S.A. took an exemption from income tax payable in 1983 on a portion of export profits earned in 1982. We multiplied that portion by the nominal corporate tax rate, and allocated the benefit over the total value of 1983 exports to calculate a subsidy rate of 1.06 percent *ad valorem* for Confab and 1.27 percent *ad valorem* for Mannesmann.

E. Funding for Expansion Through IPI Tax Rebates

Decree-Law 1547, enacted in April 1977, provides funding for capital investment in approved expansion projects in the Brazilian steel industry through a rebate of the IPI, a value-added tax imposed on domestic sales. The IPI tax is an indirect tax and, as such, is passed on to the consumer. A steel company collects this tax on sales as an agent for the government, and does not pay the tax itself. Decree-Law 1547 is a mechanism by which a steel company is permitted to collect funds due the government and then receive a 95 percent tax rebate. The program does not involve the rebate of payments made from the company's own funds.

Originally, the IPI tax applied to all domestic sales transactions. In 1979, the value-added tax was eliminated except for producers in 14 industry sectors, including tobacco, automobiles, spirits and alcohol, ceramics, rubber, and steel. The tax rate is different for each of the specified industry sectors; for steel products, the value-added tax is 5 percent.

A Brazilian steel company may deposit 95 percent of the net IPI tax due in a special account with the Banco do Brasil. The amounts deposited are to be applied to steel expansion projects. When rebated to the firms, they constitute reserves that must eventually be converted into subscribed capital. Mannesmann received benefits under this program from 1977 to 1983.

Under the terms of Resolution 68–77 issued by the Conselho de Não-Ferrosos e Siderurgia (CONSIDER), which implements Decree-Law 1547, IPI tax rebates are payable only on basic steel products and certain fabricated steel products such as seamless steel pipes; the CONSIDER resolution excludes welded steel pipes. Mannesmann received IPI tax rebates as a manufacturer of both basic steel products and seamless steel pipe, which includes oil country tubular goods. Confab and Persico, which manufacture neither basic steel products nor seamless steel pipes but only welded steel pipes, received no benefits under this program.

In order to calculate the benefit attributable to this program, we treated the total IPI rebates received in each year as a grant. For the discount rate, we used the weighted cost of capital formula explained in the Subsidies Appendix. We weight-averaged the debt and equity variables in the formula by Mannesmann's respective debt-to-total-capitalization and equity-to-total-capitalization ratios. Using our grant methodology for rebates received through 1983, we calculated an *ad valorem* subsidy rate of 6.91 percent for Mannesmann.

II. Program Determined Not To Confer Subsidies

Government Guarantees on Long-Term Loans

Petitioners allege that the respondents have benefited from certain government guarantees on foreign-currency loans. In its response, the government of Brazil stated that the Banco Nacional do Desenvolvimento Econômico e Social (BNDES) guaranteed a number of foreign-currency loans issued to Persico under Resolution 63 of the Banco Central do Brasil (BCB).

At cerification, we found no evidence that Resolution 63 loan guarantees are provided on an industry-specific or region-specific basis. Moreover, we examined in detail Persico's long-term loans and ascertained that the loan guarantees, for which Persico paid a fee, did not have any bearing on the interest rate and terms of the guaranteed loans, and that the loan guarantees were made on terms not inconsistent with commercial considerations. Accordingly, we determine that government loan guarantees bestowed no countervailable benefits to the products under investigation.

III. Programs Determined Not To Be Used

We determine that manufacturers, producers or exporters in Brazil of oil country tubular goods did not use the following programs, listed in our notice of "Initiation of a Countervailing Duty Investigation; Oil Country Tubular Goods from Brazil" (49 FR 28290).

A. Exemption of IPI Tax and Customs Duties on Imported Equipment

Under Decree-Law 1428, the Conselho do Desenvolvimento Industrial (Industrial Development council, or CDI) provides for the exemption of 80 to 100 percent of the customs duties and 80 to 100 percent of the IPI tax on certain imported machinery for projects approved by the CDI. The recipient must demonstrate that the machinery or equipment for which an exemption is sought was not available from a Brazilian producer. The investment project must be deemed to be feasible and the recipient must demonstrate that there is a need for added capacity in Brazil.

Decree-Law 1726 repealed this program in 1979. Subsequently, no new projects were eligible for these benefits. However, companies whose projects were approved prior to the repeal still receive these benefits pending completion of the project.

We verified that neither Confab, Mannesmann, nor Persico received any benefits under this program during the review period. Therefore, we determine that this program was not used by the producers of the products under investigation.

B. Accelerated Depreciation for Equipment

Pursuant to Decree-Law 1137, any company which purchases Brazilian-made capital equipment and has an expansion project approved by the CDI may depreciate this equipment at twice the rate normally permitted under Brazilian tax laws. We verified that none of the respondents availed itself of this program during the review period. Therefore, we determine that this program was not used by the producers of the products under investigation.

C. Resolution 330 of the Banco Central do Brasil (BCB)

Resolution 330 provides financing for up to 80 percent of the value of the merchandise placed in a specified bonded warehouse and destined for export. Exporters of oil country tabular goods would be eligible for financing under this program. However, we verified that neither Confab, Mannesmann, nor Persico had participated in this program during the review period. Accordingly, we determine that this program was not used.

D. The BEFIEX Program

The Comissão para a Concessão de Benefícios Fiscais a Programas Especiais de Exportação (Commission for the Granting of Fiscal Benefits to Special Export Programs, or BEFIEX) grants at least three categories of benefits to Brazilian exporters:

• Under Decree-Law 77.065, BEFIEX may reduce by 70 to 90 percent import duties and the IPI tax on the importation of machinery, equipment, apparatus, instruments, accessories and tools necessary for special export programs, approved by the Ministry of Industry and Trade, and may reduce by 50 percent import duties and the IPI tax on imports of components, raw materials and intermediary products;

• Under article 13 of Decree No. 72-1219, BEFIEX may extend the carry-forward period for tax losses from 4 to 6 years;

• Under article 14 of the same decree, BEFIEX may allow special amortization of pre-operational expenses related to approved projects.

At verification, we ascertained that none of the respondents had received benefits through this program. Accordingly, we determine that this program was not used during the review period.

E. The PROEX Program

Petitioners allege that short-term credits for exporters were established under the Programa de Financiamento à Produção para a Exportação (PROEX), previously referred to as the Apôio à Exportação program. We verified that none of the respondents availed itself of this program during the review period. Therefore, we determine that this program was not used by the producers of the products under investigation.

F. Incentives for Trading Companies

Petitioners allege that the respondents distribute their export sales through such intermediaries as trading companies, and that under Resolution 643 of the BCB, trading companies can obtain export financing similar to that obtained by manufacturers under Resolution 882. We verified that the respondents were ineligible for participation in this program, because such participation is precluded by receipt of Resolution 674/882 financing. Accordingly, we determine that this program was not used during the review period.

G. Construction of a Port for the Steel Industry

Petitioners allege that Brazil's Third National Development Plan (1980-85) provides for the construction of a port at Praia Mole designed mainly for the export of steel products and the imports of coal.

In its response, the government of Brazil indicated that the Praia Mole facility is located at Ponta Tubarao near Vitoria in the state of Espirito Santo. Its purpose is to allow the Companhia Siderurgica de Tubarão (CST) and Açcominas to import coal and export iron ore and steel. We also verified that none of the respondents used the Praia Mole port for the exportation of oil country tubular goods during the review period. Accordingly, we determine this facility was not used by the producers of the products under investigation.

H. The CIEX Program

Decree-Law 1428 authorized the Comissão para Incentivos à Exportação (Commission for Export Incentives, or CIEX) to reduce import taxes and the IPI tax up to 10 percent on certain equipment for use in export production. We verified that the CIEX program had been superseded by the BEFIEX program, and that the respondents did not receive any benefits under the CIEX heading during the review period. Accordingly, we determine that this program was not used by the producers of the products under investigation.

I. Resolution 68 (FINEX) Financing

Resolution 68 of the Conselho Nacional do Comércio Exterior (CONCEX) provides that CACEX may draw upon the resources of the Fundo de Financiamento à Exportação (FINEX) to extend dollar-denominated loans to both exporters and foreign buyers of Brazilian goods.

Although we verified that none of the respondents received any direct benefits under this program during the review period, we were unable to verify whether any U.S. importer received Resolution 68 financing. If such financing were available, we believe it would confer an export subsidy on oil country tubular goods. Since we have no factual evidence on the record of the level of Resolution 68 financing made available to U.S. importers of oil country tubular goods. We cannot determine to what extend, if at all, this program was used. We intend to investigate this matter further in any administrative review that may occur under section 751 of the Act.

J. Local Tax Incentives

Petitioners allege that the respondents benefited from certain unspecified local tax measures and incentives in Brazil. In its response, the government of Brazil states that it knows of no local tax measures that would benefit the respondents. At verification, we saw no evidence that any such local tax incentives existed or that the respondents had received any such incentives. Therefore, we determine that this program was not used by the producers of the products under investigation.

Petitioners' Comments

Comment 1. Petitioners argue the Department's benchmark interest rate for preferential short-term loans should reflect an alleged requirement by Brazilian banks that certain customers maintain compensating balances as a condition of trade bill discounting. Petitioners cite the fact that Mannesmann, in its response to the Department's antidumping questionnaire with respect to the subject merchandise, stated it maintains compensating balances as a condition of trade bill discounting. Therefore, petitioners believe that the Department should use the national average discount rate when determining its benchmark, as it did in *Certain Carbon Steel Products from Brazil* (49 FR 17988).

DOC Position. We agree (*see* the discussion of the benchmark interest rate in the "Analysis of Programs" section of this notice). Furthermore, whether or not Mannesmann maintains compensating balances as a condition of trade bill discounting is irrelevant to our choice of benchmark, because we do not use company-specific benchmarks for short-term preferential loans.

Comment 2. Petitioners claim the Department acted improperly in taking into account program-wide changes in interest rates for Resolution 674 loans, thereby comparing 1984 interest rates to a benchmark rate. According to the petitioners, the Department should have used the interest rates actually paid in 1983 on these loans and compared those with the average discount rate for 1984.

DOC Position. For purposes of our preliminary determination, we followed our practice of taking into account program-wide changes occurring after the review period but prior to the preliminary, such as the enactment of Resolution 882. We have now learned that another program-wide change has occurred. At approximately the same time as our preliminary determination, the Banco do Brasil issued Resolution 950 which changes, *inter alia*, the interst applicable to Resolution 882 loans. We have not had sufficient opportunity to analyze the impact of that change.

Given that the program-wide change enacted prior to our preliminary determination has been superseded in turn, we have decided for our final determination not to take into account the effects of Resolution 882. Therefore we have compared the interest rates charged under Resolution 674 to the benchmark for the review period in order to arrive at the benefit arising from this short-term export financing.

Comment 3. Petitioners contend that the Department should determine whether OCTG producers have benefited from upstream subsidies through their purchases of subsidized inputs.

DOC Position. We did not investigate petitioners' allegation that OCTG producers in Brazil have benefited from subsidized inputs, *i.e.*, upstream subsidies. As explained in our notice of "Initiation of a Countervailing Duty Investigation; Oil Country Tubular Goods from Brazil" (49 FR 28290), petitioners did not provide sufficient evidence to warrant an investigation of these claims.

Since our decision not to initiate on the upstream subsidy allegations in this case, the Trade and Tariff Act of 1984 (TTA) has come into force. We have determined that there is nothing in the upstream subsidies provisions of the TTA that would cause us to change our earlier conclusions.

Comment 4. Petitioners contend that BNDES and FINAME financing are countervailable even if they are generally available, citing the Court of International Trade's decision in *Bethlehem Steel Corp.* v. *United States*, 7 CIT ——, Slip Op. 84–67 (June 8, 1984).

DOC Position. We do not consider generally available programs to be countervailable. Petitioners' reliance on *Bethlehem* is misplaced, as the Court in that case upheld our determination that a generally available tax benefit is not countervailable. The Court's further comments on general availability are pure *dicta* and do not affect the Court's earlier approval of our general availability test in *Carlisle Tire and Rubber Co.* v. *United States*, 564 F. Sup. 834 (1983).

Comment 5. Petitioners further contend that BNDES and FINAME loans are not generally available, citing BNDES annual reports which allegedly reveal that its funds are channeled to particular sectors targeted by the government. Furthermore, the financial statements of the respondents show that they have received BNDES and FINAME financing. Consequently, the Department should investigate the financial assistance respondents have received from these programs and countervail any benefits provided under the programs.

DOC Position. When this case was initiated, we dismissed the allegation that BNDES and FINAME loans are not generally available because of evidence in the record of prior Brazilian cases, including *Certain Carbon Steel Products from Brazil* (49 FR 17988), that the opposite was true. In their pre-hearing brief filed on October 17, 1984, after the verification had taken place, petitioners cited certain excerpts from a BNDES annual report they allege constitute evidence that BNDES and FINAME loans are targeted and not generally available. We believe the actual meaning of these excerpts is unclear. In any event, this information was supplied at too late a date for us to act upon it. We will take this allegation into account in any administrative review that may occur under section 751 of the Act.

Comment 6. Petitioners disagree with the Department's determination that Mannesmann is creditworthy, because the company's financial statements indicate that Mannesmann has experienced negative operating income. Petitioners contend the Department must consider Mannesmann's cash flow position and examine its financial history in order to determine the company's creditworthiness.

DOC Position. We consider several economic and financial measurements in determining whether a company is creditworthy. Mannesmann has operated at a profit and experienced a favorable rate of return on equity, except in 1979 and 1983. Cash flow was positive in all years except 1979. The adverse performance in 1983 was caused in part by a maxi-devaluation of the cruzeiro. Mannesmann's financial statements are presented in accordance with generally accepted accounting principles and practices.

Comment 7. Petitioners allege that Confab has received subsidies for the development of calculation methods, manufacturing processes, and materials for application in production lines through the FUNTEC program. Petitioners contend the Department should countervail any subsidies which Confab received under this program.

DOC Position. We disagree. The petition contained no allegations concerning this program. Petitioners brought this program to our attention in its pre-hearing brief filed on October 17, 1984, after the verification had taken place and only a month before this final determination. We will take this allegation into account in any administrative review that may occur under section 751 of the Act.

Comment 8. Petitioners allege that the FINEP program provides subsidized financing to encourage the development of high technology. Confab's 1983 Annual Report states that it has received financing under FINEP. Accordingly, the Department should countervail any subsidies which Confab has received from this program.

DOC Position. See response to Comment 7 above.

Comment 9. Petitioners contend that the Department erred in calculating its benchmark for short-term loans by taking an arithmetic mean of the monthly discount rates and then calculating the effective annual interest rate based on that number. Petitioners argue that we should have calculated the effective annual interest rate for all of 1983 (including compensating balances) and then taken an arithmetic mean.

DOC Position. We disagree. Petitioners have not convinced us that their method is better than the method we have employed.

Respondents' Comments

Comment 1. Respondents argue that the Department must take the phased reduction of the IPI export credit premium into account in calculating the subsidy rate for this program in its final determination.

DOC Position. We cannot take into account program-wide changes that have not yet been implemented. When the phaseout of the IPI export credit premium actually takes place, we will take it into account in any administrative review that may occur under section 751 of the Act.

Comment 2. Respondents contend the Department failed to recognize the time value of money by not discounting the IPI export credit premium to reflect the delay between the date a credit is earned and the date it is actually received.

DOC Position: Under section 771(6)(B) of the Act, an offset is allowed for "any loss in the value of the subsidy resulting from its deferred receipt if the deferral is mandated by Government order." In the case of the IPI export credit premium, no such government mandate exists. Delays in a company's receipt of IPI credits are purely administrative, frequently the result of a company's tardy application for the benefit. No offset is allowed in such a case.

Comment 3. Counsel for the government of Brazil contends, with respect to IPI tax rebates under Decree-Law 1547, that the value-added tax or IPI is not generally applicable in Brazil and that the rebate of this tax does not confer a countervailable benefit.

DOC Position. We disagree. Although the same amount of IPI tax is applied to all steel products, only companies producing certain priority products and whose expansion projects are government-approved may receive the rebates. Fabricators of steel products, such as welded pipe and tube manufacturers who purchase coil, are not eligible for the rebates. Therefore, the rebates are not generally available and constitute a benefit to selected producers.

Comment 4. Respondents argue that since IPI tax rebates under Decree-Law 1547 are paid only on goods sold in the domestic market, no products exported to the United States benefit from the rebate and therefore no subsidy is conferred.

DOC Position. We are countervailing these rebates because receipt thereof is tied to investment in government-approved projects. Although the amount of rebate any firm receives may increase along with domestic sales, the existence of domestic sales does not guarantee that a rebate will be received.

Comment 5. Counsel of Mannesmann contends that the government of Brazil's equalization of the steel companies' tax liability in a manner that encourages them to invest in and modernize their plants is not a reason for viewing Decree-Law 1547 as a subsidy mechanism, and cites in support of this contention Article 14 of the Subsidies Code, which recognizes that domestic subsidies in developing countries should be countervailed only where the nature of the net benefit is clear and "unless nullification or impairment of tariff concessions or other GATT obligations is found to exist as a result of such subsidy."

DOC Position. The Subsidies Code, including Article 14, does not preclude us from assessing countervailing duties against domestic subsidies, when the products benefiting from those subsidies are causing material injury to a domestic industry.

Comment 6. Counsel for Mannesmann also claims that government intervention in the economy is not *per se* a countervailable subsidy and cites Article 11 section 3 of the Subsides Code in support of this view.

DOC Position. We agree; however, government intervention that benefits exports over domestic sales, or selected industries or firms within an economy, may confer a countervailable subsidy and does in this case.

Comment 7. Respondents claim the Department has overstated the benefit from the income tax exemption for export earnings by using the nominal tax rate as opposed to the effective tax rate applicable to the respondents. brazilian tax law allows corporations to invest 26 percent of taxes owed into certain specified corporations of funds. Respondents argue this provision results in an effective reduction of the corporate income tax rate, which decreases the benefit from the income tax exemption.

DOC Position. We disagree. We could only consider an adjustment if these tax provisions resulted in a lower benefit. In this case, the amount a company invests does not decrease the amount of the tax exemption available for export revenue. Therefore, no offset is appropriate.

Comment 8. Respondents argue that the department erred in valuing the subsidy arising from the income tax exemption for export earnings on the basis of export sales rather than total sales. Because the determining factor in a firm's eligibility for this benefit is its overall profitability for a given year, the benefit accrues to the entire operations of the firm and not just to exports. Further, an income tax exemption calculated on this basis does not affect the price of the exported product only; rather, it must have a general effect on all prices, both domestic and export.

DOC Position. We disagree. When a firm must export to be eligible for benefits under a subsidy program, and when the amount of the benefit received is tied directly or indirectly to the firm's level of exports, that program confers an export subsidy. The fact that the firm as a whole must be profitable to benefit from the program does not detract from the program's basic function as an export subsidy. Therefore, the Department will continue to allocate the benefits under this program over export revenue instead of total revenue.

Comment 9. Counsel for the government of Brazil argues the CIC-CREGE 14-11 circular is not a government program and, therefore, does not bestow a government subsidy on the exportation of oil country tubular goods. Respondents argue further that the CIC-CREGE 14-11 program is consistent with commercial considerations, since the costs of the program are covered by charges payable by the recipients; therefore, under Annex A of the subsidies Code, paragraphs (j) and (k), this program does not confer a subsidy.

DOC Position. We disagree. Our determination that the CIC-CREGE 14-11 program provides countervailable benefits is based on (1) the fact that under Brazilian law the Banco do Brasil, which administers this program, acts as the government of Brazil's financial agent, and (2) respondents' failure to demonstrate that the program does not provide preferential loans to exporters. Our uniform practice has been to calculate a subsidy provided under a preferential loan program by comparing the preferential rate to the benchmark interest rate, rather than to the cost of the funds to the lender.

As previously stated in our notice of "Final Affirmative Countervailing Duty Determination" regarding *Ceramic Title from Mexico* (47 FR 20012), "[r]egardless of what effects the Illustrative List of Export Subsidies may have on U.S. law otherwise, the uniform past practice on this issue in comparison with the legislative history of the Trade Act requires us to calculate the bounty or grant provided under a preferential loan program on the basis of a comparison between the preferential rate and the commercially available rate rather than on the basis of a comparison with the cost of funds to the government."

Comment 11. Respondents claim that the Department, in calculating the subsidy benefit deriving from preferential short-term loans, inappropriately used a benchmark based on the 1983 national average discount rates of accounts receivable as published in *Analise/Business Trends.* Counsel contends that the 1982 interest rates in effect on the date of the loan should be used in calculating the benchmark instead.

DOC Position. We have amended our calculations by using the 1982 benchmark for loans taken out in 1982 and the 1983 benchmark for loans taken out in 1983.

Comment 12. Respondents contend that the Impôsto sôbre Operações Financeiras (IOF) is an indirect tax on the production of goods for export, that the exemption of loans under Resolution 674 from this tax is not a subsidy, and that if we determine that Resolution 674 financing provides a subsidy, we should not consider this exemption as part of that subsidy.

DOC Position. We disagree. The fact that the IOF is an indirect tax paid on domestic financial transactions is irrelevant. Since we are considering the discounting of a cruzeiro-denominated receivable, a transaction upon which the IOF is paid, as the commercial alternative to Resolution 674 loans, it is entirely appropriate that we include the exemption of Resolution 674 loans from the IOF as part of the subsidy in order to measure the full benefit provided under this program.

Comment 13. Respondents contend the Department improperly used an arithmetic mean rather than a weighted-average mean to establish its average benchmark, which does not reflect commercial reality because it fails to relate specific discount rates to specific loans.

DOC Position. We disagree. We have calculated the national average commercial short-term benchmark rate in such a way that it can be used as a benchmark throughout the period of investigation, because the loans we are examining were taken out throughout the period. Calculating the average benchmark by weighing each of the rates by the volume of loans taken out at that rate could lead to understating the value of the preferential loans.

Comment 14. Respondents argue that the Department, in its preliminary determination, improperly compared an annualized benchmark with loans of less than one year in valuing the subsidy benefit received from preferential short-term loans.

DOC Position. We disagree. For purposes of the preliminary determination, we adjusted the benefit to reflect the actual duration of each loan. We see no reason to modify our calculations for purposes of this final determination.

Comment 15. Respondents contend the Department should take into account in its final determination Resolution 950 of the Banco Central do Brasil, which changed the interest rate applicable to Resolution 882 loans from monetary correction plus three percent to monetary correction plus 10–15 percent. Counsel claims this would be consistent with our policy to recognize program-wide changes occurring after the period of investigation but prior to our preliminary determination.

DOC Position. See response to Petitioner's Comment 2

Verification

In accordance with section 776(a) of the Act, we verified all the information used in making our final determinations.

Suspension of Liquidation

In accordance with section 703(d) of the Act, on September 12, 1984, we instructed the U.S. Customs Service to suspend liquidation of all entries of oil country tubular goods from Brazil (49 FR 35827). As of the date of publication of this notice in the Federal Register, the liquidation of all entries, or withdrawals from warehouse, for consumption of this merchandise will continue to be suspended and the Customs Service shall require an *ad valorem* cash deposit or bond for each such entry of this merchandise as follows:

Manufacturer/producer/exporter	*Ad valorem* rate (percent)
Confab Industrial S.A.	24.97
Mannesmann S.A. or Mannesmann Comercial S.A.	25.24
Persico-Pizzamiglio S.A.	11.35
All Other Manufacturers/Producers/Exporters	22.41

This suspension will remain in effect until further notice.

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determinations. In addition, we are making available to the ITC all non-privileged and non-confidential information relating to these investigations. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

The ITC will make its determination whether these imports are materially injuring, or threatening material injury to, a U.S. industy within 45 days of the publication of this notice.

If the ITC determines that material injury or the threat of material injury does not exist, this proceeding will be terminated and all estimated duties deposited or 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 a countervailing duty order, directing Customs officers to assess a countervailing duty on oil country tubular goods from Brazil entered, or withdrawn from warehouse, for consumption after the suspension of liquidation, equal to the net subsidy amount indicated in the "Suspension of Liquidation" section of this notice.

This notice is published pursuant to section 705(d) of the Act [19 U.S.C. 1671d(d)].

William T. Archey,

Acting Assistant Secretary for Trade Administration.

November 20, 1984.

[FR Doc. 84–31042 Filed 11–26–84; 8:45 am]

BILLING CODE 3510–05–M

DEPARTMENT OF COMMERCE

International Trade Administration

[C-580-402]

Final Affirmative Countervailing Duty Determination; Oil Country Tubular Goods From Korea

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Korea of oil country tubular goods. The net subsidy is 0.53 percent *ad valorem*. We have notified the United States International Trade Commission (ITC) of our determination. We are directing the U.S. Customs Service to continue to suspend liquidation of all entries of oil country tubular goods from Korea that are entered, or withdrawn from warehouse, for consumption, on or after September 12, 1984, and to require a cash deposit or bond on entries of these products in the amount equal to the net subsidy.

EFFECTIVE DATE: November 28, 1984.

FOR FURTHER INFORMATION CONTACT: Barbara Tillman, Rick Herring, or Tom Bombelles of the Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, D.C. 20230; telephone: (202)-377-1785; 377-0187; or 377-3174.

SUPPLEMENTARY INFORMATION:

Final Determination

Based upon our investigation, we determine that certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to manufacturers, producers, or exporters in Korea of oil country tubular goods. For purposes of this investigation, the following programs are found to confer subsidies:

- Short-term Export Financing under the Export Financing Regulations;
- Accelerated Depreciation under Article 25 of the "Act Concerning the Regulation of Tax Reduction and Exemption"; and
- Tax Incentives for Exporters under Articles 22, 23 and 24 of the "Act Concerning the Regulation of Tax Reduction and Exemption."

We determine the net subsidy to be 0.53 percent *ad valorem*.

Case History

On June 12, 1984, we received a petition from the Lone Star Steel Company of Dallas, Texas, and the CF&I Steel Corporation of Pueblo, Colorado, on behalf of the U.S. industry producing oil country tubular goods. In compliance with the filing requirements of section 355.26 of our regulations (19 CFR 355.26), the petition alleges that manufacturers, producers, or exporters in Korea of oil country tubular goods receive, directly or indirectly, benefits which constitute subsidies within the meaning of section 701 of the Act, and that these imports are materially injuring or threatening material injury to, a U.S. industry.

We found taht the petition contained sufficient grounds upon which to initiate a countervailing duty investigation, and on July 3, 1984, we initiated such an investigation (49 FR 28291). We stated that we expected to issue a preliminary determination by September 6, 1984. On August 3, 1984, the petition was amended and the LTV Steel Company of Cleveland, Ohio became co-petitioner. On July 23, 1984, United States Steel Corporation (U.S. Steel) entered an appearance to become a party to this proceeding.

Since Korea is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. Therefore, we notified the ITC of our initiation. On August 8, 1984, the ITC published in the **Federal Register** their preliminary determination that there is a reasonable indication that these imports are materially injuring, or threatening material injury to, a U.S. industry (49 FR 31782).

We presented questionnaires concerning the allegations to the government of Korea in Washington, D.C., on July 13, July 23 and August 20, 1984. On August 17, August 20, August 21 and August 30, 1984, we received responses to these questionnaires. On July 18 and August 20, petitioners presented additional information concerning the alleged subsidies and also alleged new subsidies. On July 9, August 31, and September 5, U.S. Steel presented additional information concerning the alleged subsidies and also alleged new subsidies. On September 12, 1984, we published our preliminary determination that benefits constituting subsidies within the meaning of the countervailing duty law were being provided to manufacturers, producers, or exporters in Korea of oil country tubular goods (49 FR 35836).

At the request of both petitioners and respondents, we held a hearing on November 1, 1984, to allow the parties an opportunity to address the issues arising in the investigation. Both petitioners, respondents, and other interested parties filed briefs before and after the hearing on these issues. They also filed briefs commenting on our verification.

In its pre-hearing brief filed on October 23, 1984, U.S. Steel made additional allegations of benefits received by manufacturers and exporters of OCTG. These allegations were (1) Regional Tax Incentives, (2) Tax incentives for Exporters, and (3) Special Foreign Exchange Loan System. Since these allegations were made after our preliminary determination and after the Commerce verification team returned from Korea, the allegations were made too late to be considered in this investigation. These additional allegations will be given consideration in the section 751 administrative review of the order, if an order is issued.

Scope of the Investigation

The products covered by this investigation are oil country tubular goods (OCTG), which are hollow steel products of circular cross-section intended for use in the drilling of oil or gas. These products include oil well casing, tubing, and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or proprietary specifications. This investigation covers both finished and unfinished oil country tubular goods.

The provisions of the *Tariff Schedules of the United States, Annotated (TSUSA)* covering all steel pipe and tube, including oil country tubular goods, were changed as of April 1, 1984. We have reviewed the classification of steel pipe and tube by the U.S. Customs Service and determined that our original listing of the products subject to this investigation should be amended. As a result of the changes mentioned above, oil country tubular goods now comprise TSUSA item numbers 610.3216, 610.3219, 610.3233, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4225, 610.4235, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, and 610.5244.

There are five Korean producers of the subject merchandise which exported to the United States during the period for which we are measuring subsidization: Hyundai Pipe Company (Hyundai Pipe), Korea Steel Pipe Company (Korea Steel), Pusan Steel Pipe Company (Pusan), DongJin Steel Company (DongJin), and Union Steel Manufacturing Company (Union). In addition, there are five trading companies which exported the subject merchandise to the United States during the period for which we are measuring subsidization. The trading companies are the Hyundai Corporation, Kukje-ICC Corporation, Sunkyong Limited, Samsung Co. Ltd., and Daewoo Corporation.

Analysis of Programs

Throughout this notice, we refer to general principles applied to the facts of this investigation. These principles are described in the Subsidies Appendix attached to the notice of "Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina: Final Affirmative Countervailing Duty Determination and Countervailing Duty Order," which was published in the April 26, 1984 issue of the **Federal Register** (49 F.R. 18006).

For purposes of this determination, we are calculating a country-wide rate. The period for which we are measuring subsidization is the 1983 calendar year, which corresponds to the most recent fiscal year for each of the Korean producers and exporters.

Based upon our analysis of the petition, the responses to our questionnaires, comments filed by petitioners, respondents, and other interested parties to this proceeding, and our verification, we determine the following:

I. Programs Determined To Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers, or exporters in Korea of OCTG under the following programs:

A. Short-Term Export Financing Under the Export Financing Regulations

Petitioners alleged that the producers and exporters in Korea of OCTG receive preferential short-term export financing under the following programs:

- Export Loans under the 1972 Regulations for Export Financing;
- Export Loans provided under the Foreign Trade Act;
- Deferred Payment Export Loans; and
- Preferential Exchange Rates for Export Loans Based on Letter of Credit

Short-term export financing is authorized only through the 1972 Export Financing Regulations. Our determination with respect to the three other programs is discussed in the sections on "Programs Determined Not to Confer Subsidies" and "Programs Not in Existence."

Under the Export Financing Regulations, short-term export loans can be provided to the following:

- Exporters in receipt of letters of credit:
- Exporters concluding documents of acceptance or documents against payment contracts:
- Exporters purchasing local supplies:
- Exporters stockpiling raw materials;
- Exporters with certificates based on past export performance;
- Producers of raw materials for export; and
- Companies awarded domestic projects based on international public tender.

To determine whether a subsidy exists with respect to short-term export loans under the Export Financing Regulations, we must determine whether the export loan progam is intended to, or operates to, stimulate export rather than domestic sales, or is contingent on export performance. If there is a preference in a program's operation for export over domestic sales, we then must find an appropriate way to measure that preference.

Prior to June 28, 1982, short-term export loans provided under the Export Financing Regulations were charged a lower interest rate than short-term domestic loans. On June 28, 1982, the Monetary Board established a uniform rate of 10 percent for both export and domestic short-term financing provided by commercial banks. The interest rate in effect during the period for which we are measuring subsidization was 10 percent for short-term export loans. We verified that domestic short-term financing through commercial banks is the predominant short-term debt instrument in Korea (see, for example, the Federation of Korean Industries surveys obtained during verification and the Korean Chamber of Commerce *Survey*, submitted as Exhibit 13 of the Government of Korea's response, August 17, 1984, as well as Bank of Korea *Monthly Statistical Bulletins*).

If all other terms and conditions, as well as the administration, of the domestic and export loan programs were identical, we would not find that an export subsidy is being conferred because export loans are not at an interest rate is preferential compared to the interest rate on the most comparable, predominant short-term debt instrument. However, we have found that there is a difference in the administration of domestic and export short-term loans programs. The Bank of Korea (BOK) sets different rediscount ratios for export and domestic short-term loans. As specified in the BOK's *1983 Annual Report*, the rediscount ratio for export loans is 70 percent of the face value of the loan. The rediscount ratio on domestic commercial bills is 30 percent of the face value of the loan for large firms and the heavy and chemical industries. The rediscount ratio for small- and medium-sized firms is 70 percent. Small- and medium-sized firms are defined as companies with fewer than 300 employees. None of the steel companies producing the products under investigation is classified as a small- or medium-sized firm. The rediscount rate for both domestic and export short-term loans is 5 percent.

The higher rediscount ratio for export loans provides an incentive for banks to provide an export loan over a domestic loan when lending to a large company. Indeed, the banks' fee structure, which specifies lower fees on the letters of credit on which the short-term export loans are based, indicates that the banks encourage these borrowers to use export financing. Thus, we consider that the higher rediscount ratio for short-term export loans provides, in effect, a preference for export loans over domestic loans.

Because the most comparable, predominant short-term debt instrument (*i.e.*, the 10 percent rate on short-term domestic bank loans) cannot measure this preference, we must find an alternative method of quantifying it. We know from the surveys published by the Korean Chamber of Commerce and by the Federation of Koren Industries and from the Bank of Korea *Statistical Bulletins*, that companies do use sources of short-term financing in addition to bank loans. These sources include investment companies, commercial paper and the curb market: Since the rediscount mechanism operates in such a way as to encourage banks to supply firms short-term export financing at the expense of the domestic financing, we must conclude that short-term domestic financing comes from these other sources of financing as well as bank loans.

Therefore, the most appropriate way to measure the preference for export over domestic loans is to compare the 10 percent rate with a weighted average of short-term domestic credit. We have chosen this measure because it is the best approximation of what firms would pay for export financing if there were not a preference within the banking system for providing loans for export transactions.

The factors used to weight each of the four sources of short-term domestic credit were based on data from a number of sources, including the monthly *Statistical Bulletin* of the Bank of Korea and the surveys published by the Federation of Korean Industries (FKI). The *Statistical Bulletin* provides the size of, and interest rates charged on, short-term financing by banks, investment finance companies and commercial paper. The FKI surveys provide data on the proportion that curb market loans represent of total corporate borrowing for working capital. For the curb market interest rate, we have determined that the most appropriate rate to use is the average monthly rate for 1983 as published in the Survey conducted by the Korean Chamber of Commerce, provided as Exhibit 13 to the response submitted by the Government of Korea. This rate is 2.6 percent, which, when compounded, yields an annualized rate of 36.1 percent. We are using the rate published by the Chamber of Commerce as the most appropriate measure of the average curb market rate in 1983, because it was the only independently conducted study or survey of curb market rates that has been entered in the record of this investigation. We looked extensively for data on these rates at verification. We consider the Chamber Survey to be the most accurate reflection of average curb market rates during the period for which we are measuring subsidization.

Using the data from all these sources, we calculated the weighted-average rate that we have determined is the most appropriate way to measure the preference for export over domestic loans. Comparing this weighted-average rate to the 10 percent rate on export loans, we calculate an export subsidy of 0.46 percent *ad valorem*.

B. Accelerated Depreciation

Article 25 of the "Act Concerning the Regulation of Tax Reduction and Exemption" permits a firm earning more than 50 percent of its total proceeds in a business year from foreign exchange to increase its normal depreciation by 30 percent. If the corporation has received less than 50 percent of its total proceeds from foreign exchange, it can still claim some accelerated depreciation, determined by a formula based on the firm's foreign exchange earnings and total business earnings. Of the firms investigated, only Pusan used accelerated depreciation under this program. Because the use of accelerated depreciation is contingent upon export performance, we determine that this program confers benefits which constitute export subsidies.

To calculate the benefits from the accelerated depreciation program for the period in which we are measuring subsidization (calendar year 1983), we determined the tax savings received in 1983 based on the accelerated depreciation which had been deducted from the 1982 income taxes payable in 1983. The amount of tax savings received under this program was divided by the total value of exports in 1983 to calculate an export subsidy of 0.03 percent *ad valorem*.

C. Tax Incentives for Exporters

Articles 22, 23 and 24 of the "Act Concerning the Regulation of Tax Reduction and Exemption" provide for the deduction from taxable income of a number of different reserves relating to export activities. These reserves cover export losses, overseas market development and price fluctuation losses. Under Article 22, a corporation may establish a reserve amounting to one percent of the foreign exchange earnings, or 50 percent of net income in the applicable period, whichever is smaller. If certain export losses occur, they are offset from the reserve fund. If there are no offsets for export losses, the reserve is returned to the income account and taxed, after a one-year grace period, over a three-year period.

Under Article 23 governing overseas market development, a corporation may establish a reserve fund amounting to one percent of its foreign exchange earnings in the export business for the respective business year. Expenses incurred in developing overseas markets are offset from the reserve fund. Like the export loss reserve fund, if there are no offsets for expenses, the reserve is returned to the income account and taxed, after a one-year grace period, over a three-year period.

A price fluctuation reserve fund may be established under Article 24. Under this Article, a corporation may establish reserves equivalent to five percent of the book value of the products and works in progress which will be exported by the close of the business year. This reserve may be used to offset losses incurred from the fluctuation of prices for export goods. These losses may be offset by returning an amount equivalent to the losses to the income account. If not so utilized, the reserve is returned to the income account the following business year.

The balance in all three reserve funds is not subject to corporate tax, although all moneys in the reserve funds are eventually reported as income and subject to corporate tax either when they offset export losses or when the one-year grace period expires. Pusan Steel Pipe, Korea Steel Pipe, Hyundai Pipe, Kukje, Samsung, and Daewoo received benefits under these programs in 1983. We determine that these export reserve programs confer benefits which constitute export subsidies because they provide a deferral of direct taxes specifically related to export performance.

Because these export reserve funds constitute a deferral of tax liabilities, we treat the tax savings on these funds as interest-free loans to the corporation. Accordingly, we have quantified the benefits from the reserve funds by calculating the amount of tax savings and then applying a rate of interest which the firm would have had to pay for a short-term loan. Using this methodology, we calculate a subsidy of 0.04 percent *ad valorem*.

II. Programs Determined Not to Confer Subsidies

We determine that benefits which constitute subsidies are not being provided to manufacturers, producers, or exporters in Korea of OCTG, under the following programs:

A. Medium- and Long-Term Credit

Petitioners alleged that OCTG producers, as part of the Korean steel industry, have received medium- and long-term financing through government direction of credit and programs designed to finance major or key industries, and that these loans are made on terms which are inconsistent with commercial considerations.

In order to investigate the first allegation, that credit is directed within the Korean economy, we have examined whether the Korean government mandates, explicitly or implicitly, that certain industries or enterprises receive credit at the expense of other borrowers. If there are explicit or implicit government mandates that certain industries or firms receive funds, then we would expect to find this reflected in the composition of the loan portfolios of all the lending institutions combined. Absent a finding that these key or major industries receive a disproportionate share of the medium- and long-term loans available in Korea, we cannot conclude that the Korean government is directing credit.

Medium- and long-term financing is provided through three types of financial organizations in Korea:

(1) Commercial banks;

(2) Specialized banks; and

(3) Development institutions (Korea Development Bank and the Export-Import Bank of Korea).

In addition, there are two government funds through which long-term financing is provided:

(1) The National Investment Fund; and

(2) The Fund for Expanding Export Facilities.

We have examined the three types of financial organizations and the two government funds that are the sources of medium- and long-term borrowing in Korea.

Viewing these institutions and funds in the aggregate, we determine that there is no government direction of medium- and long-term credit to the OCTG producers or to the broader steel sector. We have found that the lending institutions in Korea, when viewed as a whole, provide medium- and long-term loans to all sectors and all major industry groups, indeed to virtually all industries. Notwithstanding that certain of the sources have been created to provide credit to designated groups of recipients, these groups do not receive a disproportionate share of the total medium- and long-term credit available from all sources combined. Moreover, we determine that the OCTG producers and the broader steel industry do not receive a disproportionate share of funds from all these sources. Indeed, over the last 15 years, the steel industry has accounted for approximately 6 to 13 percent of GNP. During the same period the basic metals sector, which includes steel, has received 5 to 8 percent of medium- and long-term loans.

Although we have found that credit is not directed by the Korean government to OCTG producers or to the broader steel industry, we must still examine whether particular medium- and long-term loans from any of the individual institutions or funds confer benefits which constitute subsidies within the meaning of the countervailing duty law.

In order to determine that medium- and long-term loans are providing benefits which constitute domestic subsidies, we must find that the program is limited to a specific enterprise or industry or group of enterprises or industries, and that the loans are provided on terms inconsistent with commercial considerations. If either of these conditions is not met, then we cannot find that a domestic subsidy exists.

In making the determination on whether a program is limited to a specific enterprise or industry or group of enterprises or industries, we have consistently examined whether there is a *de facto*, as well as a *de jure*, limitation. In making the determination of whether a loan is inconsistent with commercial considerations, we examine whether the potentially contervailable loan offers more favorable terms than the firm would otherwise receive.

Based on our verification and information provided by the petitioners, the responses and the briefs submitted by parties to the proceeding, we have found the following with respect to each of the three types of financial organizations and the government funds:

1. Commercial Banks

Commercial banks, which until the early 1980's were either government-owned or government-controlled, consist of seven nationwide or "city" banks, 10 regional or "local" banks, and the branches of 48 foreign banks. The domestic commercial banks are authorized by the General Banking Act (G.B.A.) and provide the normal financial services that are usually offered by banks in all countries. There is no explicit listing in the G.B.A. that designates certain industries or sectors for receipt of commercial bank credit.

Bank of Korea statistics show the distribution of loans from the deposit money banks (DMB's). DMB's include both commercial and specialized banks. (Specialized banks are discussed in the following section.) Examination of the Bank of Korea statistics demonstrates that during both the 1970's and 1980's all sectors of the economy received loans through the DMB's and that steel did not receive a disproportionate share.

During verification, we obtained loan statistics directly from Hanil and Cho-Heung, two of the five largest commercial banks in Korea. The loan statistics are broken down by sector, major industry group and industry. The sectors are:

- Agriculture and forestry;
- Mining;
- Manufacturing;
- Electricity, gas and water;
- Construction;
- Wholesalers;
- Transportation and warehousing; and
- Others (including social services).

Each of these sectors is then broken down by major industry group and by industry within each group. Steel production is included in the primary metals group within the manufacturing sector. This group includes, in addition to steel, categories for aluminum and others.

Our review of the loan statistics of these two banks for various years in the 1970's and 1980's shows that all sectors and major industry groups, indeed, virtually all industries, received loans.

Furthermore, the statistics show that the steel industry did not receive a disproportionate share of the loans.

2. Specialized Banks

There are seven specialized banks in Korea: Korea Exchange Bank, Medium Industry Bank, Citizens National Bank, Korea Housing Bank, National Agricultural Cooperatives Federation, National Federation of Fisheries Cooperatives and Members Cooperatives, and the National Livestock Cooperative Federation. Each of these banks is set up by its own Act, and, by their titles, these banks are explicitly chartered to service certain broad sectors of the Korean economy.

Like commercial banks, specialized banks are deposit money banks and, therefore, are included in Bank of Korea statistics on DMB loan distribution. As stated previously, the Bank of Korea statistics show that all sectors and industries have received loans through the DMB's and that steel has not received a disproportionate share of DMB loans. In addition, it is clear that the specialized banks have been set up to serve sectors of the economy besides steel. None has been set up specifically for the steel industry or even for the manufacturing sector or heavy industry sector. We verified that the steel companies producing the products under investigation have only a few outstanding long-term loans from specialized banks and that these loans do not represent a disproportionate share of the long-term loans funds from specialized banks.

3. Development Institutions

a. *Korea Development Bank (KDB).* The KDB was established in 1954 to aid in the reconstruction of the country following the Korean War. Once reconstruction was completed, the bank shifted its resources to support the development of industries deemed important for long-term economic growth. The industries named in the KDB Enforcement Decree include electric power, coal mining, shipbuilding, iron and steel manufacturing, semiconductors and overseas marine and/or air transport. In addition to these industries, KDB also provides loans for agriculture, oil and gas, food and beverage, textiles, paper and paper products, chemicals, rubber and plastic products, non-metallic mineral products, fabricated metal products, machinery and equipment, construction, wholesale and retail trade, communications and financial services. Thus, while there is an explicit designation that the KDB will service certain industries, it also has provided loans to borrowers in numerous industries that were not designated.

During the 1970's and 1980's, the KDB accounted for approximately 45 percent of the medium- and long-term loans available. Prior to the June 1982 equalization of interest rates, these designated industries were charged a lower interest rate than KDB borrowers in other industries. The interest rates charged by KDB are set by the Ministry of Finance.

b. *Export-Import Bank of Korea.* Promulgated by Law No. 2122 in July 1969, the purpose of the Export-Import Bank of Korea (Eximbank) is "to promote the sound development of the national economy and economic cooperation with foreign countries by extending the financial aid required for export and import transactions; overseas investment and the development of natural resources abroad." The Enforcement Decree for the Act specifies the "major" raw materials that Eximbank should develop:

- Coal, iron ore, cooper, petroleum, and other mined materials;
- Timber and other forest materials;
- Grains, cotton, sugar, rubber and other agricultural materials; and
- Other raw materials deemed necessary to secure stabilized long-term supply for the economy; however, this should be decided through a state meeting and announced through the Ministry of Finance.

Thus, if there is any explicit designation of recipients of loans from the Eximbank, the designated group is raw material users.

During verification, we examined all export and overseas investment loans awarded from 1976 through 1982. During those seven years, only five loans were awarded to the steel industry; one in 1979, two in 1980 and two in 1982. None of these five loans were for the financing of exports of the products under investigation. Also, during each of these years there were other projects financed in other industries. For example, in 1979, the other overseas investment loans went to a taxtile plant project, a manufacturing plant project, fishery development, a cement plant project, and vessel chartering. Thus, the Korea Eximbank finances projects in a wide number of industries. Moreover, the steel industry has not received a disproportionate share of Eximbank loan monies.

4. The National Investment Fund

On December 14, 1973, the government of Korea established the National Investment Fund (NIF) through Law No. 2635. The stated "purpose of this Act is to prescribe necessary matters for the establishment and effective management of the National Investment Fund on the bases of extensive nationwide savings efforts and participation, to secure and supply the investment and loan funds needed to promote the construction of major industries, including the heavy and chemical industries, as well as to help "increase exports."

In the preliminary determination, we determined that NIF loans were countervailable export subsidies because one of the express purposes stated in the Act was to help increase exports and because they were provided at preferential rates.

During verification, we found that there are two types of NIF loans, one to finance development and one to finance exports on a deferred payment basis. The NIF loans to finance exports on a deferred payment basis are managed by Eximbank. We verified that exports of the products under investigation are not eligible to receive NIF loans for exports on a deferred payment basis and that none of the companies producing OCTG has financed exports of OCTG through this program.

With respect to the other pool of NIF monies, our examination of loan files, as well as application and approval documents at the companies, did not reveal any export-related conditions on these NIF loans. Thus, we now conclude the NIF loans are not export subsidies.

Despite the fact that NIF loans would not be considered export subsidies, the law establishing the fund and the enforcement decree explicitly designate certain industries for receipt of these loans. In addition to "major industries, including the heavy and chemical industries," the enforcement decree names steel, nonferrous metals, shipbuilding, machinery, chemicals, electronics, food production, power, mining, cement, rural manufactured goods, projects to increase rural income, and fishing and fisheries projects. NIF loans accounted for 25 to 30 percent of the medium and long-term loans issued in the 1970's and 1980's.

5. Fund for Expanding Export Facilities

During verification at the companies we found several outstanding long-term loans received through the "Fund for Expanding Export Facilities." This fund was established in 1973 and abolished in 1982. Eligibility for these loans was limited to manufacturers building facilities for producing export goods or raw materials and purchasers of ocean-going vessels used for the fish export industry. Thus, this Act designates exporters as recipients.

Based on the findings reported above, we determine that because commercial banks and specialized banks provide medium—and long-term loans to all sectors and industries in the economy, and because the steel industry did not receive a disproportionate share, loans from these sources are not limited to a specific enterprise or industry or group of enterprises or industries and therefore do not provide benefits which constitute subsidies. Furthermore, based on our review of the Eximbank Act and the Enforcement Decree, and the distribution of the loans we find that there is no *de jure* or *de facto* limitation to an enterprise or industry or group of enterprises or industries. Accordingly, we determine that Eximbank loans do not provide benefits which constitute subsidies.

We also determine that loans provided to the OCTG producers through the KDB and the NIF do not provide benefits which constitute subsidies, because the interest rates paid on these loans have been equal to the interest rate for all medium—and long-term loans in Korea since June 1982. Thus, these loans are not on terms inconsistent with commercial considerations.

To determine whether a loan is inconsistent with commercial considerations, we rely on the methodology in the Subsidies Appendix for long-term loans to companies considered creditworthy. As stated in the Appendix, the benechmark for long-term loans in company-specific, unless the company lacks adequate comparable commercial experience. If the company lacks comparable commercial experience, we use a national average long-term loan interest rate.

After finding an appropriate benchmark loan, the next step in determining if a loan was given on terms inconsistent with commercial considerations is to calculate the payment differential between the benchmark loan and the loans at issue. Consistent with our methodology, when the long-term loans are at variable interest rates, we calculate the benefit based on the differential between the interest rate for the loan at issue and the interest rate on the benchmark loans in the year for which we are measuring subsidization. As stated above, the rates on all medium—and long-term loans were equalized in 1982. Hence, for the year in which we are measuring subsidization, there is no interest differential between the loans at issue and the benchmark loans.

We note that using as the benchmark the 1983 interest rate on a variable rate long-term commercial loan is not a departure from prior practice. In our preliminary determination, we used a short-term interest rate as the benchmark for NIF loans. However, we stated that because we needed additional information in order to determine whether loans from commercial and specialized banks were subsidies, we could not use those variable rate long-term loans in establishing our benchmark. Thus, because we had no comparable commercial long-term loan experience with which to compare NIF loans, we use, as best information available, a short-term rate for purposes of measuring the benefit conferred by these loans.

Finally, we determined that loans received by the OCTG producers under the Fund for Expanding Export Facilities do not confer benefits that constitute export subsidies. Assuming, as we do, that eligibility for these loans is contingent upon export performance, to quantify any benefit arising from these long-term export-related loans, we must compare the terms of these loans to the cost of comparable commercial domestic long-term loans.

We know that all loans from the Fund for Export Facilities that were still outstanding during the period for which we are measuring subsidization were charged 10 percent interest after the June 1982 equalization of interest rates. Thus, since June 1982 the cost to the borrower on these loans is the same as the cost of comparable domestic long-term loans. As a result, we find that no benefit is conferred by these long-term export-related loans.

B. Import Duty Deferrals

Article 36 of the Customs Act of Korea permits the Ministry of Finance to designate an industry as eligible to pay customs duties on an installment basis, rather than upon entry. In our preliminary determination, we determined this program to confer a subsidy because the government of Korea did not provide us with any information demonstrating that during the period for which we are measuring subsidization this program was not limited to a specific enterprises or industry or group of enterprise or industries. A program may be available, in principle, to a wide group of industries, but when there appears to be some discretion on the part of the government in the granting of benefits under the program, we must determine that discretion effectively limits the program to specific enterprises or industries.

During the verification, we found that twenty-four industries were eligible to receive duty deferrals including industries as disparate as mining, cement, fertilizers, chemicals, machine tools, steel works, and plywood. Once an industry is considered eligible, each company within the industry may request deferral status by submitting an application to the Tariff Administration Office of the Office of Customs Administration. We examined this program to determine if only certain companies within each of the twenty-four industries had their application for duty deferral status approved. We found that in practice there appears to be no limitation to the companies within the twenty-four industries which receive duty referrals, and that any company which applies is granted that status. Therefore, we determine that this program is not limited to a specific enterprise or industry or group of enterprises or industries, and, therefore, does not constitute a subsidy.

C. Investment Tax Credit

Petitioners alleged that producers and exporters of OCTG may receive preferential tax benefits under Article 72 of the "Act of Concerning the Regulation of Tax Reduction and Exemption," which provides for a temporary investment tax credit when the government deems it necessary for adjustment of economic activities. During the period from January 1, 1982, through December 31, 1982, Article 57-2 was the enforcement decree for Article 72. Article 57-2 specifies that the investment tax credit was available for the acquisition of fixed assets used directly for the manufacturing or mining business. Consistent with past practice, programs available to all industries in the manufacturing and mining sectors are not limited to "a specific enterprise or industry, or group of enterprises or industries," and thus do not provide domestic subsidies. Since the tax credit is not contingent on export performance, it does not provide an export subsidy. Thus, we determine that this program does not constitute a subsidy.

D. Subsidized Steel Inputs

Petitioners alleged that DongJin may benefit from subsidies received by its parent company. Until 1984, DongJin was a wholly-owned subsidiary of Pohang Iron & Steel Company (POSCO), a manufacturer of hot-rolled coil, blooms, and billets. Petitioners alleged that subsidies received by POSCO on those products may be passed on to DongJin.

DongJin's raw material for OCTG is J-55 grade of hot-rolled steel coil. During 1983, DongJin purchased this product from POSCO and from an unrelated foreign supplier whom we have never found to be subsidized. We verified that the price paid by DongJin to POSCO was comparable to the price DongJin paid to its foreign supplier for hot-rolled coil. Furthermore, no rebates or discounts are received from POSCO on these purchases. Consequently, we determine that DongJin receives no competitive benefit through its purchases of inputs from POSCO.

Section 613 of the Trade and Tariff Act of 1984, signed by the President on October 30, codifies the standards for determining upstream subsidies. This section generally codifies Department practice. Our investigation was consistent with both Department practice and the newly codified standards.

E. Equity Infusions into DongJin

In their July 18 submission, petitioners alleged that POSCO, the parent company of DongJin, received government equity infusions on terms inconsistent with commercial considerations and that this equity subsidy may have been passed through POSCO to DongJin. DongJin was established on October 27, 1982, by POSCO. At the time of DongJin's formation, POSCO invested funds in order to provide cash for the purchase of the assets of Illsin Steel Company and working capital for DongJin's future operations. POSCO also guaranteed the notes of DongJin used for the purchase of Illsin's assets.

Illsin Steel Company was a bankrupt company, owned and operated by it two major creditors, Korea Exchange Bank (KEB) and Commercial Bank of Korea (CBK). In accordance with Korean law, at the time of bankruptcy the courts foreclosed upon Illsin's assets and offered the assets for sale at public auction. Because there were no other bidders for the assets at the appraised value or above, the banks, which were the highest bidders, purchased the assets at auction. These assets were then sold to DongJin for cash and notes.

According to the banks: (1) The price offered by DongJin was the highest price which they could obtain, (2) the banks' operations of Illsin were resulting in a cash drain on them, and (3) it was in the bank's interest to sell the assets as a package, so as not to significantly decrease the value of the total package. Because there were no bidders, at auction, which would have paid the appraised value of the assets, and because it was in the banks' interest to minimize their losses, the sale of Illsin by the banks can be characterized as a distress sale.

Although the banks were eager to sell, the purchase of Illsin's assets by DongJin presented certain advantages to POSCO. Illsin had been a major supplier to POSCO. POSCO had knowledge and management expertise to operate Illsin and under the circumstances might negotiate terms which could make the venture economically attractive. The terms negotiated required a minimal amount of cash and notes, some of which were at zero interest rate.

To determine whether POSCO's equity infusion into DongJin was on terms inconsistent with commercial considerations, we analyzed the terms compared to ordinary commercial considerations. The Department did not find this transaction inconsistent with commercial considerations for the following reasons.

First, POSCO did not receive government funds during 1982 and, therefore, POSCO's investment in DongJin could not have been a pass through from the government. Second, we found no evidence that the government directed the banks to sell the assets to DongJin on favorable terms. Third, the cash investment into a newly created subsidiary by a parent company, and the guaranteeing of subsidiary's notes, when the subsidiary is still a "shell" organization, are normal business practices. Fourth, because of the commercial advantages to both the seller and the purchaser in this transaction, and the apparent lack of interest by any other party to purchase Illsin's assets, we determine that the transaction was not on terms inconsistent with commercial considerations. Moreover, we do not consider POSCO's guarantee of DongJin's notes payable to be a subsidy, because no evidence has been submitted that a parent company's guarantee of a wholly-owned subsidiary's loan is inconsistent with commercial considerations.

III. Programs Determined Not To Be Used

We have determined that OCTG manufacturers, producers, or exporters in Korea do not use the following programs that were identified in the notice of "Initiation of Countervailing Duty Investigation of OCTG from Korea":

A. Preferential Port Charges

Petitoners alleged that "designated companies" under the Iron and Steel Industry Rehabilitation Order are eligible on a case-by-case-basis to receive discounts on port rates. We verified that the rates charged to, and paid by, OCTG producers and exporters for use of ports are the same as those charged to all other users.

B. Tariff Reductions on Imported Plant and Equipment

Petitioners alleged that the government of Korea allows reductions of import duties for certain industries on certain items designated by the Ministry of Finance. We verified that none of the OCTG producers or exporters received tariff reductions on imported plant and equipment.

C. Free Export Zone Program

Petitioners alleged that producers and exporters of OCTG receive tax benefits based upon location in a free export zone. We verified that none of the producers or exporters of OCTG is located in a Free Export Zone.

D. Foreign Capital Inducement Law

Petitioners alleged that OCTG producers and exporters may be receiving financial and tax benefits under the Foreign Capital Inducement Law. The producers and exporters of OCTG are not eligible for any benefits under this program because they have no foreign ownership.

E. Export Credit Insurance

Petitioners alleged that the government of Korea provides annual contributions to an export insurance program. We verified that export credit insurance was not used to insure exports of OCTG to the United States.

F. Port Facilities

Petitioners alleged that the government of Korea is constructing a port at Kwangyang Bay to facilitate the importation of coal and iron ore. It is further alleged that POSCO, and therefore its subsidiary, DongJin, will benefit from this port. The port is scheduled for completion in 1987 and will not be used by any producer that exported OCTG to the United States during the period for which we are measuring subsidization.

G. Training Aid

Petitioners alleged that the steel industry has received training aid from the government of Korea. We verified that the steel companies producing the products under investigation have not received training grants or other training funds from the government of Korea.

H. Financial and Technical Assistance for Raw Material Purchases

Under the Iron and Steel Promotion Act financial and technical assistance to purchase raw materials is authorized. However, we found no evidence that steel companies producing the products under investigation receive assistance from the government in purchasing raw materials.

I. Preferential Utility Rates

Petitioners alleged that "designated companies" under the Iron and Steel Industry Rehabilitation Order are eligible on a case-by-case basis to receive discounts from regular utility charges. Under Article 7 of the Iron and Steel Industry Promotion Act reductions on utility charges are authorized. The steel industry made a request to the Korean Electric Company seeking reduced rates but the Electric Company turned down the request and the reductions were never granted. We also found no evidence that the steel companies producing the products under investigation received reductions or other assistance on any other utility rates.

Programs Not In Existence

We determine that the following programs are not in existence or have been abolished:

A Preferential Exchange Rates for Export Loans

Petitioners alleged that producers and exporters of OCTG receive preferential exchange rates for export loans based on letters of credit. Petitioners alleged that the exchange rate used for loans based on letters of credit was 10 percent more favorable to Korean exporters than the actual exchange rate. There is no preferential exchange rate used to convert export financing. For export loans granted under the Export Financing Regulations, a Won/U.S. dollar conversion factor which is lower than the official exchange rate is utilized when a loan is received against a letter of credit. Therefore, we determine that there is no program of preferential exchange rates for export loans that provides countervailable benefits to OCTG producers and exporters.

B. Export Financing under the Foreign Trade Transaction Act

Petitioners alleged that the government of Korea provides the steel industry with preferential short-term export financing under the Foreign Trade Transaction Act. The foreign Trade Transactions Act has been repealed and was not in effect during the period for which we are measuring subsidization.

C. Steel Industry Development Scheme

Petitioners alleged that the Korean Ministry of Trade and Industry is sponsoring a steel industry development scheme in which the government will spend 210 billion won on POSCO's (DongJin's parent company) plant expansion project. At verification we established that the Ministry of Trade and Industry is not sponsoring such a scheme.

D. Wage Controls

Petitioners alleged that the government of Korea controls wages for government-run firms such as POSCO, resulting in lower production costs for this segment of Korean industry. It is further alleged that DongJin may benefit from government wage controls by virtue of its status as a wholly-owned subsidiary of POSCO. The rates paid by DongJin to its workers are comparable to the rates paid by other steel manufacturers. We also found no evidence that the government of Korea has a wage control system under which DongJin must operate.

E. Joint Facilities for Industrial Complexes Scheme

Petitioners alleged in their August 20 submission that the government of Korea was providing funding for joint facilities in industrial complexes, and that the steel industry was one of the industries targeted for such funding. In 1981 such a program was discussed between the Federation of Small and Medium Industry Cooperatives and the government of Korea. The project was to be located near Kimpo Airport in Seoul. However, in January 1982 the proposed project was cancelled due to lack of funding.

F. Equipment Funds for Export Strategy Industries and Funding for Industrialization of New Technology

The Ministry of Trade and Industry (MTI) is presently studying proposals concerning these two projects but there has been no final decision on whether to set them up. The Korea Development Bank has received a loan from the Asian Development Bank to fund one of the programs. However, we verified that the ony industries eligible to receive loans from this fund are companies producing machines and machine parts.

G. Assistance for Trading Comnpanies

In their August 20 submission petitioners alleged that the government of Korea provided benefits to trading companies by allowing them to increase their foreign exchange holding and by allowing them to increase their reserve funds to cover export losses in foreign markets. With regard to the first allegation, trading companies are authorized to maintain foreign currency accounts of over $300,000 dollars. However, we found no evidence that other companies are limited in their foreign exchange holdings or any other evidence to suggest that this allowance for foreign exchange holding provides a countervailable benefit to trading companies. Regarding the allegation on export reserves, we verified at the trading companies that there are no special provisions allowing them to claim additional export loss reserves. Even if there were such provisions, we have verified all the outstanding export reserves held by the trading companies.

Petitioners Comments

Comment 1: Petitioners argue that the commercial bank interest rate, which was averaged with other rates to compute the benchmark, is not a free market rate and, therefore should not have been used in determining a benchmark. In support of their contention they cite Department practice as reflected in prior proceedings and in the Subsidies Appendix where "commercial" interest rates were used as benchmarks or where market-determined prices were sought.

DOC Position: We disagree. Petitioners are reading our prior determinations and the Subsidies Appendix too narrowly. For example, in seeking a "commercial" benchmark interest rate, we are seeking the alternative financing that is available to the firm in the lending marketplace of that country. We are asking if the interest rate paid on the allegedly preferential loan is less than what the average firm in that country would otherwise be paying. Similarly, in looking to market prices, we are seeking the prices that exist in that country's marketplace.

Typically, the marketplace is not the perfectly competitive market envisaged by economists. Instead, it is the commercial environment facing the firm. The commercial environment includes any distortions to relative prices that arise from government actions such as government regulation of the banking system, tax systems, customs duties or minimum wage laws. So long as profit-maximizing firms compete within that system, a marketpalce exists and our benchmarks for identifying and valuing subsidies are prices in that marketplace.

Comment 2: Petitioners argue that the benchmark interest rate used in the Department's preliminary determination, a weighted average of the interest rates charged by all sources of short-term commercial financing in Korea, does not reflect what a company would pay a normal commercial lender and is thus inconsistent with the principles enunciated by the Department for quantifying subsidies. Petitioners further argue that it is the curb market's unregulated interest rate which reflects the real cost of credit in Korea, and thus, pursuant to the principles enunciated in the Department's Subsidies Appendix, the curb market interest rate should be used as the benchmark interest rate in this case.

DOC Position: The Department believes that the correct benchmark for short-term lending normally is the most comparable, predominant form of short-term financing in the country under investigation. However, as explained in the section of the notice on "Short-Term Export Financing Under the Export Financing Regulations", the Department has found an incentive for banks to lend for export transactions at the expense of domestic financing. Using best information available, the Department has measured this preference for export lending by comparing the cost of export loans with the weighted-average cost of all forms of short-term domestic financing.

In the case of long-term loans, the Department has followed its standard practice of comparing the terms of loans under examination with the terms of comparable commercial long-term loans (see the section of the notice on "Medium- and Long-Term Credit"). In reaching these determinations, we believe we have been faithful to the principles enunciated in our Subsidies Appendix.

Comment 3: Petitioners contend that, assuming *arguendo*, the weighted-average benchmark is the correct benchmark, the Department's weighted-average benchmark understates the proportional size of the curb market and overstates the proportional size of bank credit as sources of domestic credit.

DOC Position: As explained in the section of the notice on "Short-term Export Financing Under the Export Financing Regulations," we are using a weighted-average of short-term domestic financing costs in order to quantify the banking system's preference for export loans. This weighted-average credit pool comprises short-term domestic bank credit, investment and finance company credit, commercial paper, and the curb market. Our weights are based on the most reliable data entered in the record of this investigation, including the Bank of Korea's *Monthly Statistical Bulletin*, the Federation of Korean Industries' biannual surveys of corporate financing, and the Korea Chamber of Commerce's annual survey of the curb market.

Comment 4: Petitioners contend that Korean medium-and long-term financing is a countervailable benefit because it is made available only to specially-designated priority sectors, to specific subgroups within those sectors, and, in particular, to the steel industry.

DOC Position: As explained in the section of the notice on "Medium-and Long-term Credit," we found no evidence that the Governmnt of Korea directs medium- and long-term credit.

Respondents' Comments

Comment 1: Respondents argue that the Department was incorrect in not using the interest rate for short-term borrowings from commercial banks as the most appropriate national average commercial method of short-term financing. Bill discounts, overdrafts, and general term loans are the domestic equivalents of short-term export financing, and are the alternative financing to export loans. Department precedent has always been to select the most comparable and commonly used alternative source of financing in a given country.

DOC Position: We agree that the correct benchmark for short-term lending normally is the most comparable, predominant form of short-term financing in the country under investigation. However, as explained in the section of the notice on "Short-Term Export Financing Under the Export Financing Regulations", the Department has found an incentive for banks to lend for export transactions at the expense of domestic financing. Using best information available, the Department has measured this preference for export lending by comparing the cost of export loans with the weighted-average cost of all forms of short-term domestic financing.

Comment 2: Respondents contend that the Department was incorrect in determining that long-term loans provided by the National Investment Fund (NIF) constitute export subsidies. NIF loans are in no way contingent on export performance. Respondents further contend that NIF loans are also not domestic subsidies because they are generally available. In any case, given the Department's methodology for evaluating long-term variable rate loans, no new NIF loans or NIF loans outstanding have been at preferential interest rates since NIF rates were equalized with the commercial bill discount rate in late 1981.

DOC Position: We agree that NIF loans do not constitute an export subsidy. We have also found that they do not constitute a domestic subsidy because interest rates on NIF loans during the period under investigation were not on terms inconsistent with commercial considerations. The correct long-term benchmark rate, however, is not that which exists on short-term commercial bills; rather, it is the rate on comparable commercial long-term borrowing. This is the benchmark we used in determining that NIF loans did not constitute subsidies.

Comment 3: Respondents note in their comments on the Government Verification Report that, in the Ministry of Trade and Industry's requirements submission for NIF loans, a number of different companies from industries other than steel are listed and that not only steel companies were specifically listed.

DOC Position: We agree that companies from other industries were listed in the submissions.

Comment 4: Respondents argue in their comments on the DongJin Verification Report that the sale of assets by the banks to POSCO was incorrectly characterized as a loan. They argue that the transaction between POSCO and the banks is a purchase contract between the owners of the assets (the banks) and the purchaser (POSCO).

DOC Position: Our determination with respect to this transaction is set forth in the section of the notice on "Equity Infusions in DongJin."

Comment 5: Respondents note in their comments on the DongJin Verification Report, that the charges paid for opening letters of credit are unrelated to the short-term loans themselves.

DOC Position: As discussed in the section of the notice on "Short-term Export Financing Under the Export Financing Regulations," we consider that the fee structure, which specifies lower charges for opening those letters of credit used to purchase imports of raw materials which are then used in export production, to be a manifestation of the preference built into the government's rediscount mechanism on short-term export loans. We consider that we have captured any benefit from this fee structure in our comparison of the weighted-average interest rate on domestic loans with the 10 percent interest rate on export loans.

Comment 6: Respondents argue in their comments on the Government Verification Report that the central bank rediscount mechanism was established to ensure that financing reached the productive sector of the economy by tying the financing to commodities and transactions, and that the volume of domestic financing under this mechanism far exceeds export financing if overdrafts and general term loans are included. They also argue that because domestic commercial bills finance 100 percent of the bills value, while export loans are eligible for only 80 percent, the rediscount mechanism does not alter the value of financing reaching the borrower.

DOC Position: We disagree. In 1983, the volume of short-term domestic financing eligible for rediscount at the Bank of Korea was less than the volume of short-term export financing eligible for rediscount at the Bank of Korea. We believe this is a manifestation of the preference for export financing over domestic financing. Although a large company's domestic transactions are eligible for financing equal to 100 percent of transaction value, the bank which provides this financing may only rediscount 30 percent of that 100 percent at the Bank of Korea. At the same time, although all firms' export transactions are only eligible for financing equal to 80 percent of transactions value, the bank which provides this financing can rediscount 70 percent of the 80 percent at the Bank of Korea. Thus, the Bank of Korea supplies credit which covers only 30 percent of the value of a domestic transaction as compared to 56 percent of the value of an export transaction.

This preference for export credit is a subsidy, and we have countervailed it (see the section of this notice entitled "Short-term Export Financing Under the Export Financing Regulations.")

Comments by U.S. Steel, a Party to the Proceeding

Comment 1: U.S. Steel argues that the weighted-average benchmark interest rate used by the Department in its preliminary determination greatly understated the subsidy from government provided/directed loans because it included the commercial bank interest rate, which is a heavily subsidized rate, available only to a select few government-preferred industries. U.S. Steel contends that the commercial bank rate should not be included in the weighted-average benchmark because it is not a market rate. Thus, its use contravenes the Department's standard requirement that the benchmark be a market interest rate. U.S. Steel further contends that because Korean commercial banks lend (1) at well below market interest rates, (2) only to a selected few government-preferred, priority sectors, and (3) without considering borrower creditworthiness, commercial banks cannot be considered "normal commerical lenders." This too contravenes standards Department policy which states that loan benchmarks represent what a company would pay a normal commercial lender.

DOC Position: See our responses to petitioners' Comment 1 and Comment 2.

Comment 2: U.S. Steel contends that, even if it were proper to include the commercial bank interest rate in the Department's weighted-average benchmark, the benchmark still understated the subsidy from government provided/directed loans because the size of the commercial bank sector has been greatly overstated relative to the private (curb) loan market.

DOC Position: See our response to petitioners' Comment 3.

Comment 3: Petitioner contends that exporters and/or steel producers benefit from a lower effective interest rate on domestic bank loans because they, unlike other borrowers, are not subject to compensating balance requirements.

DOC Position: Bank of Korea regulations specifically prohibit domestic banks from requiring compensating balances. During verfication, we found no evidence that domestic bank loans require compensating balances of other borrowers, while not requiring them of exporters and/or steel producers.

Comment 4: U.S Steel argues that the Korean government allocates the heavily subsidized credit of the "tightly government controlled-banking system" to select priority, export industries. All others must rely on the curb market for funds. Commercial bank loans have especially focused on the Korean steel industry, and loan decisions are based on political, not creditworthiness considerations. U.S. Steel contends that commercial bank loans were not generally available either prior to or during 1983–1984.

DOC Position: For an explanation of our treatment of medium- and long-term loans, see the section of this notice entitled "Medium- and Long-term Credit".

Comment 5: U.S. Steel contends that the National Investment Fund (NIF) provides preferential loans to steel producers.

DOC Position: The Department has found that NIF loans do not constitute subsidies during the period for which we are measuring subsidization (see the section of this notice entitled "Medium- and Long-Term Credit").

Comment 6: U.S. Steel contends that the NIF provided loans to steel producers at interest rates below those paid on NIF deposits. This differential in the cost of their funds and the return on their funds was assumed by the government, and constitutes an additional subsidy to steel producers.

DOC Position: During the period for which we are measuring subsidization, interest rates on long-term variable-rate NIF loans outstanding were not below interest rates on long-term variable-rate NIF deposits outstanding. Therefore, no government assumption of interest charges is indicated during the period for which we are measuring subsidization.

Comment 7: U.S. Steel argues that the respondent's non-responsiveness to questions in the Department's questionnaire concerning both commercial banks and NIF dictates that the Department make all inferences against respondents.

DOC Position: The Department has found respondents responsive to our requests for information throughout this investigation considering the time constraints under which all parties were operating. Furthermore, we obtained information on the commercial banks and NIF during our verification and U.S. Steel was given an opportunity to comment on the reports of our verification which discuss commercial banks and the NIF in detail.

Comment 8: U.S. Steel argues that Korean Development Bank (KDB) loans are not generally available and should therefore be countervailed.

DOC Position: The Department has found that KDB loans do not constitute subsidies during the period for which we are measuring subsidization (see the section of this notice entitled "Medium- and Long-Term Credit").

Comment 9: U.S. Steel contends that Korean steel producers benefit from government loan guarantees.

DOC Position: In the course of our investigation we determined that loan guarantees from both government-owned and privately-owned financial institutions are a standard commercial practice in Korea. The Bankers' Association sets the guarantee fees, and all Korean banking institutions charge those fees. The fee structure for loan guarantees does not differentiate by industry or class of transaction (*i.e.:* export or domestic). It does distinguish between won and foreign currency loans. As explained at verification by both foreign and Korean bankers, foreign banks, unlike Korean banks, cannot require collateral on their loans. Thus, foreign bankers generally require a loan guarantee. Korean banks usually require guarantees when a company has no unpledged collateral. We found that the steel companies producing the products under investigations paid the fees specified by the Bankers' Association for those guarantees that they had on their domestic and foreign currency loans. Thus, we do not consider that these guarantees are on terms inconsistent with commercial considerations.

Comment 10: U.S. Steel contends that the Department's verification reports indicate that preferential port charges for exports exist in Korea, based on the per ton differential in port charges for exporting, importing and domestic shipping.

DOC Position: The Korea Maritime and Port Administration (KMPA) establishes the rates for port charges. Rates vary according to port also to the type of port activity. Port charges are higher for importers than for exporters: however, the charges for domestic shipping are the lowest. For the port at Pusan the rate is 22 cents a ton for exporting, 37 cents a ton for importing, and 68 won a ton for shipping to another Korean port. The rate of 68 won for domestic shipping is much lower than the 22 cents a ton rate charged to exporters. Since an exporting activity is not favored over a domestic activity, we find no countervailable benefit being provided to producers or exporters of OCTG.

Comment 11: U.S. Steel notes that the Department's verification report on DongJin indicates that opening charges on letters of credit for loans for purchasing foreign raw materials for domestic use are higher than for loans purchasing foreign raw materials for export use. They consider this to be an export subsidy.

DOC Position: We believe that we have captured any benefit to short-term export loans provided by this fee structure in our calculation of the subsidy on the short-term export loans. For further discussion of this issue, see our response to respondents' Comment 5.

Comment 12: U.S. Steel contends that Pohang Iron and Steel Company's (POSCO) equity infusions into DongJin are a countervailable subsidy because no private investor would have been willing to invest in DongJin.

DOC Position: Our determination with respect to the formation of, and equity investment in, DongJin is set forth in the section entitled "Equity infusions into DongJin."

Verification

In accordance with section 776(a) of the Act, we verified the information used in making our final determination. Commerce officials spent from September 18 to October 17 verifying the information submitted by the government of Korea and by the companies under investigation, and gathering additional information to be used in our final determination. During this verification we followed normal verification procedures including inspection of documents and ledgers, and tracing the information in the responses to source documents, accounting ledgers, and to financial statements.

Suspension of Liquidation

In accordance with section 703(d) of the Act, on September 12, 1984 we instructed the U.S. Customs Service to suspend liquidation of all entries of oil country tubular goods from Korea (49 FR 35836). As of the date of publication of this notice in the **Federal Register**, the liquidation of all entries, or withdrawals from warehouse, for consumption of this merchandise will continue to be suspended and the Customs Service shall require a cash deposit or bond for each such entry of this merchandise in the amount of 0.53 percent *ad valorem*. This suspension will remain in effect until further notice.

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determination. In addition, we are making 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, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

The ITC will make its determination whether these imports materially injure, or threaten material injury to, a U.S. industry within 45 days of the publication of this notice.

If the ITC determines that material injury or the threat of material injury does not exist, this proceeding will be terminated and all estimated duties deposited or 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 a countervailing duty order, directing the Customs Service to assess countervailing duties on all entries of OCTG from Korea entered, or withdrawn from warehouse, for consumption on or after the suspension of liquidation date, equal to the net subsidy amount indicated in the "Suspension of Liquidation" section of this notice.

This notice is published pursuant to section 705(d) of the Act (19 U.S.C. 1771(d)).

William T. Archey

Acting Assistant Secretary for Trade Administration.

November 20, 1984.

[FR Doc. 84-31195 Filed 11-27-84; 8:45 am]

BILLING CODE 3510-DS-M

47060 Federal Register / Vol. 49, No. 232 / Friday, November 30, 1984 / Notices

[C-469-406]

Final Affirmative Countervailing Duty Determination; Oil Country Tubular Goods From Spain

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the Tariff Act of 1930, as amended ("the Act"), are being provided to manufacturers, producers, or exporters in Spain of oil country tubular goods ("OCTG"). The net subsidy rates for each company are listed in the "Suspension of Liquidation" section of this notice. We are directing the U.S. Customs Service to continue to suspend liquidation of all unliquidated entries of OCTG from Spain which are entered, or withdrawn from warehouse, for consumption on or after the date of publication of this notice in the **Federal Register**. The Customs Service shall require a cash deposit or bond on these products in the amounts equal to the net subsidies.

EFFECTIVE DATE: November 30, 1984.

FOR FURTHER INFORMATION CONTACT: Loc Nguyen, John M. Davies, or Stuart Keitz, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, D.C. 20230; telephone: (202) 377-0167, 1784, or 1769.

SUPPLEMENTARY INFORMATION:

Final Determination

Based upon our investigation, we determine that certain benefits which constitute subsidies within the meaning of section 701 of the Act are being provided to manufacturers, producers, or exporters in Spain of OCTG. The following programs are determined to confer subsidies:

- Long-term loans and loan guarantees;
- Certain types of short-term loans provided under the Privileged Circuit Exporter Credits Program;
- Excessive rebates of indirect taxes on exports under the Desgravacion Fiscal a la Exportacion ("DFE"); and
- Regional investment incentives program.

For 1983, we determine the net subsidy to be 11.29 percent *ad valorem* for Altos Hornos de Vizacya, S.A. ("AHV"), 18.37 percent *ad valorem* for Tubos Reunidos, S.A. ("TR") 19.87 percent *ad valorem* for Tubacex C.E. de Tubos per Extrusion, S.A. ("Tubacex"), 24.74 percent *ad valorem* for Babcock and Wilcox Espanola, S.A. ("B&W") and Transformaciones Metalurgicas Especiales, S.A. ("TRAMESA") and 15.00 percent *ad valorem* for all other manufacturers, producers, or exporters in Spain of OCTG. For cash deposit purposes, we determine the net subsidy to be 17.64 percent *ad valorem* for AHV, 16.17 percent *ad valorem* for TR, 17.67 percent *ad valorem* for Tubacex, 22.54 percent *ad valorem* for B&W and TRAMESA, and 17.21 percent *ad valorem* for all other manufacturers, producers, or exporters in Spain of OCTG.

Case History

On june 13, 1984, we received a petition from the Lone Star Steel Company and the CF & I Steel Corporation filed on behalf of the U.S. OCTG industry. In compliance with the filing requirements of section 355.26 of the Commerce Regulations (19 CFR 355.26), petitioners alleged that manufacturers, producers, or exporters in Spain of OCTG receive, directly or indirectly, benefits which constitute subsidies within the meaning of section 701 of the Act, and that these imports are materially injuring, or threatening material injury to, a U.S. industry.

We found that the petition contained sufficient grounds upon which to initiate a countervailing duty investigation, and on July 3, 1983, we initiated an investigation (49 FR 28425). In our notice of initiation, we stated that we expected to issue a preliminary determination by September 6, 1984. On August 3, 1984, the petition was amended and LTV Steel Company of Cleveland, Ohio, became co-petitioner.

Since Spain is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. On July 30, 1984, the U.S. International Trade Commission (ITC) determined that there is a reasonable indication that imports of Spanish OCTG are materially injuring, or threatening material injury to, a U.S. industry (49 FR 31782).

We presented a questionnaire concerning the allegations to the Government of Spain at its embassy in Washington, D.C. on July 13, 1984. On August 23, 1984, we received replies to the questionnaire from the Government of Spain and TR. On August 24, 1984, we received a response from AHV. These two companies accounted for approximately 75 percent of Spanish OCTG exports to the United States during the period of investigation.

On September 6, we preliminarily determined that benefits constituting subsidies within the meaning of the countervailing duty law were being provided to manufacturers, producers, or exporters of OCTG in Spain.

On September 11, 1984, we wrote a letter to the Spanish government requesting that B&W, Tubacex, and TRAMESA, the other three known exporters of OCTG to the United States, also respond to the questionnaire.

On October 8, 1984, Tubacex sent us its response. The other two companies have not responded to our questionnaire.

We held a verification of the questionnaire responses in Madrid, Spain, on October 16–25.

In response to a request by the respondents received on September 20, a public hearing on this case was held on October 11. We received pre-hearing briefs from the parties to the proceeding on October 4 and 5. Post-hearing briefs were received on November 2.

Scope of the Investigation

The products covered by this investigation are oil country tubular goods ("OCTG"). For the purpose of this investigation, the term "oil country tubular goods" covers hollow steel products of circular cross-section intended for use in the drilling of oil or gas. These include oil well casing, tubing, and drill pipe of carbon or alloy steel, whether welded or seamless, manufactured to either American Petroleum Institute (API) or non-API (e.g., proprietary) specifications, as currently provided for in the *Tariff Schedules of the United States, Annotated* (TSUSA) under the following items:

610.3216, 610.3219, 610.3233, 610.3242, 610.3243, 610.3249, 610.3252, 610.3254, 610.3256, 610.3258, 610.3262, 610.3264, 610.3721, 610.3722, 610.3751, 610.3925, 610.3935, 610.4025, 610.4035, 610.4225, 610.4325, 610.4335, 610.4942, 610.4944, 610.4946, 610.4954, 610.4955, 610.4956, 610.4957, 610.4966, 610.4967, 610.4968, 610.4969, 610.4970, 610.5221, 610.5222, 610.5226, 610.5234, 610.5240, 610.5242, 610.5243, 610.5244

This investigation includes OCTG that are in both finished and unfinished condition.

AHV and its subsidiary Laminaciones de Lesaca, S.A., B&W, TR, TRAMESA, and Tubacex are only known producers and exporters in Spain of the subject products which were exported to the United States during the period of investigation. The period for which we are measuring subsidization is the 1983 calendar year.

Analysis of Programs.

AHV, TR, and Tubacex answered our questionnaire. For purposes of this determination, we have used the information provided by these three companies.

Certain subsidies discussed in this notice were provided under a series of laws and decrees issued by the Government of Spain. Those laws and decrees include the following:

Decree 669/74 of March 14, 1974

This decree established the National Steel Industry Program, covering the period 1974–1982. To achieve the goals established by this program, the Spanish government authorized certain benefits for integrated and non-integrated steel firms, including preferential loans and loan terms, accelerated amortization of non-liquid investments, substantial reduction of certain taxes, and expropriation of land for new plant construction.

Law 60/1978 of December 23, 1978

This law authorized government aid in the form of preferential loans and loan terms and capital infusions for integrated steel producers in Spain, including AHV.

Order of May 22, 1980

This order authorized the Banco de Credito Industrial ("BCI") to extend additional government credits to non-integrated steel companies who had made investments under Decree 669/1974. BCI is a government credit institution which issues loans to companies in the Spanish steel industry.

Royal Decree 878/1981 of May 8, 1981

This decree, also known as the Integral Iron and Steel Reconversion Plan, provided aid to integrated steel producers in the form of preferential interest rates and terms on outstanding loans, new loans with preferential interest rates and terms, loan guarantees, and capital infusions. Certain of these programs are administered by the Institution Nacional de Industria ("INI"), a public holding company created in 1941 as an autonomous government agency and charged with promoting and stimulating the industrial development of Spain. INI's responsibilities cover a variety of sectors ranging from services to basic industries such as iron and steel.

Throughout this notice we refer to general principles applied to the facts in the current investigation. These principles are described in the Subsidies Appendix attached to the notice of Cold-Rolled Carbon Steel Flat-rolled Products from Argentina: Final Affirmative Countervailing Duty Determination and Countervailing Duty Order, which was published in the April 26, 1984, issue of the **Federal Register** (49 FR 18006).

For purposes of this determination, we have calculated company-specific *ad valorem* subsidy rates in accordance with 19 U.S.C. 1671(e)(a)(2), since we determine there is a significant diffferential among companies receiving benefits.

To calculate company-specific *ad valorem* rates, we allocated the countervailable benefits received by each company in 1983 over that company's total sales value, total export value, or total value of OCTG exported to the United States, as appropriate. For those Spanish OCTG producers and exporters which did not respond to the questionnaire, we attributed the highest *ad valorem* benefit found under each program for the three firms which responded. For those Spanish OCTG producers to which we did not send questionnaires, we calculated a trade-weighted *ad valorem* subsidy rate based on the value of the three responding companies' exports of OCTG to the United States in 1983.

Based upon our analysis of the petition, the material provided in response to our questionnaire, and our verification, we determine the following:

I. Programs Determined to Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers, or exporters of OCTG in Spain under the following programs:

A. Long-Term Loans and Loan Guarantees

Petitioners alleged that producers of the subject merchandise benefit from subsidies in the form of preferential loans, loan terms and loan guarantees. We requested information from each company under investigation on all long-term loans outstanding during the period of investigation. All three companies reported long-term loans outstanding during the period for which we are measuring subsidization.

We determine that the Government of Spain authorizes or direct banks to lend funds to certain companies in certain industries at rates or on terms inconsistent with commercial considerations.

To calculate the amount of subsidy from these loans, we used the loan methodology detailed in the Subsidies Appendix. For fixed-rate long-term loans to creditworthy companies, we prefer to use a company-specific commercial loan rate whenever possible. However, in this case none of the responding companies received comparable commercial long-term credit in the years in which they received preferential long-term loans. Therefore, we used as our long-term commercial benchmark the national average interest rate for loans "of over three years" applying to the year in which the loan terms were agreed upon. This rate is published by the Bank of Spain in its *Boletin Estadistico*. Because we were unable to obtain the national average rate of return on equity, we used the long-term benchmark interest rate for the year in which the loan terms were agreed upon as the weighted-average cost of capital.

To calculate the benefit in 1983 from variable-rate long-term loans, we compared the short-term benchmark interest rate for 1983 (as described in section I-B below), with the interest rate payable on the long-term loan in 1983, because we could not find company-specific, variable-rate long-term benchmark loans. Nor could we find a national average variable-rate long-term benchmark.

Since the companies under investigation did not receive comparable commercial loan guarantees in those years in which they received government-guaranteed long-term loans, we calculated the benefit from government-guaranteed long-term loans by comparing them with a commercial benchmark loan using the appropriate fixed rate or variable rate methodology outlined above.

The majority of loans reported by AHV, TR and Tubacex contain provisions for deferred principal repayment. We verified in our investigation of Certain Steel Products from Spain that preferential loans made under these programs and commercial loans within Spain contain similar deferral provisions. Therefore, for purposes of this determination, we are not treating deferral of principal repayment as a countervailable benefit.

We received allegations that AHV and TR were uncreditworthy.

1. *AHV:* In the 1982 investigation of Certain Carbon Steel Products from Spain (47 FR 51428), we determined AHV to be uncreditworthy for the years 1979 through 1981. Based upon our Subsidies Appendix methodology and after careful review of the company's financial statements for the years 1982 and 1983, we continue to find AHV uncreditworthy for the 1979 through 1981 period as well as for 1982 and 1983. To determine the creditworthiness of a company, we analyze its present and past financial condition, as reflected in various financial indicators calculated from its financial statements. We examined several of AHV's standard financial ratios. Important ratios in which AHV reflected unfavorable performance in the years 1979 through 1983 are times interest earned (defined as operating income divided by interest charges), net income as a percent of sales, the ratio of debt to equity, and return on equity.

For loans received prior to 1979, during the period in which AHV was creditworthy, we used the long-term benchmark interest rates described above. For loans received during AHV's uncreditworthy period, we used as a benchmark the average maximum interest rate for the year in which the loan terms were agreed upon, as published in the *Boletin Estadistico*, plus the "risk premium" (calculated in accordance with the Subsidies Appendix).

2. *TR:* Based upon evidence of continuing operating profits as well as favorable financial ratios, we find TR to be creditworthy for the period 1979 through 1983. We reviewed TR's annual reports and financial statements. The company's net income, return on equity, cash flow and other important financial ratios are favorable. Accordingly, we applied the long-term loan methodology for creditworthy companies described above.

For each company, we allocated the total countervailable benefit from the company's preferential long-term loans in 1983 over the company's total sales in 1983. We determine that the *ad valorem* subsidy for long-term loans is 5.75 percent for AHV, 0.88 percent for TR, and 0.92 percent for Tubacex.

B. Certain Types of Short-Term Loans Provided Under the Privileged Circuit Exporter Credits Program

Petitioners alleged that producers of the subject merchandise received benefits which constitute subsidies in the form of short-term preferential export loans. We requested information on all short-term loans outstanding during the period for which we are measuring subsidization. We verified that AHV had no short-term financing outstanding under this program during this period. We found that TR and Tubacex had short-term financing outstanding under the Privileged Circuit Exporter Credits Program during the period of investigation.

The Government of Spain requires all Spanish commercial banks to maintain a specific percentage of their lendable funds in privileged circuit accounts. These funds are made available to exporters at preferential interest rates through a variety of credit programs. While there is no direct outlay of government funds, the benefits conferred on the companies are the result of a government-mandated program to promote exports. We determine that OCTG producers benefited from two of the four privileged circuit programs available to exporters: The working-capital loans program and the pre-financing of exports program.

1. *Working Capital Loans.* Under the privileged circuit program, firms may obtain working capital loans for one year. The amount of loans for which a firm is eligible is based on a specified percentage of its previous year's exports. We verified that in 1983, the privileged circuit working capital loan interest rate ceiling mandated by the government was 10 percent.

It is Department policy to allocate benefits from preferential short-term loans based on the period in which interest payments are made. We found at verification that interest on most operating capital loans is paid quarterly. TR and Tubacex provided us with information on all working capital loans received during the period of investigation, but failed to provide information on all loans on which interest payments were made in 1983. Therefore, for our final determination, we are using best information available in accordance with § 355.39(b). To calculate the benefit, we multiplied the maximum allowable loan amount under this program for each company by the preference interest rate differential. This differential is the difference between the statutorily-mandated interest rate charged on working capital loans and the national average commercial interest rate on one-year loans.

In our preliminary determination, we based this interest differential on comparisons between nominal rates. At verification we discovered that interest was paid quarterly on most of the firms' operating-capital loans. Given our preference for effective interest rates, we are calculating the benefit from these loans by comparing the effective preferential rate to the effective national average commercial rate.

We chose as our 1983 benchmark for short-term operating capital loans, the 1983 weighted-average commercial lending rate for loans "of one to three years", as published by the Bank of Spain in the *Boletin Estadistico*.

Since this is a nominal rate, we calculated the effective rate by applying quarterly compounding, and then adding the legally established 0.5 percent commission. In addition, an ITE tax of 4.3 percent is charged by the government on all interest payments, both commercial and preferential. We added this tax to the benchmark rate. Based on these calculations, we determine the national average commercial interest rate to be 20.15 percent for one-year loans received in 1983.

To determine the benefit, we compared the preferential effective interest rate, including taxes, charged on operating capital loans with the effective national average commercial interest rate of 20.15 percent. This interest differential was multiplied by the total amount of each firm's loan eligibility. Eligibility is based on the firm's previous year's exports. Because we do not have information on the firms' 1982 exports, we determined loan eligibility by multiplying the 15 percent maximum eligibility rate for 1983 by the value of each firm's 1983 exports. The resulting amounts were allocated over each firm's total 1983 exports. On this basis, we determine that the *ad valorem* subsidy from working capital loans is 1.40 percent for TR and Tubacex.

2. *Prefinancing of Exports Program.* TR and Tubacex reported that they also received preferential prefinancing of exports. At verification, we found that each prefinancing loan was tied to a specific export shipment. For Tubacex, we found that none of the loans reported as outstanding on December 31, 1983, was tied to any shipment of OCTG to the United States in 1983. However, Tubacex and TR failed to provide us with information on all prefinancing loans outstanding during 1983. Consequently, we were unable to calculate the total amount of interest paid on prefinancing loans in 1983 for either TR or TUBACEX. Therefore, for our final determination, we are using best information available in accordance with Section 355.39(b). To calculate the subsidy, we allocated to each company the maximum allowable loan amount under this program.

We chose as our 1983 benchmark for short-term prefinancing of exports the 1983 weighted-average commercial lending rate of 17.12 percent for loans of three months. Since this is a nominal rate, we found the effective six month rate by compounding this rate once, then adding the ITE tax of 4.3 percent. Based on these calculations, we determine the national average commercial interest rate to be 18.73 percent annually for loans of six months.

To estimate the benefit, we compared the annualized effective preferential interest rate, including tax, with the effective national average commercial interest rate. We multiplied this interest differential by the amount of each firm's eligibility for privileged export credit for shipments to the United States. We determined eligibility by mulitplying the 85 percent eligibility rate by the value of each firm's exports of OCTG to the United States in 1983. We then multiplied this rate by the maximun six month loan term. The interest benefit was allocated over the total value of each firm's exports of OCTG to the United States during 1983. We determine that the *ad valorem* subsidy for short-term prefinancing of exports is 3.46 percent for TR and Tubacex.

C. Excessive Rebates of Indirect Taxes on Exports Under the Desgravacion Fiscal a la Exportation ("DFE")

Petitioners alleged that countervailable benefits are conferred on Spanish OCTG producers under the DFE program by the excessive rebate of indirect taxes upon export of OCTG.

Spain employs a cascading tax system under which a turnover tax is levied on each intermediate sale of a product through its various stages of production, up to, but not including, the final sale at the retail level. The DFE is the program designed to rebate to exporters these accumulated turnover taxes as well as final stage taxes on exportation.

To calculate the amount of subsidy potentially conferred by the DFE it is necessary to determine whether the remission of indirect taxes is excessive.

Information acquired during verification indicates that all three of the firms are integrated producers. In 1983, both TR and AHV purchased final stage inputs from unrelated suppliers. At verification, the companies provided us with information on purchased inputs and taxes paid on those inputs, as well as final stage taxes paid. They also provided us with information on the percentage of billets and coils incorporated in the value of the final product, but provided no information which would allow us to determine the percentage of other purchased inputs physically incorporated in the final product.

Since we verified that TR purchased some of its billets used in making OCTG from unrelated companies during the period of investigation, we have taken this percentage into account in calculating the indirect taxes paid on OCTG by TR. Because TR refused to provide us with a cost structure for the purchased inputs in the billets it produced, we were unable to calculate the amount of indirect taxes paid by TR on OCTG made with billets produced by TR. For all OCTG produced by TR, we have included the final stage tax on freight in our calculation of indirect taxes paid. On this basis, we determine that the DFE rebate confers an *ad valorem* subsidy of 12.59 percent on TR's exports of OCTG for 1983.

We verified that AHV purchased some of its coil in 1983. Although AHV normally produces its own coil, it was unable to do so in 1983 due to a fire at one of its plants. During 1983, some of AHV's OCTG exports were made from purchased coil. We have taken this percentage into account in calculating the indirect taxes paid by AHV in 1983. But because AHV has resumed its coil production, we believe it would be inappropriate for cash deposit purposes to base AHV's indirect tax incidence for OCTG on purchased coil inputs. Therefore, for AHV, we determine that the amount of DFE overrebate is 5.54 percent *ad valorem* in 1983 and 11.89 percent *ad valorem* for cash deposit purposes (see below).

Because Tubacex is an integrated producer and refused to provide us with a cost structure for its purchased inputs, in calculating the amount of indirect taxes paid by Tubacex, we allowed only the rebate of the final stage tax on freight. On this basis, we determine the DFE rebate confers an *ad valorem* subsidy of 14.09 percent on exports of OCTG by Tubacex for 1983.

On July 11, 1984, the DFE rebate applicable to all exporters of OCTG was reduced from 14.5 percent to 12.3 percent as part of Spain's transition to the value-added tax. Therefore, any exports of the merchandise under investigation on or after this date are subject to the lower DFE rate. Accordingly, for cash deposit purposes we determine that the DFE rebate confers an *ad valorem* subsidy of 10.39 percent on exports from TR and 11.89 percent on exports from AHV and Tubacex.

D. Regional Investment Incentive Programs

During verification, we found that TR received a grant under the CADEM (Centre for Energy and Mining Development and Saving) program. Because this program confers benefits on companies located in a specific region, we find it to be a countervailable subsidy.

The amount of this grant was less than 0.5 percent of TR's total sales in 1983. Therefore, in accordance with the

Subsidies Appendix, we allocated the entire benefit of this grant to 1983. To determine the benefit, we divided the amount of the grant by the company's total 1983 sales. We determine that the *ad valorem* subsidy to TR from this program is 0.04 percent.

II. Programs Determined Not To Be Used

We determine that manufacturers, producers, or exporters in Spain of OCTG do not use the following programs that were identified in the notice of "Initiation of Countervailing Duty Investigation of OCTG from Spain."

A. Certain Privileged Circuit Credits

We discussed Privileged Circuit Credits in general, *supra*. We determine that two programs, working capital loans and prefinancing of exports, provide subsidies to OCTG manufacturers, producers, or exporters. We verified that the remaining privileged circuit programs identified in our notice of initiation were not used by AHV, TR, or Tubacex during the period of investigation. They are:

(1) Commercial services loans, and

(2) Short-term export credit.

B. Warehouse Construction Loans

Exporters wishing to construct warehouse facilities adjacent to loading zones may borrow 70–75 percent of the total investment. We verified that AHV, TR and Tubacex had no loans outstanding under this program in 1983.

C. Accelerated Depreciation and Reduction in Taxes

Decree 669/1974 permits the steel industry to employ accelerated depreciation of non-liquid investments and to obtain a substantial reduction in certain taxes. We verified that these programs were not used by AHV, TR or Tubacex in 1983.

D. Expropriation of Land for New Construction

Decree 669/1974 provides aid to certain industries by expropriating land for new plant construction. We verified that AHV, TR and Tubacex did not use this program.

E. Grants

Petitioners allege that Spanish OCTG producers have received grants from the Spanish government. We verified that AHV, TR and Tubacex received no grants from the Government of Spain during the period of investigation.

F. Energy Discounts

Petitioners allege that the OCTG producers receive discounts or rebates on energy prices under law 878/1981. We verified that AHV, TR and Tubacex did not receive preferential discounts or rebates on energy prices during the period of investigation.

G. Subsidized Steel Inputs

The petitioners alleged, and we initiated an investigation with respect to, upstream subsidization of hot-rolled coil, blooms and billets ("steel inputs"). We found no evidence that the companies under investigation received a competitive benefit in their purchases of steel inputs.

Section 613 of the Trade and Tariff Act of 1984, signed by the President on October 30, codifies the standards for determining upstream subsidies. This section generally codifies Department practice. Our investigation was consistent with both Department practice and the newly codified standards.

Petitioners' Comments

Comment 1. Petitioners contend that the entire amount of DFE rebate must be held to be a subsidy absent specific and detailed information showing how the rebate is calculated with reference to each stage of OCTG production by integrated and non-integrated producers and demonstration that the amount of DFE rebate is not excessive. They argue that the Spanish government has never demonstrated that its original calculations of the incidence of indirect tax affecting OCTG were reasonable when they were made. They further argue that the Government of Spain has not provided information concerning either OCTG producers' purchases of inputs or indirect taxes paid on those purchases. Thus, it has failed to demonstrate that DFE rebates for OCTG exports are based on the indirect taxes assessed on its production.

DOC Position. In previous countervailing duty cases on Spanish products, the Department has determined that the Spanish government applied proper techniques to make a reasonable estimate of the indirect tax incidence borne by final stage products and linked to the rebate. For purposes of this investigation, the Spanish government has supplied the Department with its calculations of the average indirect tax incidence on OCTG. Therefore, we have determined that the Spanish government has reasonably calculated the indirect tax incidence on inputs into OCTG.

Comment 2. Petitioners contend that TR is not entitled to DFE rebates because it purchases at least 97 percent of its raw materials from a related supplier.

DOC Position. During our verification, we found that TR purchased some of the billets used in the production of OCTG from unrelated companies in 1983. In determining the percent of DFE overrebate, we have allowed only those indirect taxes paid on purchases of inputs from unrelated suppliers.

Comment 3. Petitioners contend that the short-term benchmarks used in the preliminary determination do not accurately reflect the rates the AHV and TR would pay for commercial financing, since they are based on a three-year average of prime rates for loans in the commercial market.

DOC Position. We did not use a three-year average of prime rates as our short-term benchmark. Our short-term benchmarks are the 1983 weighted-average commercial lending rates for loans of up to three months and loans "of one to three years" as published by the Bank of Spain in its February 1984 *Boletin Estadistico*. We have determined that these rates are the most accurate reflection of short-term commercial financing in Spain.

Comment 4. Petitioners contend that the Department should use as a short-term benchmark for operating capital loans the average prime rate in 1983 for loans of one year, plus a two percent spread.

DOC position. During our countervailing duty investigation of Potassium Chloride from Spain, we found new information concerning the commercial financial market in Spain. We have determined that the rate for loans "of one to three years" published by the Bank of Spain in the *Boletin Estadistico* is the appropriate commercial benchmark for operating capital loans. We have found that this rate reflects the average interest rate on one-year loans which may be rolled over twice and not the average interest rate on loans with one to three year terms. Thus, these are interest rates for loans of comparable (i.e., one-year) terms. In choosing benchmark interest rates, the Department prefers a rate which reflects actual commercial borrowing experience to a theoretical construct such as the prime rate plus two percent.

Comment 5. Petitioners contend that effective rates are the most appropriate basis for a benchmark.

DOC Position. We agree and for the final determination we have compared effective preferential rates with effective commercial rates whenever adequate information was available to determine effective rates.

Comment 6. Petitioners contend that the spread used by the Department to calculate the "risk premium", i.e., the spread between Aaa and Baa bonds, does not accurately reflect the premium an uncreditworthy company must pay in the commercial market. They suggest that the Department calculate the spread between Aaa and Caa bonds, as an alternative.

DOC Position. As we stated in our Subsidies Appendix, we believe the most appropriate measure of the risk premium is the spread between Aaa and Baa bonds. Petitioners have not presented any evidence supporting their claim that the larger spread more accurately reflects what an uncreditworthy company would pay.

Comment 7. Petitioners contend that Spanish OCTG manufacturers may receive subsidies either through preferential prices for purchased material inputs or through upstream subsidies on inputs which they produce.

DOC Position. We verified that the companies under investigation do not receive a competitive benefit from purchases of subsidized steel inputs. At verification, we also found that discounts received by TR and Tubacex on electricity rates are provided by a privately-owned utility company as part of a commercial transaction. Finally, we believe that government-set price floors on coal do not confer a benefit on OCTG producers, because they do not result in a cost savings on OCTG production.

Comment 8. Petitioners contend that the Department erred by not investigating whether the Deferral of Tax and Social Security Debt which the Department has termed "generally available" bestows countervailable benefits on particular segments of Spanish industry such as OCTG producers. They argue that the Department must look at the pattern of disbursements under the programs to determine if OCTG producers or exporters as a group receive a disproportionate benefit.

DOC Position. In Carbon Steel Wire Rod from Spain (49 FR 19555), we found that the deferral of company tax and social security debt owed to the Government of Spain is authorized by general legislation and is available on equal terms to all Spanish companies. Petitioners have presented no new evidence to indicate that OCTG producers benefit disproportionately from these programs.

Comment 9. Petitioners contend that since AHV and TR account for only 75 to 80 percent of Spanish OCTG exported to the United States, the Department should insist on receiving information from other Spanish OCTG producers.

DOC Position. The Department does not need to receive information from all exporters. In this case, we requested that three other known exporters of Spanish OCTG respond to the questionnaire because we did not believe that AHV and TR accounted for a representative portion of Spanish exports of OCTG to the United States. Nonetheless, having sent the questionnaire as we did, for the two companies which did not respond of our questionnaire, we estimated benefits on the basis of the "best information available", because we believe it is inappropriate to calculate countervailing duty rates based on selective responses to our questionnaires.

Comment 10. Petitioners contend that Spanish OCTG producers may have received equity infusions under Law 60/1978 and Royal Decree 878/1981 and request that the Department investigate this matter during verification.

DOC Position. In our final affirmative countervailing duty determination on Certain Carbon Steel Products from Spain (47 FR 51438), we found that AHV did not receive a subsidy from a 1981 government stock purchase. Since petitioners did not present any new evidence of government equity infusions in AHV or in any of the other Spanish OCTG companies in their petition, we decided not to initiate on government equity infusions. In their prehearing brief, counsel for petitioners alleged a possible government equity infusion into TR. We verified that there have been no government equity infusions into TR.

Comment 11. Petitioners contend that AHV may benefit from CADEM (Center for Mining Development and Saving), a program administered by the Basque government to save energy.

DOC Position. We found that only TR received a grant under this program and have determined that this program does confer a benefit.

Respondents' Comments

Comment 1. Respondents contend that the Department's preliminary determination to countervail against the entire amount of the DFE rebate received by AHV on the grounds that no information was supplied with respect to purchased inputs is unjustified and contrary to the methodology applied by the Department in numerous prior determinations, including its determination with respect to the DFE received by AHV in its countervailing duty determination with respect to Certain Carbon Steel Products.

DOC Position. In calculating the amount of overrebate conferred by the DFE on each of the Spanish companies, the Department estimates the amount of indirect taxes paid by each company on its physically incorporated inputs. Because integrated producers do not pay turnover taxes on their final stage inputs (in this case, billets), we do not believe it is appropriate to include an estimate of indirect taxes paid on these inputs in our calculation of the total indirect tax incidence. Therefore, for each of the companies under investigation, we requested information on the amount of indirect taxes actually paid on purchased inputs, and on the portion of those purchased inputs physically incorporated in the final product. Where this information was not provided, we have used best information available and countervailed the entire DFE rebate.

Comment 2. Respondents contend that the long-term benchmark rate used by the Department to calculate subsidies for long-term preferential loans should not be the average maximum long-term commercial interest rate, but rather the weighted-average interest rate actually paid on the companies' long-term commercial loans during the period of investigation.

DOC Position. In our final determination, we have used the national average interest rate for loans "of over three years" published in the *Boletin Estadistico* as the benchmark for loans to creditworthy companies. For lack of company-specific rates, we have determined that this rate is the appropriate long-term benchmark, because it reflects the national average long-term commercial borrowing experience. For uncreditworthy companies, it is Department policy to measure loan benefits by finding the highest long-term commercial interest rate commonly available and adding a "risk premium". In Spain, this rate is the maximum rate on long-term loans published in the *Boletin Estadistico.*

Comment 3. Respondents contend that the weighted-average cost of capital used by the Department is excessive since the erroneously high long-term benchmark interest rates were also used as an estimate of the weighted cost of capital. They contend that this results in a further overstatement of the subsidy from long-term preferential financing.

DOC Position. It is the Department's policy to use the company-specific weighted-average cost of capital as the discount rate for valuing benefits that are allocated over time. One element of the weighted-average cost of capital is the firm's marginal cost of long-term debt. When we have no company-specific cost of debt we use the long-term benchmark interest rate. The choice of this rate to represent the firm's marginal cost of debt is not erroneous. Nor does it overstate the value of the subsidy.

Comment 4. Respondents contend that the Department's determination with regard to the uncreditworthiness of AHV is erroneous because it is based solely upon various financial indicators calculated from its financial statements. Respondents argue that the Department can and must take into consideration the ability of the company to obtain commercial loans, and that if the company is able to obtain commercial loans without a government guarantee, then the Deparment should ignore financial ratios and determine the company to be creditworthy.

DOC Position. We disagree. We believe a determination of creditworthiness should be based on several factors including, but not limited to, the availability of credit from commercial sources. It is often possible, for instance, for uncreditworthy companies to obtain short-term commercial credit because of the low level of risk associated with short-term debt and the frequent existence of security.

Comment 5. Respondent contend that in its preliminary determination, the Department calculated a subsidy for a number of loans made to AHV by private banks which did not benefit from an INI guarantee. Inasmuch as these private bank loans were not mandated by the Spanish government and do not benefit from INI guarantees, the Department has no basis on which to determine these loans countervailable.

DOC Position. At verification, we found evidence of government involvement, as a result of which the banks' decision to grant these loans was linked by verbal agreement to a government loan under Law 60/1978; therefore, to determine whether AHV received a countervailable benefit, we compared the interest rates on these loans with our long-term commercial benchmark.

Comment 6. Respondents contend that during verification, the companies provided the Department with information on the cost of commercial loan guarantees. Respondents suggest that this cost be used as a benchmark against which the cost of INI guarantees can be compared for purposes of calculating the subsidy.

DOC Position. We did not receive adequate information during verification to determine the cost of comparable commercial guarantees; therefore, in calculating subsidies on government-guaranteed loans, we compared the interest rates on these loans with our benchmark interest rates in accordance with the method specified in our Subsidies Appendix (49 FR 18019).

Comment 7. Respondents contend that in the absence of evidence establishing that the benefit of any subsidy accorded a supplier of steel inputs was in fact passed on in the input price paid by the companies under investigation, there can be no basis for determining that OCTG products received the benefit of any subsidy on suppliers of such steel inputs.

DOC Position. We agree. During verification we found no evidence that the companies under investigation received a competitive benefit from purchases of subsidized steel inputs.

Verification

In accordance with section 776(a) of the Act, we verified data used in making our final determination. During this verification we followed normal procedures, including inspection of documents and inspection of the manufacturer's production methods and records.

Suspension of Liquidation

The suspension of liquidation ordered in our preliminary affirmative countervailing duty determination shall remain in effect until further notice. The net subsidy for each firm is as follows:

Company	Final determination rate (percent)	Cash deposit rate (percent)
AHV	11.29	17.64
TR	18.37	16.17
Tubacex	19.87	17.67
B&W	24.74	22.54
TRAMESA	24.74	22.54
All Others	15.00	17.21

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determination. In addition, we are making 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, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

If the ITC determines that material injury or the threat of material injury does not exist, this proceeding will be terminated and all estimated duties deposited or 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 a countervailing duty order, directing the Customs Service to assess countervailing duties on all entries of OCTG from Spain entered, or withdrawn from warehouse, for consumption on or after the date of suspension of liquidation, and to require a cash deposit for an amount equal to the net subsidy amount indicated in the "Suspension of Liquidation" section of this notice.

This notice is published pursuant to section 705(d) of the Act (19 U.S.C. 1671(d)).

Dated: November 20, 1984.

William T. Archey,

Acting Assistant Secretary for Trade Administration.

[FR Doc. 84-31427 Filed 11-29-84; 8:45 am]

BILLING CODE 3510-DS-M

APPENDIX B

WITNESSES AT THE COMMISSION'S HEARING

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

Subject : Oil Country Tubular Goods from Brazil, Korea and Spain

Inv. Nos. : 701-TA-215 through 217 (Final)

Date and time: November 29, 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.

<u>In support of the imposition of countervailing duties</u>:

Akin, Gump, Strauss, Hauer & Feld--Counsel
Washington, D.C.
Verner, Liipfert, Bernhard and McPherson--Counsel
Washington, D.C.
<u>on behalf of</u>

Lone Star Steel Company, LTV Steel Company and CF&I Steel Corporation

James E. Chenault, President, Lone Star Steel Co.

James E. Knox, Vice President & General Counsel, Lone Star Steel Company

James Chenoweth, Manager, International Trade Affairs, Lone Star Steel Company

John Shiver, Controller, Manufacturing, Lone Star Steel Company

J. Brison Greer, Independent OCTG Consultant

Akin, Gump, Strauss, Hauer & Feld
Richard R. Rivers)
Warren E. Connelly)--OF COUNSEL
Ms. Valerie Slater)

Verner, Liipfert, Bernhard and McPherson
Richard L. Cys)
Ms. Elaine Fragedakis)--OF COUNSEL

<u>In opposition to the imposition of countervailing duties</u>:

Wald, Harkrader & Ross--Counsel
Washington, D.C.
<u>on behalf of</u>

Brazilian producers/exporters of oil country tubular goods

Persico-Pizzamiglio S.A. and Confab S.A.

Mark Schattner--OF COUNSEL

Coudert Brothers--Counsel
Washington, D.C.
<u>on behalf of</u>

Mannesmann SA

Milo G. Coerper)
Allen H. Russell)--OF COUNSEL
Mark D. Herlach)

Mudge Rose Guthrie Alexander & Ferdon--Counsel
Washington, D.C.
<u>on behalf of</u>

Korea Iron and Steel Association and its member companies

Donald B. Cameron)
Jeff S. Neeley)--OF COUNSEL
Ms. Julie C. Mendoza)

George V. Egge, Jr.--Counsel
Washington, D.C.
<u>on behalf of</u>

Union de Empresas Siderurgicas (UNESID), The Spanish Steel Producers' Association

George V. Egge, Jr.--OF COUNSEL

Arent, Fox, Kintner, Plotkin & Kahn--Counsel
Washington, D.C.
on behalf of

Tubular Corporation of America, Inc. ("TCA")

Peter W. Moore, Vice President of Quality Assurance

Stephen L. Gibson--OF COUNSEL

APPENDIX C

STATISTICAL TABLES

Table C-1.--Welded oil country tubular goods: U.S. production, capacity, and capacity utilization, 1981-83, January-September 1983, and January-September 1984

Period	Production	Capacity	Capacity utilization
	1,000 short tons		Percent
1981	1,972	2,332	85
1982	1,051	2,708	39
1983	472	2,798	17
January-September--			
1983	291	2,075	14
1984	754	1,907	40

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

Table C-2.--Seamless oil country tubular goods: U.S. production, capacity, and capacity utilization, 1981-83, January-September 1983, and January-September 1984

Period	Production	Capacity	Capacity utilization
	1,000 short tons		Percent
1981	2,544	2,314	110
1982	912	2,345	39
1983	107	2,280	5
January-September--			
1983	59	1,709	3
1984	436	2,107	21

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

Table C-3.--Welded oil country tubular goods: U.S. producers' shipments, 1981-83, January-September 1983, and January-September 1984

(In thousands of short tons)

Period	Domestic shipments	Export shipments	Total
1981	1,870	19	1,889
1982	919	7	926
1983	600	8	608
January-September--			
1983	364	7	371
1984	773	5	778

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

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

Table C-4.--Seamless oil country tubular goods: U.S. producers' shipments, 1981-83, January-September 1983, and January-September 1984

(In thousands of short tons)

Period	Domestic shipments	Export shipments	Total
1981	2,522	53	2,575
1982	856	59	915
1983	163	5	168
January-September--			
1983	104	3	107
1984	471	3	474

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

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

Table C-5.--Welded oil country tubular goods: U.S. producers' inventories and shipments, 1981-83, January-September 1983, and January-September 1984

Period	Inventories	Shipments 1/	Ratio of inventories to shipments
	1,000 short tons		Percent
1981	149	1,887	8
1982	272	925	29
1983	124	606	20
January-September--			
1983	187	366	2/ 38
1984	143	707	2/ 15

1/ Shipments of firms which reported data on inventories.
2/ Based on annualized shipments.

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

Table C-6.--Seamless oil country tubular goods: U.S. producers' inventories and shipments, 1981-83, January-September 1983, and January-September 1984

Period	Inventories	Shipments 1/	Ratio of inventories to shipments
	1,000 short tons		Percent
1981	129	2,520	5
1982	137	900	15
1983	77	158	49
January-September--			
1983	76	102	2/ 56
1984	150	454	2/ 25

1/ Shipments of firms which reported data on inventories.
2/ Based on annualized shipments.

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

Table C-7.--Average number of production and related workers engaged in the manufacture of welded oil country tubular goods, hours worked by such workers, wages paid, and total compensation, 1981-83, January-September 1983, and January-September 1984

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	Per hour	
1981	7,720	15,446	$12.33	$15.74
1982	5,363	9,649	13.51	17.94
1983	2,546	4,487	12.92	18.83
January-September--				
1983	2,206	2,814	14.08	20.96
1984	3,655	5,323	11.41	15.20

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

Table C-8.--Average number of production and related workers engaged in the manufacture of seamless oil country tubular goods, hours worked by such workers, wages paid, and total compensation, 1981-83, January-September 1983, and January-September 1984

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	Per hour	
1981	18,088	37,685	$13.66	$20.96
1982	7,500	14,559	13.67	21.17
1983	1,322	2,555	12.65	21.34
January-September--				
1983	1,188	1,589	12.86	22.26
1984	3,634	6,024	14.18	19.69

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

Table C-9.--Income-and-loss experience of 14 U.S. producers on their operations producing welded oil country tubular goods, accounting years 1981-83, interim 1983, and interim 1984 1/

Item	1981	1982	1983	Interim period ended September 30-- 1983	Interim period ended September 30-- 1984
Net sales---1,000 dollars--	1,938,922	1,006,986	399,574	248,665	446,923
Cost of goods sold---do-----	1,312,271	783,846	531,267	297,214	419,857
Gross income or (loss) do----	626,651	223,140	(131,693)	(48,549)	27,066
General, selling, and administrative expenses do----	33,210	49,857	44,766	21,808	23,840
Operating income or (loss) do----	593,441	173,283	(176,459)	(70,357)	3,226
Other income or (expense) 2/--------do----	10,057	(32,929)	(47,685)	(21,843)	(21,753)
Net income or (loss) before income taxes--do----	603,498	140,354	(224,144)	(92,200)	(18,527)
Depreciation and amortization 3/-----------do----	27,379	33,923	37,618	26,255	23,102
Cash flow from operations do----	630,877	174,277	(186,526)	(65,945)	4,575
Ratio to total net sales of--					
Gross income or (loss) percent--	32.3	22.2	(33.0)	(19.5)	(6.0)
Operating income or (loss)------------do----	30.6	17.2	(44.2)	(28.3)	(0.7)
Net income or (loss) before income taxes do----	31.1	13.9	(56.1)	(37.1)	(4.1)
Cost of goods sold do----	67.7	77.8	133.0	119.5	94.0
General, selling, and administrative expenses do----	1.7	5.0	11.2	8.8	5.3
Number of firms reporting					
Operating losses----------	0	8	11	7	5
Net losses----------------	0	10	11	7	6

1/ Data for the 2 interim periods are for 16 producers.
2/ Only 8 of the reporting producers supplied "other income or expense" data.
3/ There were 12 producers which supplied depreciation and amortization data for 1981-83, and 13 of these firms supplied such data for the 2 interim periods.

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

Table C-10.--Income-and-loss experience of 7 U.S. producers on their operations producing seamless oil country tubular goods, accounting years 1981-83, interim 1983, and interim 1984 1/

Item	1981	1982	1983	Interim period ended September 30-- 1983	Interim period ended September 30-- 1984
Net sales---1,000 dollars--	3,655,673	1,427,388	96,797	63,976	304,800
Cost of goods sold---do----	2,493,586	1,178,249	205,344	109,442	344,346
Gross income or (loss) do----	1,162,087	249,139	(108,547)	(45,466)	(39,546)
General, selling, and administrative expenses do----	65,663	74,274	24,615	8,073	9,805
Operating income or (loss) do----	1,096,424	174,865	(133,162)	(53,539)	(49,351)
Other income or (expense) 2/-------do----	(45)	(207)	47	(152)	332
Net income or (loss) before income taxes--do----	1,096,379	174,658	(133,115)	(53,691)	(49,019)
Depreciation and amortization 3/----------do----	21,238	24,184	10,176	4,273	5,293
Cash flow from operations do----	1,117,617	198,842	(122,939)	(49,418)	(43,726)
Ratio to total net sales of--					
Gross income or (loss) percent--	31.8	17.5	(121.1)	(71.1)	(13.0)
Operating income or (loss)-----------do----	30.0	12.3	(137.5)	(83.7)	(16.2)
Net income or (loss) before income taxes do----	30.0	12.2	(137.6)	(83.9)	(16.1)
Cost of goods sold do----	68.2	82.5	212.1	171.1	113.0
General, selling, and administrative expenses do----	1.8	5.2	25.4	12.6	3.2
Number of firms reporting					
Operating losses----------	1	3	7	5	5
Net losses----------------	1	3	7	5	5

1/ Data for the 2 interim periods are for 5 producers.
2/ Only 2 of the reporting producers supplied "other income or expense" data.
3/ There were 6 producers which supplied depreciation and amortization data for 1981-83, and 4 of these firms supplied such data for the 2 interim periods.

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

Table C-11.--Welded oil country tubular goods: U.S. producers' capital expenditures, 1/ 1981-83, January-September 1983, and January-September 1984

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Table C-12.--Seamless oil country tubular goods: U.S. producers' capital expenditures, 1/ 1981-83, January-September 1983, and January-September 1984

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Table C-13.--Welded oil country tubular goods: U.S. producers' valuation of fixed assets, 1/ 1981-83, January-September 1983, and January-September 1984

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Table C-14.--Seamless oil country tubular goods: U.S. producers' valuation of fixed assets, 1/ 1981-83, January-September 1983, and January-September 1984

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Table C-15.--Welded oil country tubular goods: U.S. imports, by principal sources, 1983, January-September 1983, and January-September 1984

Item	1983	January-September-- 1983	January-September-- 1984
	Quantity (short tons)		
Argentina	23	23	115
Brazil	10,000	5,536	31,098
Korea	47,614	33,689	204,938
Mexico	2,454	528	14,601
Spain	9,754	8,622	26,385
Total	69,845	48,398	277,137
Japan	92,008	52,863	206,224
Italy	25,145	20,875	105,630
West Germany	12,855	5,310	78,409
Other countries	20,917	11,452	171,027
Total	220,770	138,897	838,426
	Value (1,000 dollars)		
Argentina	15	15	43
Brazil	3,287	1,821	10,656
Korea	15,762	10,917	75,827
Mexico	1,444	341	5,710
Spain	2,972	2,605	9,077
Total	23,480	15,699	101,313
Japan	37,290	22,118	90,378
Italy	8,951	7,274	40,323
West Germany	5,447	2,028	31,644
Other countries	9,740	5,826	67,820
Total	84,908	52,945	331,479

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

Table C-16.--Seamless oil country tubular goods: U.S. imports, by principal sources, 1983, January-September 1983, and January-September 1984

Item	1983	January-September-- 1983	January-September-- 1984
	Quantity (short tons)		
Argentina	15,775	9,290	1/ 17,417
Brazil	5,136	2,593	16,369
Korea	0	0	0
Mexico	9,387	4,646	39,867
Spain	13,266	8,716	32,914
Total	43,564	25,245	106,567
Japan	174,937	109,939	314,085
Italy	114,993	70,716	124,866
West Germany	38,286	15,572	164,550
Other countries	68,540	50,476	158,097
Total	440,320	271,947	868,165
	Value (1,000 dollars)		
Argentina	7,965	5,289	1/ 8,826
Brazil	2,996	1,843	10,298
Korea	0	0	0
Mexico	3,619	2,065	17,428
Spain	8,558	6,337	13,809
Total	23,138	15,534	50,361
Japan	118,951	82,722	198,631
Italy	77,011	48,924	56,254
West Germany	20,789	11,110	75,694
Other countries	46,141	34,889	95,334
Total	286,030	193,179	476,273

1/ Data revised to reflect imports from Venezuela of 4,189 short tons ($1,274,993) entered under TSUSA item 610.3925 and incorrectly listed in official statistics as imports from Argentina.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Table C-17.—Welded oil country tubular goods: U.S. imports for consumption, domestic shipments, and apparent consumption, by specified sources, 1983, January-September 1983, and January-September 1984

Period	Argentina	Brazil	Korea	Mexico	Spain	Sub-total	All other	All imports	U.S. producers' domestic shipments	Apparent consumption
	Quantity (1,000 short tons)									
1983	1/	10	48	2	10	70	151	221	600	821
Jan.-Sept.—										
1983	1/	6	34	1	9	48	91	139	364	503
1984	1/	31	205	15	26	277	561	838	773	1,611
	Ratios of imports to consumption (percent) 2/									
1983	3/	1.2	5.8	0.3	1.2	8.5	18.3	26.9	73.1	100.0
Jan.-Sept.—										
1983	3/	1.1	6.7	0.1	1.7	9.6	18.0	27.6	72.3	100.0
1984	3/	1.9	12.7	.9	1.6	17.2	34.9	52.0	48.0	100.0

1/ Less than 500 short tons.
2/ Unrounded import data used to calculate ratios.
3/ Less than 0.05 percent.

Source: Data for U.S. producers' domestic shipments, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission. Data for imports, compiled from official statistics of the U.S. Department of Commerce.

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

Table C-18.—Seamless oil country tubular goods: U.S. imports for consumption, domestic shipments, and apparent consumption, by specified sources, 1983, January-September 1983, and January-September 1984

Period	Argentina	Brazil	Korea	Mexico	Spain	Sub-total	All other	All imports	U.S. producers' domestic shipments	Apparent consumption
	Quantity (1,000 short tons)									
1983	16	5	0	9	13	44	397	440	163	603
Jan.-Sept.—										
1983	9	3	0	5	9	25	247	272	104	376
1984	1/ 17	16	0	40	33	107	761	868	471	1,339
	Ratios of imports to consumption (percent)									
1983	2.6	0.9	-	1.6	2.2	7.3	65.8	73.0	27.0	100.0
Jan.-Sept.—										
1983	2.5	.7	-	1.2	2.3	6.7	65.6	72.3	27.7	100.0
1984	1.3	1.2	-	3.0	2.5	8.0	56.8	64.8	35.2	100.0

1/ Data revised to reflect imports from Venezuela of 4,189 short tons ($1,274,993) entered under TSUSA item 610.3925 and incorrectly listed in official statistics as imports from Argentina.
2/ Unrounded import data used to calculate ratios.

Source: Data for U.S. producers' domestic shipments, compiled from data submitted in response to questionnaires of the U.S. International Trade Commission. Data for imports, compiled from official statistics of the U.S. Department of Commerce.

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

A-82

APPENDIX D

COMMERCE'S CONCORDANCE BETWEEN SHIPMENTS, IMPORTS, AND EXPORTS FOR CATEGORIES OF STEEL PIPE AND TUBING

CONCORDANCE 1

CONCORDANCE BETWEEN SHIPMENTS, IMPORTS AND EXPORTS

CATEGORIES OF STEEL PIPE & TUBING

	Products	1965-Date Shipments (AIS-10)	1978-1981 Imports (TSUSAs)	1982-Date Imports (TSUSAs)	1983-Date Imports (TSUSAs)	1978-Date Exports (Sch. B)
1.	Standard Pipe	Cat. 18	610.3216(89%)	610.3231	610.3231	610.3010
			610.3218(66%)	610.3232	610.3232	610.3070
			610.3226(92%)	610.3241(90%)	610.3241(90%)	610.3910
			610.3228(52%)	610.3244(85%)	610.3244(85%)	610.3970
			610.3246(55%)	610.3247(55%)	610.3247(55%)	610.4620
			610.3248(55%)	610.3251(5%)	610.3251(5%)	610.4660
			610.3255(55%)	610.3751(5%)	610.3751(5%)	
			610.3265(1%)	610.4948(15%)	610.4948(15%)	
			610.3725(5%)	610.4951	610.4951	
			610.3755(5%)	610.4961(40%)	610.4961(40%)	
			610.3775(1%)	610.4965(35%)	610.4965(35%)	
			610.4925(24%)	610.4970(30%)	610.4970(30%)	
			610.4930(20%)			
2.	Structural Pipe	Cat. 22	610.3218(3%)	610.3227(20%)	610.3227(20%)	610.3060
			610.3228(2%)	610.3241(10%)	610.3241(10%)	610.3060
			610.3246(25%)	610.3247(25%)	610.3247(25%)	610.3490
	and Tubing		610.3248(25%)	610.3251(15%)	610.3251(15%)	610.3960
			610.3255(25%)	610.3945	610.3945	610.4570
			610.3265(2%)	610.3955	610.3955	
			610.3945	610.4045	610.4045	
			610.3955	610.4055	610.4055	
			610.4045	610.4245(0%)	610.4245(100%)**	
			610.4055	610.4255	610.4255	
			610.4255	610.4345(0%)	610.4345(100%)**	
			610.4355	610.4355	610.4355	
			610.4930(5%)	610.4961(15%)	610.4961(15%)	
			610.4934(100%)	610.4952	610.4952	
			610.4938(95%)	610.4975(95%)	610.4975(95%)	

**Percent Change from 1982

	Products	1965-Date Shipments (AIS-10)	1978-1981 Imports (TSUSAs)	1982-Date Imports (TSUSAs)	1983-Date Imports (TSUSAs)	1978-Date Exports (Sch. B)
3.	Line Pipe	Cat. 20	610.3216(6%)	610.3208	610.3208	610.3020
			610.3218(9%)	610.3209	610.3209	610.3460
			610.3228(21%)	610.3211	610.3211	610.3920
			610.3235	610.3247(10%)	610.3247(10%)	
			610.3246(10%)	610.3251(80%)	610.3251(80%)	
			610.3248(10%)	610.3711	610.3711	
			610.3250	610.3712	610.3712	
			610.3255(10%)	610.3713	610.3713	
			610.3265(97%)	610.3751(75%)	610.3751(75%)	
			610.3725(55%)	610.4931	610.4931	
			610.3735(6%)	610.4933	610.4933	
			610.3755(74%)	610.4936	610.4936	
			610.3775(96%)	610.4961(10%)	610.4961(10%)	
			610.4925(18%)	610.4965(20%)	610.4965(20%)	
			610.4930(25%)	610.5211	610.5211	
			610.5275(1%)	610.5214	610.5214	
				610.5216	610.5216	
4.	Oil Country Tubular Goods	Cat. 19	610.3216(5%)	610.3216	610.3216	610.3030
			610.3218(14%)	610.3219	610.3219	610.3035
			610.3226(8%)	610.3247(10%)	610.3247(10%)	610.3470
			610.3228(18%)	610.3721	610.3721	610.3930
			610.3246(10%)	610.3722	610.3722	610.3935
			610.3248(9%)	610.3751(5%)	610.3751(5%)	610.3935
			610.3255(10%)	610.3920	610.3925*	610.3940
			610.3725(40%)	610.4020	610.3935*	610.4542
			610.3735(88%)	610.4220	610.4025*	610.4545
			610.3755(5%)	610.4245(100%)	610.4035*	610.4548
			610.3775(1%)	610.4320	610.4225*	
			610.3920	610.4345(100%)	610.4235*	
			610.3925	610.4942	610.4245(0%)**	
			610.3935	610.4944	610.4325*	
			610.4020	610.4946	610.4335*	
			610.4025	610.4960(95%)	610.4345(0%)**	
			610.4035	610.4965(45%)	610.4942	
			610.4220	610.4970(65%)	610.4944	
			610.4225	610.5221	610.4946	
			610.4235	610.5222	610.4960(95%)	
			610.4245	610.5226	610.4965(45%)	
			610.4320	610.5234(20%)	610.4970(65%)	
			610.4325	610.5241(85%)	610.5221	
			610.4335	610.5246(65%)	610.5222	
			610.4345	610.5247(30%)	610.5226	
			610.4925(57%)		610.5234(20%)	
			610.4930(37%)		610.5241(85%)	
			610.5270(75%)		610.5246(65%)	
			610.5275(76%)		610.5247(30%)	

*1983 TSUSAs
**Percent change from 1982

	Products	1965-Date Shipments (AIS-10)	1978-1981 Imports (TSUSAs)	1982-Date Imports (TSUSAs)	1983-Date Imports (TSUSAs)	1978-Date Exports (Sch. B)
5.	Mechanical Tubing	Cat. 21A	610.3218(8%)	610.3221	610.3221	610.3050
			610.3228(7%)	610.3227(80%)	610.3227(80%)	610.3485
			610.3248(1%)	610.3244(15%)	610.3244(15%)	610.3950
			610.3735(4%)	610.3728	610.3728	610.4560
			610.4500	610.3732	610.3732	
			610.4600	610.4500	610.4500	
			610.4930(11%)	610.4600	610.4600	
			610.4938(5%)	610.4948(85%)	610.4948(85%)	
			610.5275(10%)	610.4961(30%)	619.4961(30%)	
			610.5285(10%)	610.4965(10%)	610.4965(10%)	
				610.4975(5%)	610.4975(5%)	
				610.5229(25%)	610.5229(25%)	
				610.5246(15%)	610.5246(15%)	
				610.5247(60%)	610.5247(60%)	
6.	Pressure Tubing	Cat. 21B	610.3000	610.3000	610.3000	
			610.3100	610.3100	610.3100	
			610.3205	610.3205	610.3205	610.3040
			610.3500	610.3500	610.3500	610.3480
			610.3600	610.3600	610.3600	610.3945
			610.3735(2%)	610.3704	610.3704	610.4550
			610.3755(16%)	610.3751(15%)	610.3751(15%)	
			610.3775(2%)	610.4920	610.4920	
			610.4920	610.4960(5%)	610.4960(5%)	
			610.4925(1%)	610.4961(5%)	610.4961(5%)	
			610.4930(2%)	610.4970(5%)	610.4970(5%)	
			610.5270(25%)	610.5209	610.5206*	
			610.5275(13%)	610.5229(25%)	610.5208*	
			610.5285(90%)	610.5241(15%)	610.5229(25%)	
				610.5246(20%)	610.5241(15%)	
				610.5247(10%)	610.5246(20%)	
					610.5247(10%)	
7.	Stainless Pipe and Tubing	Cat. 21D	610.3705	610.3701	610.3701	610.3420
			610.3715	610.3727	610.3727	610.3430
			610.3745	610.3731	610.3731	610.4505
			610.3765	610.3741	610.3741	610.4510
			610.5210	610.3742	610.3742	610.4520
			610.5215	610.5205	610.5205	610.4640
			610.5225	610.5229(50%)	610.5229(50%)	
			610.5235	610.5230	610.5230	
				610.5231	610.5231	
				610.5234(80%)	610.5234(80%)	
				610.5236	610.5236	
8.	Other Pipe & Tubing		610.4800	610.4800	610.4800	
			610.5130	610.5130	610.5130	
			610.5160	610.5160	610.5160	

*1983 TSUSAs

APPENDIX E

LOST SALES FROM THE PREHEARING REPORT TO THE COMMISSION

*   *   *   *   *   *   *