

NATURAL BRISTLE PAINT BRUSHES FROM THE PEOPLE'S REPUBLIC OF CHINA

**Determination of the Commission in
Investigation No. 731-TA-244
(Final) Under the Tariff Act
of 1930, Together With
the Information Obtained
in the Investigation**



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Note.--Information which would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Investigation No. 731-TA-244 (Final)

NATURAL BRISTLE PAINT BRUSHES FROM THE PEOPLE'S REPUBLIC OF CHINA

Determinations

On the basis of the record 1/ developed in the subject investigation, the Commission determines, 2/ pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)), that an industry in the United States is threatened with material injury by reason of imports from the People's Republic of China of natural bristle paint brushes, except artists' brushes, provided for in item 750.65 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

The Commission also determines, pursuant to section 735(b)(4)(B) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)(4)(B)), that no material injury would have been found but for any suspension of liquidation of entries of the merchandise. Because the Commission determined that there is only a threat of material injury, it did not reach the question of critical circumstances found in section 735(b)(4)(A) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)(4)(A)).

Background

The Commission instituted this investigation effective August 5, 1985, following a preliminary determination by the Department of Commerce that imports of natural bristle paint brushes from the People's Republic of China

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 dissenting; Commissioner Brunsdale not participating.

were being sold at LTFV within the meaning of section 731 of the Act (19 U.S.C. § 1673). Notice of the institution of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S.

International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of September 5, 1985 (50 FR 36158). The hearing was held in Washington, DC, on December 19, 1985, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF CHAIRWOMAN STERN, COMMISSIONER ECKES,
COMMISSIONER LODWICK, AND COMMISSIONER ROHR

On the basis of the record in Investigation No. 731-TA-244 (Final), we determine that an industry in the United States is threatened with material injury by reason of imports of natural bristle paint brushes from the People's Republic of China (PRC). This affirmative determination is based on a number of factors including: a rapid increase in volume and market penetration of natural bristle brushes imported from the PRC during the period of investigation; indications that the import volume will continue to increase; evidence that the imports have undersold domestic paint brushes by substantial margins; and, most importantly, a substantial increase in importers' inventories of brushes from the PRC during the first half of 1985 which will affect future domestic industry sales.

We further determine that the domestic industry would not have been materially injured by reason of imports of natural bristle paint brushes from the PRC if there had been no suspension of liquidation of entries of those paint brushes. 1/ Also, because we find that there is a threat of

1/ This determination is based on section 735(b)(4)(B) of the Tariff Act of 1930 which states:

If the final determination of the Commission is that there is no material injury but that there is threat of material injury, then its determination shall also include a finding as to whether material injury by reason of the imports of the merchandise with respect to which the [Department of Commerce] has made an affirmative determination under subsection (a) of this section would have been found but for any suspension of liquidation of entries of the merchandise.

19 U.S.C. § 1673d(b)(4)(B). Our determination on this issue is based on our examination of the rate that imports of the PRC paint brushes were entering the United States and the condition of the domestic industry.

material injury, we do not address the question of critical circumstances. 2/

Like product and domestic industry

As a threshold inquiry, the Commission is required to identify the domestic industry to be examined for the purpose of making an assessment of material injury or the threat of material injury. To identify the domestic industry the Commission must first identify the appropriate like product.

Section 771(10) of the Tariff Act of 1930 defines "like product" as:

a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this subtitle. 3/

The Commission's decision on the like product issue is a factual determination that is done on a case-by-case basis. In making its determination in this case, the Commission considered a number of factors including: a comparison of the essential characteristics of various paint brushes, similarities in their end uses and in their channels of distribution, substitutability, and similarities in manufacturing processes.

2/ Since the Department of Commerce (Commerce) affirmatively found critical circumstances, section 735(b)(4)(A) of the Tariff Act of 1930 requires that:

the final determination of the Commission shall include a finding as to whether the material injury is by reason of massive imports described in subsection (a)(3) to an extent that, in order to prevent such material injury from recurring, it is necessary to impose the duty imposed by section 731 retroactively on those imports.

19 U.S.C. § 1673d(b)(4)(A) (emphasis added). Since we do not find that there is "material injury" but only a threat of material injury, the statute does not allow us to reach the question of imposing retroactive antidumping duties.

3/ 19 U.S.C. § 1677(10).

The imported products from the PRC in this investigation are paint brushes and paint brush heads made with natural bristle. 4/ 5/ The natural bristle in these brushes is made from boar's hair. Natural bristle and synthetic filament 6/ paint brushes are used for a variety of purposes including the application of paint, stain, varnish, lubricants, or glue, and the removal of chips or other scrap generated by industrial machinery. There are no known imports from the PRC of paint brushes which are made with synthetic filament. 7/

Natural bristle and synthetic filament paint brushes come in a variety of sizes and in several quality ranges. 8/ These include small, inexpensive brushes, called "chip" or "utility" brushes, which are used to clean machinery or to apply lubricants or glue. Such a brush can also be used as an economic applicator of paint when a quality finish is not needed. There are also higher quality paint brushes which are used by the general consumer or "do-it-yourself" market. These consumer brushes also come in a variety of sizes and quality ranges. They have more and better quality filler than do chip brushes. Finally, there are the top-of-the-line paint brushes which are produced for the professional market. These have the highest quality and the

4/ There are no known imports of paint brush heads, which are paint brushes without the handle, from the PRC. Report of the Commission (Report) at A-2 n.2. Paint brush heads are not produced separately by any domestic producer; they exist only as one stage in the manufacturing process. Neither party has argued that paint brush heads should be a separate like product, and there is no information on the record which would indicate that they should be a separate like product. Therefore, we have not defined paint brush heads as a separate like product.

5/ Artists' brushes are not covered by this investigation.

6/ Although the terms "filament" and "bristle" have similar meanings, the paint industry's tradition is to use the term "filament" for synthetic fiber and "bristle" for natural fiber. Transcript of the hearing (Tr.) at 103 (statement of Mr. Foster).

7/ Report at A-2.

8/ See id. at A-2-A-3.

most natural bristle or synthetic filament filler. All of these brushes can have either wooden or plastic handles.

Although domestically produced natural bristle paint brushes are identical to the imported PRC brushes, our analysis of the like product issue does not stop there. We do not interpret the statute from precluding the Commission from defining the like product as including other nonidentical products when any differences between the products are minor. ^{9/} Here, the differences between natural bristle paint brushes and synthetic paint brushes are minor, and any definition of the like product which does not include both types of brushes would be artificial.

Both natural bristle and synthetic filament paint brushes have similar characteristics and end uses. Evidence thus suggests that synthetic filament brushes can be used interchangeably with natural bristle brushes. They are both used to apply paint, stain, and other solvents. They can both be used to brush away chips and other debris from machinery. Although petitioner has argued that the paint brush industry recommends using natural bristle brushes for certain paints and tasks and using synthetic brushes for others, advertising information provided to the Commission by petitioner suggests that the distinction between these two types of brushes is frequently blurred.

The manufacturing process is the same for both synthetic filament brushes and natural bristle brushes, and they can be made on the same production

^{9/} Some guidance on this point is supplied by the legislative history of the like product definition contained in the statute. See S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979) ("The requirement that a product be 'like' the imported article should not be interpreted in such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and the article are not 'like' each other") (emphasis added).

lines. 10/ In addition, we note that there are some domestically produced brushes that contain both natural bristle and synthetic filament. 11/

Both types of paint brushes also have similar channels of distribution. They are sold either to distributors or directly to mass merchandisers, 12/ and producers will market and sell a complete line of all their paint applicators, including both natural bristle and synthetic filament brushes. 13/

Therefore, we determine that all paint brushes--both natural bristle and synthetic filament paint brushes--are "like . . . the articles subject to [this] investigation." All domestically produced paint brushes thus constitute the like product.

Once the "like product" is identified, the Commission then identifies the domestic industry. Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" in an antidumping duty investigation as:

the 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. 14/

10/ The only exception is in the preparation of the fibers. Natural bristle may have to be boiled in some instances. Synthetic filament, on the other hand, might be flagged or tipped to improve its paint holding ability. Report at A-4. Petitioner stated that while these differences exist, they are not major. Tr. at 49 (statement of Mr. Johnston).

The same machinery is used to make both types of brushes. Report at A-3-A-4. The training of employees to assemble a paint brush is also the same. Tr. at 52 (statement of Mr. Johnston); id. at 118 (statement of Mr. Lieberman); id. at 181 (statement of Mr. Zichlin).

11/ Report at A-2 n.3.

12/ Id. at A-5.

13/ Id. at 125 (statement of Mr. Zichlin). See also Wooster's catalog at 6, 19 and the Thomas Industry advertisements (suggested displays for showing synthetic filament brushes, natural bristle brushes, and other paint applicators together).

14/ 19 U.S.C. § 1677(4)(A).

Based on our definition of the like product, we find that the domestic industry includes all domestic producers of paint brushes. 15/

Condition of the domestic industry

In assessing the condition of the domestic industry in this investigation, the Commission considered, among other factors, the output, consumption, production, shipments, capacity utilization, employment, and financial data of the domestic paint brush producers. 16/ 17/

[Apparent domestic consumption of all paint brushes rose from 127 million brushes in 1982 to 167 million brushes in 1984.] Interim 1985 data indicate that apparent consumption has continued to rise. 18/ [Although domestic production of paint brushes also has increased during the period of investigation, it has not kept pace with the dramatic increase in apparent consumption.] Total brush production went from 95.3 million brushes in 1982, to 98.3 million in 1983, to 100.5 million brushes in 1984. 19/ Partial year data for 1985, however, indicate that domestic production has leveled off.

15/ With respect to the related parties provision, 19 U.S.C. § 1677(4)(B), we have not excluded any domestic producer from our definition of the domestic industry. The petitioner had argued that Linzer Products, American Brush, and Edy Brush, should have been excluded from the domestic industry because they are direct importers of PRC brushes. After examining the percentage of domestic production attributable to those companies and their position vis-a-vis the rest of the domestic industry, we have concluded that our analysis would not be substantially changed whether those companies are included in the domestic industry or not.

16/ See 19 U.S.C. § 1677(7)(C).

17/ We note that our analysis of the condition of the domestic industry and the existence of a threat of material injury would be the same had we defined the domestic industry as including only the producers of natural bristle paint brushes. Our analysis would be the same due to the fact that much of the financial and employment data dealing with the production of natural bristle paint brushes are not reliable. Report at A-14 and A-18. Thus, we would have had to use the product line analysis of 19 U.S.C. § 1677(4)(D), and such analysis would have required us to examine many of the same figures as we now analyze.

18/ Report at A-9.

19/ Id. at A-11.

[Since production has not kept pace with apparent consumption, paint brush imports, including PRC imports, must have accounted for most of the growth in the apparent consumption.]

The capacity of the domestic industry rose during the period of investigation, while the capacity utilization remained relatively constant during this period. 20/ In terms of both value and quantity, the domestic shipments of paint brushes increased from 1982 to interim 1985. 21/ Inventories of U.S. producers declined from 1981 until 1983. 22/ They then increased somewhat in 1984, and appear to have leveled off in 1985.

[The number of employees involved in production and related work has remained relatively constant between 1983 and interim 1985. 23/ The total number of hours worked by production and related workers producing paint brushes increased from 1982 to 1984.] The average weekly hours worked by each production employee also increased from 37 to 39 hours per week during that time. Both these figures, however, dropped during the January-September period of 1985.

[In general, the financial data from the domestic producers indicate that the industry is fairly healthy.] [Net sales of all paint brushes rose from 1982 to 1984. 24/ This rise has also continued into 1985]. The ratio of operating income to net sales has remained high, although it has declined during the period under investigation. The ratio was 11.0 percent in 1982, 10.1 percent in 1983, and 9.2 percent in 1984. Interim 1985 figures showed the ratio to be

20/ Id.

21/ Id. at A-12. Domestic producers' exports of all paint brushes have steadily declined for the period under investigation. Id. at A-12. The interim data for 1985, however, do show a slight upturn when compared to the interim 1984 data.

22/ Id. at A-14.

23/ Id. at A-15.

24/ Id. at A-21.

9.1 percent, down from 9.6 percent for interim 1984. Thus, even though the industry's performance has shown some erosion, the industry has remained profitable.]

Although the financial data show a slight downturn recently, all other factors show that the domestic industry has not yet shown signs of material injury.] 25/ 26/

25/ Chairwoman Stern believes that the causal context is critical to a reliable material injury determination. For instance, in a case where a new industry is showing losses, it may well be ahead of expectations and hence "healthy." Or an industry which may warrant above normal returns as a return to innovation could be judged materially injured because less-than-fair-value imports had eroded its financial position (though profits might still be "normal" by other standards). The appropriate context for the material injury finding is in conjunction with the causal analysis.

Therefore, Chairwoman Stern does not believe it necessary or desirable to make a determination on the question of material injury separate from the consideration of causality. She joins her colleagues by concluding that the domestic industry is experiencing economic problems. For a fuller discussion of this issue, see *Cellular Mobile Telephones and Subassemblies Thereof from Japan*, Inv. No. 731-TA-207 (Final), USITC Pub. 1786 at 18 (Dec. 1985). Chairwoman Stern reads *American Spring Wire Corp. v. United States*, 590 F. Supp. 1273, 1276 (CIT 1984), *aff'd sub nom.*, *Armco, Inc. v. United States*, 760 F.2d 249 (Fed. Cir. 1985), as holding that the approach of the Commission majority is permissible but not required under the statute.

26/ Commissioner Eckes believes that the Commission is to make a finding regarding the question of material injury in each investigation. The Court of International Trade recently held that:

The Commission must make an affirmative finding only when it finds both (1) present material injury (or threat to or retardation of the establishment of an industry) and (2) that the material injury is 'by reason of' the subject imports. Relief may not be granted when the domestic industry is suffering material injury but not by reason of unfairly traded imports. Nor may relief be granted when there is no material injury, regardless of the presence of dumped or subsidized imports of the product under investigation. In the latter circumstance, the presence of dumped or subsidized imports is irrelevant, because only one of the two necessary criteria has been met, and any analysis of causation of injury would thus be superfluous.

American Spring Wire Corp. v. United States, 590 F. Supp. 1273, 1276 (CIT 1984) (emphasis supplied), *aff'd sub nom.*, *Armco, Inc. v. United States*, 760 F.2d 249 (Fed. Cir. 1985).

Threat of material injury

Section 771(7)(F) of the Tariff Act of 1930 directs the Commission to consider a number of factors in assessing the threat of material injury. 27/

These factors include:

- (1) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,
- (2) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,
- (3) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,
- (4) any substantial increase in inventories of the merchandise in the United States,
- (5) the presence of underutilized capacity for producing the merchandise in the exporting country,
- (6) any other demonstrable adverse trends that indicate the probability that the importation . . . of the merchandise . . . will be the cause of actual injury 28/]

We note at the outset that in concluding that imports of natural bristle paint brushes from the PRC constitute a threat of material injury, we find that the threat is real and actual injury is imminent. Our finding is not based upon mere conjecture or supposition that material injury might occur at some remote future date. 29/

In analyzing the factors set out above, we first look at the volume of imports and their market penetration. [Imports of PRC brushes have gone from 10.1 million brushes in 1982 to 38.2 million brushes in 1984. 30/ The PRC brushes are holding an increasing share of the U.S. paint brush market.] The

27/ "Material injury" is defined as "[h]arm which is not inconsequential, immaterial, or unimportant." 19 U.S.C. § 1677(7)(A).

28/ 19 U.S.C. § 1677(7)(F)(i)(II)-(VII).

29/ See 19 U.S.C. § 1677(7)(F)(ii).

30/ Report at A-32.

ratio of PRC imports to apparent U.S. consumption of all paint brushes rose from 7.9 percent in 1982 to 22.8 percent in 1984.^{31/} This ratio did drop in interim 1985, but only after the number of PRC imports dropped drastically following Commerce's preliminary determination on August 5, 1985.^{32/} These figures indicate that the market penetration of the PRC imports is likely to rise to injurious levels in the near future.]

We also note that the total number of imports of PRC brushes which are not chip brushes has increased dramatically. These higher quality brushes rose from 1.3 million brushes in 1982 to 5.4 million brushes in 1984.^{33/} The trend appears to be towards the importing of more higher quality brushes into the United States, thus, threatening penetration of a segment of the domestic market which offers greater profits.

[The PRC's capacity to produce natural bristle paint brushes could expand, within limits, to meet changes in demand.]^{34/} We also note that all natural bristle used in domestically produced natural bristle brushes originates in the PRC, so that the PRC has the capability of switching from exporting bristle to exporting finished paint brushes.

[In addition, export markets for the PRC brushes have been recently restricted.] In 1984, Canada entered a dumping order against natural bristle brushes from the PRC.^{35/} As well, Australia and the European Community entered into agreements with the PRC limiting the number of natural bristle paint brushes exported to those countries. Therefore, the PRC has the ability

^{31/} Id. at A-34.

^{32/} See the monthly import figures for PRC paint brush figures. Id. at 31.

^{33/} See Table 9, id. at 17.

^{34/} Id. at A-28. The respondents were not able to supply any precise data on the capacity of the PRC.

^{35/} Id. at A-28.

to export to the United States those paint brushes that would have otherwise gone to those countries. We note that import data collected immediately after the Canadian decision to limit PRC imports to Canada showed a substantial and continuing increase in imports to the United States. This significant increase suggests that the United States rapidly became a prime target for growing volumes of PRC brushes.

[In general, during the period under investigation, the prices of natural bristle paint brushes produced in the United States rose. 36/ However, PRC brushes generally undersold the comparable domestic brushes by substantial margins during that period.] 37/

[Finally, and most importantly, inventories of paint brushes from the PRC reported by importers have risen dramatically during the period under investigation.] 38/ The end-of-period figures rose from 2.1 million brushes in 1982, to 5.7 million brushes in 1983, to 12.2 million brushes in 1984. As of September 30, 1985, the importers' inventories stood at 14.3 million brushes compared to 12.5 million brushes for the same date in 1984. The paint brush inventories in 1984 were equivalent to 39 percent of PRC imports of paint brushes. This figure rose to 63 percent for 1985 when the interim data were annualized. (We find that there is no reason to believe that these paint brushes will not continue to be sold at less-than-fair-value, and such sales could materially injure the domestic industry in the future.)

36/ Id. at A-35-A-38.

37/ In making its determination that the imported brushes were underselling the comparable domestic brushes, the Commission compared brushes that were of similar sizes and quality. Thus, for example, certain imported natural bristle chip brushes of 1" width x 5/16" thickness x 1-1/2 - 1-3/4" length were compared to domestically produced natural bristle chip brushes of the same size and quality.

38/ Report at A-28.

Conclusion

Based on the foregoing discussion and the information available to the Commission, we determine that the domestic industry producing paint brushes is threatened with material injury by reason of imports of natural bristle paint brushes from the PRC which are being sold to the United States at less than fair value.

VIEWS OF VICE CHAIRMAN LIEBELER

Based on the record in Investigation No. 731-TA-244 (Final), I determine that an industry in the United States is not materially injured, or threatened with material injury, or materially retarded, by reason of imports of natural bristle paint brushes from the People's Republic of China (PRC) that are sold at less than fair value (LTFV).¹ I concur in the decision of the majority with respect to like product, domestic industry and related parties.

In order for a domestic industry to prevail in a final investigation the Commission must determine that the dumped imports cause or threaten to cause material injury to the domestic industry producing the like product. This analysis is usually recognized to be a two-step procedure. First, the Commission must determine whether the domestic industry

1

Because the domestic industry is well-established, the issue of material retardation need not be addressed.

producing the like product is injured or is threatened with material injury. Second, the Commission must determine whether any injury or threat thereof is by reason of the dumped imports. Only if the Commission answers both questions in the affirmative will it make an affirmative determination in the investigation.

In Certain Red Raspberries from Canada, I set forth a framework for examining causation in Title VII
²
 investigations:

The stronger the evidence of the following . . . the more likely that an affirmative determination will be made: (1) large and increasing market share, (2) high dumping margins, (3) homogeneous products, (4) declining prices and (5) barriers to entry to other foreign producers (low
³
 elasticity of supply of other imports).

These factors, when viewed together, serve as proxies for the injury analysis that Congress has directed the Commission to undertake: whether foreign firms are engaging in unfair price discrimination practices that cause or threaten to cause material injury to a

²
 Inv. No. 731-TA-196 (Final), USITC Pub. 1680, at 11-19 (1985) (Additional Views of Vice Chairman Liebler).

³
Id. at 16.

⁴
domestic industry. In a threat case, I must determine whether there is a real and imminent possibility that this type of harm will occur.

The starting point for the five factor approach is import penetration data. This factor is relevant because unfair price discrimination has as its goal, and cannot take place in the absence of, market power.

The ratio of Chinese bristle brush imports to overall U.S. consumption of paint brushes rose substantially between 1982 and 1984, but then declined moderately in 1985. The ratio reached a peak of 22.8 percent in 1984. The import penetration ratio is thus moderate and increasing during most of the period of investigation.

The second factor is a high margin of dumping. The higher the margin of dumping, ceteris paribus, the more likely it is that the product is being sold below marginal cost, which is a requirement for predatory pricing, and the more likely it is that the domestic producers will be adversely affected by the dumping. The margin of dumping is determined by the

4

Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

Department of Commerce. In this case, the weighted-average margin was 127 percent. This margin is high.

The third factor is the homogeneity of the products. The more homogeneous the products, the greater will be the effect of any allegedly unfair practice on domestic producers. Homogeneity analysis is complicated in this case because the same machines and labor that produce natural bristle brushes (the only type the PRC makes) can make synthetic bristle brushes. Thus, it is easy for U.S. producers to change their product mix, as they have already demonstrated.⁵ Chinese and U.S. brushes have similar but not overlapping uses. Synthetic brushes have more uses than bristle brushes -- they may be used with latex as well as oil base paints. Further, U.S. producers have shifted production mix to higher quality brushes. Thus, they have been able to take advantage of a market niche for a different type of brush, produced on the same machinery.

The fourth factor is declining prices. Evidence of declining domestic prices, ceteris paribus, might

5

A significant portion of the U.S. producers produce both bristle and non-bristle brushes.

indicate that domestic producers were lowering their prices to maintain market share. In this case, evidence with respect to price trends indicates that domestic prices are stable or rising for sales to wholesalers and distributors.⁶

There has been a substantial increase in inventories held by major importers and some may argue that sales of these inventories will have a future depressing effect on domestic prices. However, the great bulk of that increase occurred during 1984 and to date we have not seen any ill effects, such as a flooding of the market causing price depression.⁷

The fifth factor is barriers to entry. The presence of barriers to entry makes it more likely that a producer can gain market power. Here, it is clear that brush manufacturing is susceptible to a

6

Report at Table 18. Domestic prices on sales to retailers also increased for the most part. These sales constitute a small portion of total sales.

7

To the extent that inventories did increase in 1985, such imports should not be double counted in the import penetration data. For example, if 10 units were imported in 1984, and 100 units were domestically consumed, import penetration would be 10 percent. If no units were then imported in 1985, but none of the 1984 imports were sold, inventories would be 10 units. It is double counting to state that the imports caused injury once in 1984 and again in 1985.

variety of input mixes. Thus, underdeveloped countries may use more labor-intensive methods (e.g., Sri Lanka, whose production was used as a surrogate in the Department of Commerce determination of foreign market value). One might say that there are low technological barriers to entry. In short, once the decision is made to enter, actual production will soon follow. Moreover, China accounts for approximately 56 percent of domestic imports of paint brushes. Taiwan and Korea account for almost all of the other imports. As is evident, there are significant other producers and hence a high elasticity of foreign supply.

These factors must be balanced in each case. The market share has risen to a moderate level and seems to have stabilized. The dumping margin is high. However, these factors are outweighed by the pricing and barrier to entry data. Unfair price discrimination is inconsistent with the presence of rising domestic prices and low entry barriers. I find that there are no trends or existing evidence showing that these factors will change. The U.S. industry has responded to existing challenges. Future imports from China will face continued stiff

U.S. competition. Thus, I do not find that a domestic industry in the United States is injured or threatened with injury by reason of LTFV imports of natural bristle paint brushes from China.

Indeed, the paint brush industry is in very healthy condition and shows no signs of material injury or threat of material injury. The ratio of operating income to net sales has outstripped the ratio for both all non-durable manufacturing and all non-durable manufacturing with total assets of less than \$25 million during all years under investigation. For example, during interim 1985 the domestic industry had a 9.1 percent ratio of operating income to net sales. All nondurable manufacturing had a 6.6 percent ratio, while all nondurable manufacturing with assets under \$25 million (more typical of the size of paint brush producers) had a ratio of only 4.7 percent.

U.S. producers' inventories are down significantly. Thus, future prospects for high capacity utilization are bright. Even despite this strong downward trend in producers' inventories, capacity utilization is slightly higher than it was in 1982. One would expect that an industry in an

assertedly vulnerable condition would have growing⁸ inventories and shrinking capacity utilization.

Employment conditions in the industry also have been good. The average number of employees and production workers for U.S. establishments producing paint brushes has been stable since 1982. Average weekly hours worked by production workers has been about the same since 1982, with intermittent fluctuations. Labor productivity, measured in terms of paint brushes produced per hour, has increased moderately since 1982, another good sign for the future ability of the industry to compete with LTFV imports. Unit labor costs were stable.

This industry, to its credit, is modernizing to meet foreign competition. According to the staff report, "implementation of more efficient manufacturing techniques is responsible for [the] expansion in domestic capacity."⁹ Moreover, the

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It is unclear why U.S. producers are allowing their inventory levels to become so low since two U.S. industry officials stated that they generally try to maintain large inventories to meet unscheduled demand. Staff Report at A-14. One explanation is simply that business has been good and they are having some trouble keeping up with demand.

9

Staff Report at A-9-11.

domestic industry has changed product mix to meet foreign competition; the sharp rise in unit values for bristle brushes reflects this shift in product mix. The U.S. producers have demonstrated their ability to adapt to changing conditions.

I conclude that the domestic industry is not materially injured or threatened with material injury.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

Following a preliminary determination by the U.S. Department of Commerce that imports of natural bristle paint brushes from the People's Republic of China (China) are being, or are likely to be, sold in the United States at less than fair value (LTFV), the U.S. International Trade Commission, effective August 5, 1985, instituted investigation No. 731-TA-244 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry is materially retarded, by reason of imports of such merchandise. Notice of the institution of the Commission's final investigation, and of the public hearing to be held in connection therewith, was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register on September 5, 1985 (50 FR 36158). 1/ The public hearing was held in Washington, DC, on December 19, 1985. 2/

Commerce has also determined that critical circumstances exist in this investigation. The effect of an affirmative determination is that any LTFV duties imposed as a result of this investigation will be retroactive to May 7, 1985 rather than August 5, 1985 (19 U.S.C. § 1673b(e)). Commerce's final LTFV and critical circumstances determinations were published on December 26, 1985 (50 FR 52812). 3/ The applicable statute directs that the Commission make its final injury determinations within 45 days after the final determinations by Commerce.

Background

On February 19, 1985, the U.S. International Trade Commission and the U.S. Department of Commerce received petitions filed by counsel on behalf of the United States Paint Brush Manufacturers and Suppliers Ad Hoc Import Action Coalition, Washington, DC, alleging that an industry in the United States is materially injured, or is threatened with material injury, by reason of imports from the People's Republic of China (China) of natural bristle paint brushes, except artist's brushes, with or without handles, provided for in item 750.65 of the Tariff Schedules of the United States (TSUS), which are alleged to be sold in the United States at LTFV. Accordingly, effective February 19, 1985, the Commission instituted antidumping investigation No. 731-TA-244 (Preliminary) under section 733 of the Tariff Act of 1930 to determine whether there is a reasonable indication that 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.

On April 5, 1985, the Commission determined, on the basis of the record developed during the course of its preliminary investigation, that there was a

1/ A copy of the Commission's notice is presented in app. A.

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

3/ A copy of Commerce's final determination is presented in app. C.

reasonable indication that an industry in the United States is threatened with material injury by reason of imports of the subject natural bristle paint brushes from China.

The Products

Description and uses

Paint brushes are implements used to apply paint, stain, or varnish, but may also be used for other purposes. The brush can be made with natural bristle, primarily from the boar, or with synthetic filament, such as nylon or polyester. Either filling is fastened with a metal ferrule to some type of handle, usually made of wood, plastic, or metal. The imported brushes from China that are the subject of this investigation are natural bristle paint brushes. 1/ There are no known imports from China of paint brushes made with synthetic filament.

Paint brushes come in several quality ranges and in a wide variety of widths and lengths. At the lower end of the market in terms of quality are brushes referred to by the industry as "chip" or "utility" brushes. Chip brushes are generally 2 inches or less in width and are usually thin, and like other lower quality brushes are composed of filler of the same length. These brushes are used extensively in the industrial market to remove chips and other scrap generated during machining operations, to apply lubricants, glue or adhesives, and so forth. Chip brushes may also be used to apply paint by users seeking an economical applicator and willing to accept a less than quality finish. At present, large quantities of chip brushes are imported into the United States from China. Such brushes from China are made of natural bristle attached to an unfinished wooden handle. Comparable brushes are also manufactured by U.S. producers. Because synthetic fibers melt or otherwise deteriorate from heat during use on machinery, they are not generally used in chip brushes. Chip brushes account for an estimated 20 percent of the U.S. paint brush market, in terms of value. 2/

Brushes used by the general consumer or "do-it-yourself" market are also produced in a variety of styles and sizes. These brushes are made from either synthetic filament or natural bristle and, occasionally, from a blend of both. 3/ Generally, the amount of bristle or filament used in a brush increases as quality increases. These brushes will have either plastic or wood handles attached. Consumer brushes produced for this market are in the

1/ Artists' brushes are not covered by this investigation, but paint brush heads, which are paint brushes without the handle, are covered by this investigation. There are no known imports of paint brush heads from China.

2/ See transcript of public conference held during the preliminary investigation at p. 145.

3/ Questionnaire responses show that mixed-fiber brushes account for approximately 1 percent of the U.S. paint brush market.

medium price range and account for about 70 to 75 percent of total U.S. paint brush sales. 1/

The best brushes, in terms of quality, are those manufactured for the professional market; this is also the smallest segment of the industry, accounting for approximately 5 to 10 percent of total U.S. paint brush sales. 2/ These brushes are made of the highest quality natural bristle or synthetic filament. These brushes require the largest amount of filler and generally have nicely finished wood handles.

Natural bristle paint brushes (bristle brushes) are generally recommended for use with oil-base paints, stains, varnishes, and shellac. They are usually not recommended for use with water-base paint due to the natural bristle's tendency to absorb water, keeping paint on the brush and not on the surface being painted. 3/ Synthetic filament paint brushes (synthetic brushes) are generally recommended for use with water-based paint, but may also be used with oil-based paints and other solvent-soluble coatings. Industry sources indicate that currently about 80 to 85 percent of U.S. interior/exterior paint purchases are latex or water-based paint. If other coatings, such as stains, varnishes, polyurethane, etc., are included, water-based coatings would account for approximately 65 percent of total U.S. coating sales. These relative shares have changed very little since 1977.

Other types of paint applicators include rollers, paint pads, and spray applicators. Generally, these articles are used for the application of paint to large surfaces and complement the paint brush rather than compete directly with it. There are also "throw-away" foam applicators that do compete at the low end of the paint brush market. 4/

Manufacturing process

The manufacture of paint brushes involves a series of steps that can be performed by hand or in conjunction with highly automated machinery. The degree to which the production process can use automated machinery depends upon the quantity and quality of the brushes to be produced. For the most part the same machinery is used to make a paint brush regardless of whether its head contains natural bristle, synthetic filament, or a mixture of both. Practically all of the bristle used for brush making in the United States comes from China. China's climate, the type of hog raised, and experience in dressing the bristle are repeatedly cited as reasons why China remains the sole supplier of bristle. U.S. manufacturers purchase natural bristle from importers or they import directly from China. Natural bristle comes from four different provinces in China, the principal differences being degree of stiffness, length, and occasionally color. The color of natural hog bristle is generally white, black, or gray, but it can be dyed any color or shade. Most U.S. manufacturers also make brushes from synthetic filament 5/ which

1/ See transcript of public conference at p. 145.

2/ Ibid.

3/ Ibid., and Consumer Reports, February 1982, p. 79.

4/ See transcript of public conference at p 50.

5/ * * *.

comes in two types: (1) filament of the same thickness and (2) tapered filament. The principal materials used for synthetic filament are nylon and polyester.

The manufacturing process begins with the preparation of the filler (bristle or filament) to be used in the brush head. Natural bristle normally comes to the manufacturer ready to use but occasionally will require boiling to remove any blood or debris that remain. Synthetic filament, purchased in hanks of uniform length, must first be cut to the desired length. If a better quality brush is to be produced, the synthetic filament is next tipped or flagged (splitting the tip of the filament) by machines designed for that purpose. The flagging process enables the brush to hold more paint. Bristle generally does not need to be flagged since as with other hairs the tips tend to split naturally. The filler, whether natural or synthetic, is then mixed either by hand or in a specially designed mixing machine. The mixing blends fibers of different types and lengths. The filler is then weighed, either by hand or machine, and the appropriate amount is placed into a metal ferrule, which encloses the bristle or filament. Strips of wood or cardboard, called plugs, are inserted into the filament to fill any gaps and make the brush appear fuller. Epoxy or glue in liquid form is put into the ferrule to hold the bristle or filament in place. Again, this may be done by either machine or hand. At this stage of production, the article is referred to as a "brush head."

After the epoxy has dried, the brush head may go through several additional processes. Excess fibers are removed and the brush may also be trimmed at this point. Even though boar bristle is naturally tapered and synthetic filament is often purchased tapered, additional tapering (varying the filler length) may be performed. Like flagging, tapering improves the brush's ability to transfer paint from its container to the object being painted. As one would expect, the higher the quality of the brush the more treatment it receives.

A handle is then inserted into the brush head. This may be done by hand or by machine. In China, wooden handles are used almost exclusively. U.S. manufacturers primarily use plastic handles, frequently treated to look like wood. Plastic handles cost approximately half as much as solid wood handles. Generally, U.S. producers only use wooden handles in the highest quality paint brushes. The handle is either attached to the ferrule by a staple-set process or by crimping (stamping the ferrule against the handle), which is somewhat less expensive. Excess fibers are literally combed away, generally by hand. The brush is then inspected and packaged, boxed, and readied for final shipment.

U.S. producers have highly automated equipment that can perform most of the manufacturing processes. Certain steps may be done by hand, particularly for more expensive, higher quality brushes, or for small production runs when it is more cost effective. Paint brush manufacture in China is reported to be highly labor intensive. ^{1/} Some machinery may be used, but overall machinery is not used to the extent that it is in the United States.

^{1/} * * *

Most U.S. manufacturers are basically assemblers; they buy bristle and filament, ferrules, and handles from suppliers and produce the paint brush. In China, most plants are vertically integrated, manufacturing the handle and ferrule and frequently processing the crude bristle before making a paint brush.

U.S. tariff treatment

Natural bristle paint brushes, synthetic filament paint brushes, mixed-fiber paint brushes, and brush heads 1/ are classified in item 750.65 of the TSUS, covering "paint brushes, except artists' brushes."

The column 1 (most-favored-nation) rate of duty for item 750.65 is 4 percent ad valorem; the column 2 rate of duty is 50 percent ad valorem. 2/ Imports from China are entitled to column 1 treatment; there are no known imports of natural bristle paint brushes from column 2 countries. The current rate of 4 percent, in effect since 1981, is the final rate agreed to in the Tokyo round of Multilateral Trade Negotiations and no further reductions are scheduled. Imports from Israel and from beneficiaries of the Generalized System of Preferences and the Caribbean Basin Economic Recovery Act enter free of duty.

Channels of distribution

Paint brushes are marketed throughout the United States, primarily by sales representatives working for the manufacturing companies. Most U.S. paint brush manufacturers market their product nationwide. Brushes are sold to industrial supplies distributors and to wholesale hardware distributors. Hardware chain stores often maintain a central buying office that purchases paint brushes in large quantities from one or more manufacturers. It then distributes them to the various retail outlets in their organization. Brushes are also sold directly to mass merchants and discounters, who account for about 50 percent of the total market. 3/ Many of these merchants and discounters also import brushes directly. Most major U.S. paint brush manufacturers display their complete line, which usually includes all types of paint applicators, such as paint pads and rollers, as well as brushes, at the National Hardware Show and International Housewares Show, both held in Chicago, IL. Few orders are written at these shows, but manufacturers often introduce new products or new packaging concepts.

Nature and Extent of Sales at LTFV

On December 26, 1985, the Department of Commerce published its final determination that imports of natural bristle paint brushes and brush heads (a

1/ Based on a conversation with G. Brownschweig, the National Import Specialist for brushes, U.S. Customs Service, New York, on Feb. 14, 1985.

2/ Applicable to countries enumerated in general headnote 3(d) of the TSUS.

3/ * * *.

paint brush without the handle) from China are being, or are likely to be, sold in the United States at LTFV. The weighted-average margin by which the foreign market value exceeded the U.S. price was found to be 127.07 percent.

The period examined by Commerce in making its fair value comparison was from September 1984 through February 1985. The United States price was determined from purchase prices calculated on the basis of c.i.f. prices net of discounts to unrelated buyers in the United States. In its determination of foreign market value, Commerce agreed with petitioner's contention that China is a state-controlled-economy country; therefore, Commerce is directed by section 773(c) of the Tariff Act of 1930 to use prices or the constructed value of such or similar merchandise in a non-state-controlled economy country at a stage of economic development comparable to China. Sri Lanka was determined to be the most appropriate surrogate for this purpose.

After review of the responses by the two Sri Lankan producers, Commerce found that only one producer had home-market sales to unrelated customers and that Sri Lanka did not sell a brush similar to the low-quality (chip) brushes produced by China. Consequently, Commerce determined foreign market value separately for chip brushes and for brushes other than chip brushes. Foreign market value for chip brushes was based on the weighted average f.a.s. price of brushes, both chip and nonchip, imported into the United States. Foreign market value for all brushes other than chip was based on the one Sri Lankan producer's delivered, packed, home-market selling prices to unrelated customers in Sri Lanka.

Commerce found that the foreign market value of the subject merchandise exceeded the United States price on virtually all of the sales compared. The margins ranged from 13 to 335 percent.

The Department of Commerce also made an affirmative final determination of critical circumstances. In reaching the determination Commerce found (1) the requisite history of dumping of the class or kind of merchandise under investigation 1/, and (2) that imports of the subject paint brushes subsequent to receipt of the petition were massive when compared with recent import levels and that recent imports were significantly above average imports over the last 3 years.

U.S. Producers

Approximately 30 companies produced paint brushes in the United States in 1984. These companies are scattered throughout the country, with concentrations in the Midwest and Northeast regions. Less than 4,000 persons 2/ are employed in the manufacture of paint brushes. Most producers are small- to medium-sized family-owned firms, although several are divisions of larger corporations. There have been several acquisitions and mergers in

1/ During 1984 an antidumping order was issued in Canada on natural bristle paint brushes from China.

2/ 1982 Census of Manufactures, p. 39D-13.

the past few years as the industry has tended to become more concentrated. ^{1/} Virtually all companies manufacture both natural bristle and synthetic filament paint brushes; many also manufacture paint pads and rollers in order to offer a full line of paint applicator products. Several of the companies produce other types of brushes unrelated to paint brushes. A growing number of U.S. producers have begun importing paint brushes, both from China and from other sources, particularly smaller, lower quality brushes, such as the "chip" brushes.

Table 1 lists the principal U.S. manufacturers of paint brushes and their relative share of the U.S. market, and summarizes their importing operations, if any.

U.S. Importers

Approximately 20 firms imported paint brushes from China into the United States in 1984. In addition to traditional importers, this number included several mass merchandise and general importing companies. A number of U.S. producers are also direct importers. ^{2/} Most of the companies import bristle brushes as well as synthetic brushes. Taiwan and the Republic of Korea (Korea) are major foreign suppliers of synthetic brushes to the United States. Only natural bristle brushes are being imported from China. In 1984, the largest importer of both bristle brushes and synthetic brushes was * * *. Most of the companies which import from China have been cultivating their business relationship with the Chinese for several years. U.S. importers report that a significant lead time (usually a minimum of 12 weeks) ^{3/} is required for all brush orders from China. Frequently, an order is placed for an entire year's requirements, with shipments to be made at specified times during that year.

Apparent U.S. Consumption

Apparent U.S. consumption of all paint brushes rose steadily from 1982 through September 1985. Demand for these brushes is closely tied to trends in the overall economy. Chip brushes, although to some extent used by individual consumers to apply paint, are predominantly used in the industrial sector for various tasks. As the industrial sector expands or contracts so does its demand for chip brushes. The demand for the better quality brushes also rises and falls with change in economic activity. During downturns in the economy,

^{1/} Counsel for petitioner has stated that since data developed from U.S. producers for this investigation do not include firms that have already gone out of business or that have been acquired by other producers, any injury found will be understated. The Commission staff has investigated this but could not develop much reliable information. Conversations with industry sources confirmed the occurrence of several closings and acquisitions but no one, including petitioner's counsel, could attribute these events to the presence of LTFV imports from China.

^{2/} At the conference, an officer of American Brush Co. stated that importing the less-expensive paint brushes from China helped his firm to compete with the very large U.S. producers. See transcript of public conference at p. 79.

^{3/} * * *.

Table 1.--Paint brushes: Principal U.S. paint brush manufacturers, their locations, share of reported U.S. production, and share of U.S. imports from China in 1984

| Manufacturer | Location | Share of U.S. paint brush production 2/ | Share of U.S. imports from China 5/ |
|--------------------------------------|------------------|---|-------------------------------------|
| | | <u>Percent</u> | |
| Petitioners: 1/ | | | |
| Baltimore Brush----- | Brockton, MA | *** | *** |
| Elder & Jenks, Inc----- | Bayonne, NJ | *** | *** |
| EZ Paintr Corp----- | Milwaukee, WI | *** | *** |
| H & G Industries----- | Belleville, NJ | *** | *** |
| Joseph Lieberman & Sons--- | Philadelphia, PA | *** | *** |
| Purdy Inc----- | Portland, OR | *** | *** |
| Rubberset Co----- | Cleveland, OH | *** | *** |
| Thomas Paint Applicators-- | Johnson City, TN | *** | *** |
| Wooster Brush Co----- | Wooster, OH | *** | *** |
| Producers in opposition to petition: | | | |
| American Brush Co----- | Claremont, NH | *** | *** |
| Edy Brush----- | Amsterdam, NY | *** | *** |
| Linzer Products----- | Flushing, NY | *** | *** |
| All other: | | | |
| Adams Brush Co----- | Ozone Park, NY | *** | *** |
| Condon Bros. Co----- | Pittsburgh, PA | *** | *** |
| Corona Brushes, Inc----- | Tampa, FL | *** | *** |
| E.G. Industries Inc----- | Chicago, IL | *** | *** |
| Pasco Industries, Inc----- | Gardena, CA | *** | *** |
| PPG Industries----- | Baltimore, MD | *** | *** |
| Paint Brush Corp----- | Atlanta, GA | *** | *** |
| Prager Brushes Co., Inc--- | Atlanta, GA | *** | *** |
| Spectrum Paint Applicator-- | Brooklyn, NY | *** | *** |
| Stebbins & Roberts, Inc--- | Little Rock, AR | *** | *** |

1/ There were 2 members of the coalition who supplied materials to brush manufacturers and did not produce paint brushes.

2/ Total may not add to 100 due to rounding.

3/ Did not respond to the Commission's questionnaire.

4/ Less than 1 percent.

5/ Total imports of natural bristle paint brushes from China amounted to 38.2 million brushes in 1984.

6/ Did not report any imports from China.

7/ Response was incomplete.

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

industry and other consumers tend to curtail maintenance jobs such as those performed with paint brushes. Since 1982 the U.S. economy has undergone a healthy expansion. Demand for paint brushes has grown accordingly. U.S. consumption of all paint brushes increased from 128 million brushes in 1982 to 145 million brushes in 1983, or by 13 percent (table 2). Paint brush consumption continued to grow in 1984, reaching 167 million brushes and representing an increase of 16 percent over consumption in the preceding year. During January-September 1985, paint brush consumption increased but at a more moderate rate (3 percent) when compared with the corresponding period in 1984.

Apparent consumption of natural bristle paint brushes followed a similar but more sharply rising pattern during 1982-84. Bristle brush consumption increased from 39 million brushes in 1982 to 47 million brushes in 1983, or by 20 percent, and then increased by 40 percent the following year. During January-September 1985, consumption of bristle brushes declined by 14 percent when compared to the year-earlier period.

The share of the U.S. market for all paint brushes supplied by imports rose from 24.3 percent in 1982 to 30.1 percent in 1983 and then increased to 40.4 percent in 1984. Imports accounted for a larger share of the domestic market for natural bristle paint brushes than that for all paint brushes, accounting for 29.7 percent of natural bristle paint brush consumption in 1982, 42.2 percent in 1983, and 62.1 percent in 1984. Imports' share of the paint brush market declined during January-September 1985. Imports supplied 36.6 percent of all paint brushes consumed during January-September 1985 compared with 39.7 percent during the corresponding period of 1984. Imports' share of the natural bristle brush market declined similarly.

Consideration of Material Injury to an Industry in the United States

The information in this section of the report is compiled from the data submitted in response to the Commission's questionnaires. It is therefore understated to the extent that some domestic firms that produce the subject products did not respond to the Commission's questionnaires. Nevertheless, all of the known major producers of paint brushes have responded, and respondents are estimated to account for approximately 80 percent of total U.S. paint brush production, and more than 60 percent of all U.S. natural bristle paint brush production. Much of the data that follow differ from those presented in the prehearing report due to the inclusion of revised data submitted by several firms.

U.S. production, capacity, and capacity utilization

Total U.S. production of paint brushes increased moderately during 1982-84, as shown in table 3. Paint brush production increased from 95 million brushes in 1982 to 98 million in 1983, or by 3 percent, and increased by another 2 percent in 1984. Production remained relatively stable during January-September 1985 when compared with the year-earlier period. Total productive capacity for paint brushes increased by approximately 5 percent from 1982 to 1984. Implementation of more efficient manufacturing techniques

Table 2.--Paint brushes: U.S. producers' domestic shipments, imports for consumption, and apparent U.S. consumption, 1982-84, January-September 1984, and January-September 1985

| Item and period | Domestic shipments ^{1/} | Imports | Apparent consumption | Ratio of imports to-- | |
|-----------------------------------|-------------------------------------|----------------------|-------------------------|--------------------------|-------------|
| | | | | Shipments | Consumption |
| | | <u>1,000 units</u> | | <u>Percent</u> | |
| Paint brushes: | | | | | |
| 1982----- | 96,610 | 31,041 | 127,651 | 32.1 | 24.3 |
| 1983----- | 101,078 | 43,532 | 144,610 | 43.1 | 30.1 |
| 1984----- | 99,624 | 67,624 | 167,248 | 67.9 | 40.4 |
| Jan.-Sept. | | | | | |
| 1984----- | 79,385 | 52,240 | 131,625 | 65.8 | 39.7 |
| 1985----- | 86,101 | 49,689 | 135,790 | 57.7 | 36.6 |
| Natural bristle paint brushes: | | | | | |
| 1982----- | 27,762 | ^{2/} 11,712 | 39,474 | 42.2 | 29.7 |
| 1983----- | 27,406 | ^{2/} 20,009 | 47,415 | 73.0 | 42.2 |
| 1984----- | 25,125 | ^{2/} 41,221 | 66,346 | 164.1 | 62.1 |
| Jan.-Sept. | | | | | |
| 1984----- | 20,289 | ^{2/} 32,580 | 52,869 | 160.6 | 61.6 |
| 1985----- | 19,141 | ^{2/} 26,236 | 45,337 | 137.1 | 57.9 |

^{1/} Includes intracompany and intercompany transfers. Domestic shipments are understated to the extent that all U.S. producers did not respond to the Commission's questionnaire.

^{2/} Imports of natural bristle paint brushes are the sum of imports from China and Hungary compiled from official statistics, plus imports of such brushes from Taiwan, The Republic of Korea, Brazil, and Jamaica compiled from the Commission's questionnaires.

Source: Shipments, compiled from questionnaires of the U.S. International Trade Commission; imports, compiled from official statistics of the U.S. Department of Commerce.

Table 3.--Paint brushes: U.S. production, 1/ practical capacity, 2/ and capacity utilization, 1982-84, January-September 1984, and January-September 1985

| Item | 1982 | 1983 | 1984 | Jan.-Sept.--- | |
|----------------------------------|---------|---------|---------|---------------|---------|
| | | | | 1984 | 1985 |
| Paint brushes: | | | | | |
| Production-----1,000 units--- | 95,312 | 98,278 | 100,531 | 78,571 | 78,669 |
| Capacity-----do----- | 194,075 | 197,788 | 203,508 | 153,710 | 158,151 |
| Capacity utilization--percent--- | 49.1 | 49.7 | 49.4 | 51.1 | 49.7 |
| Natural bristle paint brushes: | | | | | |
| Production-----1,000 units--- | 27,259 | 26,265 | 24,766 | 19,388 | 17,701 |
| Capacity-----do----- | 60,391 | 61,475 | 63,702 | 48,317 | 50,727 |
| Capacity utilization--percent--- | 45.1 | 42.7 | 38.9 | 40.1 | 34.9 |

1/ Production and capacity figures are understated to the extent that all producers did not respond to the Commission's questionnaire.

2/ Practical capacity was defined as the greatest level of output a plant can achieve within the framework of a realistic work pattern. Producers were asked to consider, among other factors, a normal product mix and an expansion of operations that could be reasonably attained in their industry and locality in setting capacity in terms of the number of shifts and hours of plant operation.

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

is responsible for this expansion in domestic capacity. Utilization of paint brush capacity changed very little during the period investigated.

Production of natural bristle paint brushes trended downward during 1982-84. During the period examined, production of such brushes totaled 27 million units in 1982 and then declined by 4 percent in 1983 and by 6 percent in 1984. Production fell by 9 percent during January-September 1985 when compared with production during January-September 1984. U.S. capacity to produce natural bristle paint brushes increased by 5 percent during 1982-84. Contrary to the trend discussed for all paint brushes, utilization of bristle brush capacity declined steadily during the period examined. From 45.1 percent in 1982, capacity utilization fell to 42.7 percent in 1983 and to 38.9 percent in 1984. During January-September 1985 capacity utilization fell to 34.9 percent.

U.S. producers' domestic shipments

U.S. producers' domestic shipments of all paint brushes are presented in table 4. U.S. producers' shipments increased from 90 million brushes in 1982 to 94 million brushes in 1983, or by 5 percent. Such shipments fell to 93 million brushes in 1984, representing a decrease of 2 percent from the level reported in 1983. During January-September 1985, paint brush shipments increased 9 percent compared with those during January-September 1984.

Table 4.--Paint brushes: U.S. producers' 1/ domestic shipments, 2/ 1982-84, January-September 1984, and January-September 1985

| Item | 1982 | 1983 | 1984 | Jan.-Sept.-- | |
|--------------------------------|---------|---------|---------|--------------|--------|
| | | | | 1984 | 1985 |
| Paint brushes: | | | | | |
| Quantity-----1,000 units-- | 90,086 | 94,340 | 92,809 | 74,124 | 80,567 |
| Value-----1,000 dollars-- | 100,607 | 106,744 | 113,531 | 90,404 | 95,746 |
| Unit value-----per brush-- | \$1.12 | \$1.13 | \$1.22 | \$1.22 | \$1.19 |
| Natural bristle paint brushes: | | | | | |
| Quantity-----1,000 units-- | 26,639 | 25,777 | 23,478 | 19,003 | 17,945 |
| Value-----1,000 dollars-- | 30,218 | 31,339 | 32,692 | 26,715 | 25,788 |
| Unit value-----per brush-- | \$1.13 | \$1.22 | \$1.39 | \$1.41 | \$1.44 |

1/ Understated to the extent that all U.S. producers did not respond to the Commission's questionnaire.

2/ Does not include intracompany and intercompany transfers.

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

U.S. producers' shipments of natural bristle paint brushes decreased by 3 percent from 1982 to 1983 and by 9 percent the following year. U.S. producers' shipments of natural bristle paint brushes continued to decline during January-September 1985 when compared to those in January-September 1984. The sharp rise in unit values for bristle brushes, especially in 1984, reflected a shift in the product mix toward the production and sale of better quality brushes by U.S. producers. As the data show, sales of natural bristle paint brushes are declining as a share of U.S. producers' total paint brush sales.

U.S. producers' exports

U.S. producers' exports of paint brushes declined during 1982-84, from 475,000 brushes in 1982, to 392,000 brushes in 1984 (table 5). Paint brush exports increased by 9 percent during January-September 1985 compared with those in January-September 1984. Exports accounted for less than 1 percent of U.S. producers' total shipments throughout the period examined.

Principal export markets for U.S.-produced paint brushes include Canada, Australia, Mexico, and Japan.

U.S. producers' exports of natural bristle brushes decreased irregularly during 1982-84. Such exports decreased from 189,000 brushes in 1982 to 149,000 brushes in 1983, and then increased to 151,000 brushes in 1984.

Table 5.--Paint brushes: U.S. producers' export shipments, 1/ 1982-84,
January-September 1984, and January-September 1985

| Item | 1982 | 1983 | 1984 | Jan.-Sept.-- | |
|--------------------------------|--------|--------|--------|--------------|--------|
| | | | | 1984 | 1985 |
| Paint brushes: | | | | | |
| Quantity-----1,000 units--: | 475 | 418 | 392 | 293 | 320 |
| Value-----1,000 dollars--: | 717 | 871 | 1,042 | 810 | 917 |
| Unit value-----per brush--: | \$1.51 | \$2.08 | \$2.66 | \$2.76 | \$2.87 |
| Natural bristle paint brushes: | | | | | |
| Quantity-----1,000 units--: | 189 | 149 | 151 | 120 | 133 |
| Value-----1,000 dollars--: | 307 | 315 | 423 | 322 | 369 |
| Unit value-----per brush--: | \$1.62 | \$2.11 | \$2.80 | \$2.68 | \$2.77 |

1/ Understated to the extent that all U.S. producers did not respond to the Commission's questionnaire.

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

U.S. producers' inventories

U.S. producers generally maintain large inventories of paint brushes so that unscheduled demand can be met quickly. 1/ U.S. producers' end-of-period inventories are shown in the following tabulation.

| | <u>Inventories</u> (1,000 units) | <u>Ratio of inventories</u> <u>to total shipments</u> <u>1/</u> (percent) |
|--------------------------------|-------------------------------------|---|
| Paint brushes: | | |
| As of Dec. 31-- | | |
| 1981----- | 23,518 | <u>2/</u> |
| 1982----- | 19,784 | 20.4 |
| 1983----- | 15,906 | 15.7 |
| 1984----- | 17,233 | 17.2 |
| As of Sept. 30-- | | |
| 1984----- | 13,127 | <u>3/</u> 13.2 |
| 1985----- | 13,048 | <u>3/</u> 12.1 |
| Natural bristle paint brushes: | | |
| As of Dec. 31-- | | |
| 1981----- | 6,056 | <u>2/</u> |
| 1982----- | 4,785 | 17.1 |
| 1983----- | 4,340 | 15.8 |
| 1984----- | 4,213 | 16.7 |
| As of Sept. 30-- | | |
| 1984----- | 3,651 | <u>3/</u> 14.3 |
| 1985----- | 3,361 | <u>3/</u> 14.0 |

1/ Includes U.S. producers' intracompany, domestic, and export shipments.

2/ Not available

3/ Based on annualized total shipments.

U.S. employment, wages, and productivity 2/

Data on U.S. employment in establishments producing paint brushes, as reported in responses to the Commission's questionnaires, are provided in table 6. The ratio of production and related workers to total employees fluctuated between 77 and 79 percent during 1982-September 1985. Production and related employees producing paint brushes accounted for 70-73 percent of total production and related workers in those establishments during that same period.

1/ * * *.

2/ Much of the data presented for natural bristle brushes in this section represent estimates by U.S. producers. These producers did not maintain separate records on labor used to produce paint brushes by type.

Table 6.--Average number of employees, total and production and related workers, in U.S. establishments producing paint brushes, and hours worked ^{1/} by the latter, 1982-84, January-September 1984, and January-September 1985

| Item | 1982 | 1983 | 1984 | January-September | |
|--|-------|-------|-------|-------------------|-------|
| | | | | 1984 | 1985 |
| Average employment: | | | | | |
| All employees: | | | | | |
| Number----- | 2,095 | 2,140 | 2,076 | 2,070 | 2,057 |
| Percentage change----- | 2/ | 2.1 | -3.0 | 2/ | -0.6 |
| Production and related workers producing-- | | | | | |
| All products: | | | | | |
| Number----- | 1,605 | 1,680 | 1,616 | 1,597 | 1,594 |
| Percentage change----- | 2/ | 4.7 | -3.8 | 2/ | -0.2 |
| Paint brushes: | | | | | |
| Number----- | 1,122 | 1,187 | 1,186 | 1,162 | 1,168 |
| Percentage change----- | 2/ | 5.8 | -0.1 | 2/ | 0.5 |
| Natural bristle paint brushes: | | | | | |
| Number----- | 364 | 375 | 357 | 355 | 329 |
| Percentage change----- | 2/ | 3.0 | -4.8 | 2/ | -7.3 |
| Hours worked by production and related workers producing-- | | | | | |
| Paint brushes: | | | | | |
| Number-----thousands-- | 2,158 | 2,331 | 2,398 | 1,840 | 1,687 |
| Average weekly hours per production worker---- | 37 | 38 | 39 | 41 | 37 |
| Natural bristle paint brushes: | | | | | |
| Number-----thousands-- | 795 | 821 | 762 | 596 | 535 |
| Average weekly hours per production worker---- | 42 | 42 | 41 | 43 | 42 |

^{1/} Includes hours worked plus hours of paid leave time.

^{2/} Not available.

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

The average number of production and related workers producing paint brushes increased by 6 percent from 1982 to 1983, then declined slightly in 1984. The average number of production and related workers producing natural bristle paint brushes increased by 3 percent from 1982 to 1983, and then declined by 5 percent in 1984, and by 7 percent during January-September 1985.

Labor productivity, hourly compensation, and unit labor costs associated with the production of all paint brushes and separately for natural bristle paint brushes are presented in table 7. Labor productivity with respect to

Table 7.--Labor productivity, hourly compensation, and unit labor costs in the production of paint brushes, 1982-84, January-September 1984, and January-September 1985 ^{1/}

| | 1982 | 1983 | 1984 | January-September-- | |
|--|--------|--------|--------|---------------------|--------|
| | | | | 1984 | 1985 |
| Labor productivity: | | | | | |
| For paint brushes | | | | | |
| units per hour-- | 41.90 | 40.13 | 39.85 | 41.13 | 44.45 |
| For natural bristle paint brushes: | | | | | |
| units per hour-- | 34.00 | 31.64 | 32.06 | 32.19 | 32.13 |
| Hourly compensation: ^{2/} | | | | | |
| For paint brushes | | | | | |
| per hour-- | \$7.00 | \$6.75 | \$6.95 | \$6.77 | \$7.26 |
| For natural bristle paint brushes-----per hour-- | \$6.49 | \$6.56 | \$6.78 | \$6.60 | \$6.95 |
| Unit labor costs: | | | | | |
| For paint brushes | | | | | |
| per unit-- | \$0.21 | \$0.21 | \$0.22 | \$0.21 | \$0.20 |
| For natural bristle paint brushes-----per unit-- | \$0.24 | \$0.26 | \$0.26 | \$0.26 | \$0.27 |

^{1/} These measures were calculated from questionnaire responses adjusted to exclude those firms that did not report data for every factor required for the computation.

^{2/} Based on wages paid excluding fringe benefits.

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

bristle brushes was consistently lower than that for all paint brushes. Several firms that reported a larger proportion of their paint brush production as bristle brushes also tended to concentrate in the better quality bristle brushes, which required more hands-on labor. In addition, larger production runs for the synthetic brushes enabled several firms to achieve greater efficiencies in their use of labor and equipment.

About half of the reported production workers are covered by collective bargaining agreements. Several different unions represented these workers. Average hourly wage rates paid by firms employing nonunionized production workers were generally higher than those paid by firms employing their unionized counterparts.

Chip brushes

In response to questions raised during the course of the preliminary investigation, producers and importers were asked to provide separate trade data for chip brushes. 1/ * * * of the * * * producers and * * * of the * * * importers that responded to the Commission's questionnaires were able to supply such data. A summary of their responses is presented in tables 8 and 9.

Table 8.--Chip brushes: Selected trade data, 1982-84, January-September 1984, and January-September 1985

| Item | 1982 | 1983 | 1984 | January-September-- | |
|---------------------------------------|--------|--------|--------|---------------------|--------|
| | | | | 1984 | 1985 |
| Production-----1,000 units--: | 10,549 | 11,052 | 9,663 | 7,604 | 5,810 |
| Domestic shipments <u>1/</u> --do---- | 11,442 | 11,920 | 10,499 | 8,102 | 6,989 |
| Imports-----do-----: | 9,224 | 17,301 | 28,683 | 23,416 | 17,598 |
| Apparent consumption--do---- | 20,666 | 29,221 | 39,182 | 33,915 | 24,587 |

1/ Includes intracompany and intercompany transfers.

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

Responding firms' imports of chip brushes from China increased sharply during 1982-84, but declined as a share of their total reported imports from China of natural bristle paint brushes. 2/

Table 9.--Chip brushes: Imports from China, 1982-84, January-September 1984, and January-September 1985

| | 1982 | 1983 | 1984 | January-September | |
|------------------------------|-------|--------|--------|-------------------|--------|
| | | | | 1984 | 1985 |
| Imports from China of: | | | | | |
| Chip brushes--1,000 units--: | 8,263 | 16,217 | 26,211 | 21,259 | 15,050 |
| Total paint brushes--do---- | 9,597 | 18,969 | 31,646 | 25,657 | 17,917 |
| Ratio of chip brushes to | | | | | |
| total paint brushes | | | | | |
| percent--: | 86.1 | 85.5 | 82.8 | 82.9 | 84.0 |

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

1/ A chip brush was described in the questionnaires as a narrow and thin, inexpensive brush with an applicator made entirely of natural bristle.

2/ Paint brush imports from China, as reported in the Commission's questionnaires, accounted for 83 percent of such imports as reported by the U.S. Department of Commerce in 1984.

There were no reported imports from China of synthetic or mixed fiber paint brushes by responding firms.

Financial experience of U.S. producers

* * * U.S. firms returned producers' questionnaires. * * * firms, which accounted for approximately 87 percent of reported domestic shipments of all paint brushes in 1984, furnished usable income-and-loss data on both their overall establishment operations and on their operations producing all paint brushes. * * * firms, which accounted for about 64 percent of reported domestic shipments of natural bristle paint brushes in 1984, provided income-and-loss data on their operations producing such brushes. * * * firms, which accounted for 89 percent of reported domestic shipments of chip brushes in 1984, furnished income-and-loss data on their operations producing chip brushes. The majority of the data provided on operations producing natural bristle and chip brushes is of limited value because of the methods used to allocate or estimate expenses.

The machinery, equipment, and labor force used in the production of natural bristle and chip brushes are also used in manufacturing other kinds of paint brushes. Most producers do not keep separate income-and-loss data on natural bristle and chip brush operations. The methods used for allocating expenses varied widely among producers and included allocations based on sales or cost of goods sold as well as estimates of all costs.

Overall establishment operations.---Aggregate income-and-loss data are presented in table 10. Net sales increased from \$157.8 million in 1982 to \$171.5 million in 1983, or by 8.7 percent, then increased 8.4 percent to \$185.9 million in 1984. During the interim periods ended September 30, aggregate sales for * * * producers grew from \$88.7 million in 1984 to \$90.6 million in 1985, a gain of 2.2 percent.

The gross profit margin was rather consistent, varying only slightly from 35.2 percent in 1982 to 36.9 percent in 1984. Gross profit declined from \$32.7 million in interim 1984 to \$32.6 million in interim 1985; the gross profit margins were 37.6 percent in interim 1984 and 36.0 percent in interim 1985.

Operating income increased steadily from \$15.6 million in 1982 to \$16.9 million in 1983 and \$20.7 million in 1984. The operating income margins were 9.9 percent, 9.8 percent, and 11.1 percent in 1982-84, respectively. Operating income dropped slightly from \$9.3 million in interim 1984 to \$9.2 million in interim 1985. The operating income margins in the interim periods were 10.5 percent and 10.2 percent in 1984 and 1985, respectively. * * * of the * * * producers reported operating losses in 1982, * * * of the * * * incurred an operating loss in 1983 and 1984, and * * * had an operating loss in both interim periods in 1984 and 1985.

All paint brushes.---* * *. Aggregate net sales increased from \$107.9 million in 1983 to \$115.1 million in 1984, or by 6.6 percent (table 11). Aggregate sales for * * * producers increased from \$61.1 million in interim 1984 to \$62.4 million in interim 1985.

Table 10.--Income-and-loss experience of U.S. producers 1/ on the overall operations of their establishments within which paint brushes are produced, accounting years 1982-84, and interim periods ended September 30, 1984, and September 30, 1985

| Item | 1982 <u>2/</u> | 1983 | 1984 | Interim period ended Sept. 30-- | |
|---|----------------|------------|----------|------------------------------------|------------------|
| | | | | 1984 <u>3/4/</u> | 1985 <u>3/4/</u> |
| Net sales-----1,000 dollars-- | 157,841 | 171,547 | 185,908 | 88,694 | 90,612 |
| Cost of goods sold-----do----- | 102,285 | 5/ 111,000 | 117,345 | 55,967 | 57,971 |
| Gross profit-----do----- | 55,556 | 60,547 | 68,563 | 32,727 | 32,641 |
| General, selling, and admini- strative expenses-----do----- | 39,999 | 43,686 | 47,859 | 23,414 | 23,399 |
| Operating income-----do----- | 15,557 | 16,861 | 20,704 | 9,313 | 9,242 |
| Interest expense-----do----- | 2,367 | 2,108 | 2,603 | 1,861 | 1,411 |
| All other income or (expense), net-----do----- | 153 | 6/ (127) | 7/ (249) | 221 | 8/ 3,110 |
| Net income before income taxes-----do----- | 13,343 | 14,626 | 17,852 | 7,673 | 10,941 |
| Depreciation and amortization: expense <u>9/</u> --1,000 dollars-- | 2,213 | 2,215 | 2,167 | 1,149 | 1,168 |
| Ratio to net sales: | | | | | |
| Cost of goods sold percent-- | 64.8 | 64.7 | 63.1 | 63.1 | 64.0 |
| Gross profit-----do----- | 35.2 | 35.3 | 36.9 | 36.9 | 36.0 |
| General, selling, and administrative expenses percent-- | 25.3 | 25.5 | 25.7 | 26.4 | 25.8 |
| Operating income-----do----- | 9.9 | 9.8 | 11.1 | 10.5 | 10.2 |
| Net income before income taxes-----percent-- | 8.5 | 8.5 | 9.6 | 8.7 | <u>8/</u> 12.1 |
| Number of firms reporting do----- | *** | *** | *** | *** | *** |
| Number of firms reporting operating losses----- | *** | *** | *** | *** | *** |

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2/ ***.

3/ ***.

4/ ***.

5/ ***.

6/ ***.

7/ ***.

8/ ***.

9/ ***.

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

As in overall establishment operations, the gross profit margin was quite consistent, varying within a narrow range: 38.1 percent and 39.3 percent in 1983-84, respectively, and 37.4 percent in interim 1984 and 36.3 percent in interim 1985.

Operating income fell from \$10.9 million in 1983 to \$10.5 million in 1984, a decrease of 3.6 percent, as general, selling, and administrative expenses increased by 14.7 percent during the same period. Consequently, the operating income margin declined from 10.1 percent in 1983 to 9.2 percent in 1984. During the interim periods, operating income fell slightly from \$5.9 million in 1984 to \$5.7 million in 1985. The operating income margins in interim periods 1984 and 1985 were 9.6 percent and 9.1 percent, respectively. There were no operating losses reported in 1982. * * *

The income-and-loss data of the * * * U.S. producers by individual firm are presented in table 12.

Natural bristle paint brushes.---* * * producers that provided income-and-loss data allocated manufacturing costs on the basis of sales, and * * * 4/ allocated direct labor expense and other factory costs on the basis of cost of goods sold for all paint brushes. * * * other firms 5/ estimated sales and all expenses. These * * * firms accounted for approximately 73 percent of total 1984 sales of natural bristle paint brushes reported by the * * * producers. Therefore, the majority of income-and-loss data on operations producing natural bristle paint brushes is limited in its usefulness as a reasonable measure of profitability. The income-and-loss data for the * * * producers are presented in table 13.

Chip brushes.---* * * producers that furnished income-and-loss data allocated manufacturing costs on the basis of sales and * * * firms 7/ estimated sales and all expenses. These * * * firms accounted for approximately 95 percent of total 1984 sales of chip brushes reported by the * * * producers. Therefore, as in the case of natural bristle brushes, most of the data are limited in their usefulness as a reasonable measure of profitability on operations producing chip brushes. The income-and-loss data for the * * * producers are presented in table 14.

Capital expenditures.---* * * U.S. producers supplied information on their capital expenditures for land, buildings, machinery and equipment used in the production of all paint brushes, * * * firms provided capital expenditure data for the production of natural bristle paint brushes, and * * * firms furnished data on their capital expenditures used in the production of chip brushes. Capital expenditures for the production of all paint brushes decreased from \$807,000 in 1982 to \$698,000 in 1983, then increased to \$973,000 in 1984. Capital expenditures during the January-September periods amounted to \$558,000 in 1984 and * * * in 1985. The latter amount includes almost * * *. Capital expenditures on natural bristle paint brushes increased from \$288,000 in 1982

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- 1/ ***.
 - 2/ ***.
 - 3/ ***.
 - 4/ ***.
 - 5/ ***.
 - 6/ ***.
 - 7/ ***.

Table 11.--Income-and-loss experience of U.S. producers 1/ on their operations producing all paint brushes, accounting years 1982-84, and interim periods ended September 30, 1984, and September 30, 1985

| Item | 1982 <u>2/3/</u> | 1983 <u>2/</u> | 1984 <u>2/</u> | Interim period ended Sept. 30 | |
|--------------------------------------|------------------|----------------|----------------|----------------------------------|------------------|
| | | | | 1984 <u>2/4/</u> | 1985 <u>2/4/</u> |
| Net sales-----1,000 dollars--: | 97,506 | 107,942 | 115,085 | 61,063 | 62,448 |
| Cost of goods sold-----do-----: | 59,565 | 5/ 66,800 | 69,908 | 38,242 | 39,767 |
| Gross profit-----do-----: | 37,941 | 41,142 | 45,177 | 22,821 | 22,681 |
| General, selling, and admini-: | | | | | |
| strative expenses-----do-----: | 27,185 | 30,208 | 34,642 | 16,954 | 17,012 |
| Operating income-----do-----: | 10,756 | 10,934 | 10,535 | 5,867 | 5,669 |
| Interest expense-----do-----: | 1,686 | 1,584 | 1,844 | 1,308 | 1,006 |
| All other income or | | | | | |
| (expense), net-----do-----: | 20 | (32) | (469) | 29 | 27 |
| Net income before income | | | | | |
| taxes-----do-----: | 9,090 | 9,318 | 8,222 | 4,588 | 4,690 |
| Depreciation and amortization: | | | | | |
| expense <u>6/</u> --1,000 dollars--: | 1,158 | 1,293 | 1,278 | 709 | 699 |
| Ratio to net sales: | | | | | |
| Cost of goods sold | | | | | |
| percent--: | 61.1 | 61.9 | 60.7 | 62.6 | 63.7 |
| Gross profit-----do-----: | 38.9 | 38.1 | 39.3 | 37.4 | 36.3 |
| General, selling, and | | | | | |
| administrative expenses | | | | | |
| percent--: | 27.9 | 28.0 | 30.1 | 27.8 | 27.2 |
| Operating income-----do-----: | 11.0 | 10.1 | 9.2 | 9.6 | 9.1 |
| Net income before income | | | | | |
| taxes-----percent--: | 9.3 | 8.6 | 7.1 | 7.5 | 7.5 |
| Number of firms reporting-----: | *** | *** | *** | *** | *** |
| Number of firms reporting | | | | | |
| operating losses-----: | *** | *** | *** | *** | *** |

1/ * * *.

2/ * * *.

3/ * * *.

4/ * * *.

5/ * * *.

6/ * * *.

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

Table 12.--Income-and-loss experience of U.S. producers on their operations producing all paint brushes, by firms, accounting years 1982-84, and interim periods ended September 30, 1984, and September 30, 1985

| Item | 1982 | 1983 | 1984 | Interim period ended Sept. 30-- | |
|-----------------------------|--------|---------|---------|------------------------------------|--------|
| | | | | 1984 | 1985 |
| Net sales: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do---- | 97,506 | 107,942 | 115,085 | 61,063 | 62,448 |
| Gross profit: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do---- | 37,941 | 41,142 | 45,177 | 22,821 | 22,681 |
| Operating income or (loss): | | | | | |
| * * * | * | * | * | * | * |
| Total-----do---- | 10,756 | 10,934 | 10,535 | 5,867 | 5,669 |
| Ratio to net sales: | | | | | |
| Gross profit: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do---- | 38.9 | 38.1 | 39.3 | 37.4 | 36.3 |
| Operating income: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do---- | 11.0 | 10.1 | 9.2 | 9.6 | 9.1 |

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2/ * * *.

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4/ * * *.

5/ * * *.

6/ * * *.

7/ * * *.

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

Table 13.--Income-and-loss experience of U.S. producers on their operations producing natural bristle paint brushes, by firms, accounting years 1982-84, and interim periods ended September 30, 1984, and September 30, 1985

| Item | 1982 | 1983 | 1984 | Interim period ended Sept 30.-- | |
|-----------------------------|--------|--------|--------|------------------------------------|--------|
| | | | | 1984 | 1985 |
| Net sales: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do----- | 19,262 | 21,189 | 22,763 | 13,502 | 12,705 |
| Gross profit: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do----- | 6,540 | 7,343 | 7,951 | 4,580 | 4,443 |
| Operating income or (loss): | | | | | |
| * * * | * | * | * | * | * |
| Total-----do----- | 1,526 | 1,848 | 1,873 | 1,304 | 1,131 |
| Ratio to net sales: | | | | | |
| Gross profit: | | | | | |
| * * * | * | * | * | * | * |
| Total-----do----- | 34.0 | 34.7 | 34.9 | 33.9 | 35.0 |
| Operating income or (loss) | | | | | |
| * * * | * | * | * | * | * |
| Total-----do----- | 7.9 | 8.7 | 8.2 | 9.7 | 8.9 |
| 1/ * * * | | | | | |
| 2/ * * * | | | | | |
| 3/ * * * | | | | | |
| 4/ * * * | | | | | |
| 5/ * * * | | | | | |

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

Table 14.--Income-and-loss experience of U.S. producers on their operations producing chip brushes, accounting years 1982-84, and interim periods ended September 30, 1984, and September 30, 1985

| Item | 1982 | 1983 | 1984 | Interim period ended Sept. 30-- | |
|-----------------------------|-------|-------|-------|------------------------------------|-------|
| | | | | 1984 | 1985 |
| Net sales: | | | | | |
| * * * | | | | | |
| Total-----do---- | 4,011 | 4,152 | 3,675 | 2,081 | 1,649 |
| Gross profit: | | | | | |
| * * * | | | | | |
| Total-----do---- | 943 | 1,063 | 1,006 | 482 | 443 |
| Operating income or (loss): | | | | | |
| * * * | | | | | |
| Total-----do---- | 116 | 217 | 150 | 69 | 108 |
| Ratio to net sales: | | | | | |
| Gross profit: | | | | | |
| * * * | | | | | |
| Total-----do---- | 23.5 | 25.6 | 27.4 | 23.2 | 26.9 |
| Operating income or (loss) | | | | | |
| * * * | | | | | |
| Total-----do---- | 2.9 | 5.2 | 4.1 | 3.3 | 6.5 |

1/ * * *.

2/ * * *.

3/ * * *.

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

to \$406,000 in 1983, then declined to \$341,000 in 1984. Capital expenditures declined from \$135,000 in January-September 1984 to \$89,000 in the corresponding period in 1985. Capital expenditures on chip brushes declined steadily from \$71,000 in 1982 to \$18,000 in 1984, and amounted to \$12,000 in both January-September periods. Capital expenditures on all paint brushes, natural bristle paint brushes, and chip brushes, are shown in the following tabulation:

| | <u>All paint brushes 1/</u> | <u>Natural bristle brushes 2/</u> | <u>Chip brushes 3/</u> |
|------------------------|-----------------------------|-----------------------------------|------------------------|
| 1982----- | \$807,000 | \$288,000 | \$71,000 |
| 1983----- | 698,000 | 406,000 | 22,000 |
| 1984----- | 973,000 | 341,000 | 18,000 |
| January-September 30-- | | | |
| 1984----- | 558,000 | 135,000 | 12,000 |
| 1985----- | *** | 89,000 | 12,000 |

1/ Data are for * * * firms.

2/ Data are for * * * firms.

3/ Data are for * * * firms.

Research and development expenses.---* * * U.S. producers supplied information on their research and development (R&D) expenses for all paint brushes and * * * firms provided R&D data for natural bristle paint brushes. * * * furnished research and development expenses for chip brushes. Several firms indicated that they were not able to differentiate between R&D expenses for natural bristle paint brushes and chip brushes. Research and development expenses are shown in the following tabulation:

| | <u>All paint brushes 1/</u> | <u>Natural bristle paint brushes 2/</u> | <u>Chip brushes 3/</u> |
|---------------------|-----------------------------|---|------------------------|
| 1982----- | \$380,000 | \$59,000 | *** |
| 1983----- | 475,000 | 259,000 | *** |
| 1984----- | 350,000 | 34,000 | *** |
| January-September-- | | | |
| 1984----- | 259,000 | 21,000 | *** |
| 1985----- | 242,000 | 24,000 | *** |

1/ Data are for * * *.

2/ Data are for * * *.

3/ Data are for * * *.

Capital and investment.---U.S. producers provided questionnaire comments as to the actual and potential negative effects of imported natural bristle paint brushes from China on their firm's growth, investment, or ability to raise capital. Their verbatim comments follow:

Petitioners

The Wooster Brush Co. had the following comment:

* * * * *

Joseph Lieberman and Sons, Inc. stated that:

* * * * *

Baltimore Brushes indicated that:

* * * * *

Rubberset Company had the following comment:

* * * * *

Elder & Jenks, Inc. stated:

* * * * *

H&G Industries indicated that:

* * * * *

Respondents

American Brush Company, Inc. stated:

* * * * *

Edy Brush Company indicated:

* * * * *

Linzer Products Corp. indicated the following:

* * * * *

Other producers

Corona Brushes stated:

* * * * *

Spectrum Paint Applicator Corp. stated:

* * * * *

Pasco Industries had the following remarks:

* * * * *

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

Consideration factors

In its examination of the question of the threat of material injury to an industry in the United States, the Commission may take into consideration such factors as the rate of increase in LTFV imports, the rate of increase in U.S. market penetration by such imports, the amount of imports held in inventory in the United States, the capacity of producers in the countries subject to the investigation to generate exports (including the availability of export markets other than the United States), and the price-depressing or-suppressing effect of LTFV imports on domestic prices. A discussion of prices, and the rates of increase in imports of paint brushes and of their U.S. market penetration is presented in the section of the report entitled "Consideration of the Causal Relationship Between Alleged Material Injury or the Threat Thereof and LTFV Imports."

Capacity of foreign producers to generate exports and the availability of export markets other than the United States

There is known to be a fairly large brush industry in China with many of the factories producing paint brushes. Industry sources estimated that nearly every province in China (25 provinces) had at least one paint brush plant and several plants were located in those four provinces that produce bristle. Industry sources also reported that different brush plants in China produce paint brushes for a specific market's design and style preferences. For example, some plants manufacture brushes for export to the United States and Canada, and others produce for export to the Middle East. Plants in China compete internally for export orders and they also compete among themselves for available bristle. Certain brushes require a particular bristle produced in only one of the four bristle-producing provinces; this bristle may not always be available in the quantities desired. ^{1/}

As stated by counsel for the Chinese at the public hearing on December 19, 1985, records on capacity and production are not maintained by the brush industry in China and, therefore, such data could not be provided to the Commission. At the hearing counsel described brush factories in China that produce different types of brushes, such as wire brushes and other daily use brushes. Counsel states that, occasionally, these factories will shift resources from producing one brush product to another. Information collected

^{1/} * * *.

by the Department of Commerce during its verification trip to China confirmed this. Upon visiting two Chinese brush factories, Commerce observed a highly labor-intensive manufacturing process. The workforce and the few machines employed were characterized as mobile and adaptable to manufacturing an array of paint and personal-grooming brushes. Staff concluded that capacity to produce natural bristle paint brushes could expand or contract, within limits, to meet changes in demand. Once ordered by the Government such reallocation of productive resources could be effected with relative ease.

China exports approximately * * * percent of its paint brushes to * * *, * * * percent to * * *, * * * percent to * * *, and the balance to * * *. ^{1/} Recently, China's export markets have been limited somewhat as a consequence of dumping investigations conducted in several countries.

The Antidumping Tribunal in Canada determined, effective June 20, 1984, that dumping into Canada of natural bristle paint brushes is injurious to the production in Canada of the like goods. The weighted-average margin of dumping was 62.7 percent.

Australia also conducted a dumping investigation during 1984 on paint brushes manufactured from boar bristles in China. They concluded that such brushes had been exported to Australia at dumped prices and that evidence existed that these exports caused injury to the Australian industry. Subsequently, an agreement was entered into with the Chinese exporter to limit future shipments.

In response to antidumping investigations filed in the United Kingdom and West Germany during 1983, China agreed to limit its exports of natural bristle paint brushes to the European Community.

U.S. importers' inventories

The Commission requested the major importers of paint brushes from China to provide information concerning their imports and inventories. Their responses with respect to natural bristle paint brushes are reported in the following tabulation:

| | <u>End-of-period inventories (1,000 units)</u> | <u>Ratio of inventories to reported imports (percent)</u> |
|------------------|--|---|
| As of Dec. 31-- | | |
| 1981----- | 1,655 | ^{1/} |
| 1982----- | 2,145 | 22.3 |
| 1983----- | 5,748 | 30.7 |
| 1984----- | 12,286 | 39.2 |
| As of Sept. 30-- | | |
| 1984----- | 12,487 | ^{2/} 39.5 |
| 1985----- | 14,330 | ^{2/} 63.0 |

^{1/} Not available.

^{2/} Ratio of inventories to reported imports annualized.

^{1/} See statement of Zhou Xikang, submitted on Mar. 25, 1985.

* * * accounted for approximately * * * percent of the inventories reported during 1981-83. * * *. During 1984 and 1985, several other firms also reported a buildup in inventories of bristle brushes.

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

U.S. imports

Imports from all sources.--Aggregate imports of paint brushes increased sharply during 1982-84. Total imports increased from 31 million brushes in 1982 to 44 million brushes in 1983, or by 40 percent, and then increased by another 55 percent in 1984 (table 15). Paint brush imports declined by 5 percent during January-September 1985 when compared with the comparable period a year earlier. A twenty-one percent drop in imports from China was partially offset by increased imports from Taiwan (10 percent) and Korea (53 percent).

The largest foreign suppliers of paint brushes to the U.S. market in 1984 were China, Taiwan, Korea, and Hong Kong, as shown in the following tabulation (in percent):

| <u>Country</u> | <u>Share of total imports</u> |
|----------------|-----------------------------------|
| China----- | 56.4 |
| Taiwan----- | 32.2 |
| Korea----- | 7.4 |
| Hong Kong----- | 2.2 |
| Hungary----- | .7 |
| Argentina----- | .3 |
| All other----- | .8 |
| Total----- | 100.0 |

Imports of natural bristle paint brushes are not classified separately from all paint brushes in the official statistics maintained by the U.S. Department of Commerce. Testimony given at the public conference held during the preliminary investigation supported petitioner's contention that all paint brush imports from China and primarily all paint brush imports from Hungary are natural bristle paint brushes. 1/ No information has been presented that would controvert that testimony. In addition, responses from questionnaires sent in connection with this final investigation reported small quantities of natural bristle paint brushes imported from Taiwan, Korea, Brazil, and Jamaica.

For this report, total imports of natural bristle paint brushes are calculated from official statistics on paint brush imports from China and Hungary 2/ plus imports of natural bristle paint brushes from other countries as reported in response to the Commission's questionnaires.

1/ See petition at pp. 15 and 16, and transcript from the public conference at p. 30.

2/ As reported in table 15.

Table 15.--Paint brushes: U.S. imports for consumption, by principal sources, 1982-84, January-September 1984, and January-September 1985

| Source | 1982 | 1983 | 1984 <u>1</u> / | January-September | |
|------------------------|--------|--------|-----------------|-------------------|--------|
| | | | | 1984 <u>1</u> / | 1985 |
| Quantity (1,000 units) | | | | | |
| China----- | 10,098 | 17,557 | 38,153 | 29,891 | 23,607 |
| Taiwan----- | 10,873 | 15,783 | 21,793 | 17,332 | 19,057 |
| Korea----- | 7,741 | 6,714 | 4,987 | 3,482 | 5,338 |
| Hong Kong----- | 1,146 | 1,216 | 1,459 | 718 | 978 |
| Canada----- | 17 | 14 | 8 | 7 | 20 |
| Hungary----- | 653 | 1,368 | 460 | 460 | 0 |
| Argentina----- | 125 | 418 | 205 | 25 | 248 |
| West Germany----- | 70 | 115 | 119 | 65 | 65 |
| Japan----- | 14 | 162 | 106 | 1 | 106 |
| All other----- | 304 | 186 | 336 | 260 | 270 |
| Total----- | 31,041 | 43,532 | 67,624 | 52,240 | 49,689 |
| Value (1,000 dollars) | | | | | |
| China----- | 2,277 | 3,958 | 6,537 | 4,807 | 5,973 |
| Taiwan----- | 1,618 | 2,390 | 3,529 | 2,591 | 3,223 |
| Korea----- | 1,355 | 1,245 | 859 | 711 | 1,326 |
| Hong Kong----- | 66 | 133 | 554 | 272 | 108 |
| Canada----- | 19 | 11 | 13 | 12 | 24 |
| Hungary----- | 517 | 1,362 | 485 | 485 | 0 |
| Argentina----- | 40 | 195 | 68 | 9 | 129 |
| West Germany----- | 30 | 73 | 33 | 19 | 19 |
| Japan----- | 8 | 22 | 78 | 3 | 25 |
| All other----- | 279 | 225 | 275 | 217 | 197 |
| Total----- | 6,208 | 9,613 | 12,430 | 9,125 | 11,024 |
| Unit value | | | | | |
| China----- | \$0.23 | \$0.23 | \$0.17 | \$0.16 | \$0.25 |
| Taiwan----- | .15 | .15 | .16 | .15 | .17 |
| Korea----- | .18 | .19 | .17 | .20 | .25 |
| Hong Kong----- | .06 | .11 | .38 | .38 | .11 |
| Canada----- | 1.09 | .77 | 1.62 | 1.71 | 1.22 |
| Hungary----- | .79 | 1.00 | 1.05 | 1.05 | - |
| Argentina----- | .32 | .47 | .33 | .35 | .52 |
| West Germany----- | .43 | .63 | .28 | .29 | .29 |
| Japan----- | .59 | .13 | .74 | 5.45 | .24 |
| All other----- | .92 | 1.21 | .82 | .83 | .73 |
| Average----- | .20 | .22 | .18 | .17 | .22 |

^{1/} Imports have been adjusted to reflect an additional 463,182 brushes (valued at \$43,726) that were manufactured in China but erroneously recorded as having been of Canadian origin.

Source: Compiled from official statistics of the U.S. Department of Commerce. These imports are classified in item 750.65 of the TSUS.

Imports of natural bristle paint brushes during 1982-September 1985 from China and from all sources are presented in table 16. Imports reported from sources other than China and Hungary are primarily from Taiwan. Taiwan has long been an exporter of bristle brushes to the United States. These brushes from Taiwan are mostly chip brushes that are reportedly less expensive than those imported from China.

Imports from China.--As previously stated, all paint brushes imported from China are made with natural bristle. These imports from China increased from 10 million brushes in 1982 to 18 million brushes in 1983 and then more than doubled to 38 million brushes the following year. During January-September 1985, paint brush imports from China declined by 21 percent compared to the year-earlier period.

Monthly imports of natural bristle paint brushes from China during 1984-November 1985 are shown in the following tabulation (in thousands of units):

| <u>Period</u> | <u>Bristle brushes</u> |
|--------------------------|------------------------|
| 1984: | |
| January----- | 2,690 |
| February----- | 2,849 |
| March----- | 2,262 |
| April----- | 1,884 |
| May----- | 2,428 |
| June----- | 1,855 |
| July----- | 10,713 |
| August----- | 2,334 |
| September----- | 2,876 |
| October----- | 3,726 |
| November----- | 2,906 |
| December----- | 1,630 |
| 1985: | |
| January----- | 2,075 |
| February <u>1</u> /----- | 3,683 |
| March----- | 4,569 |
| April----- | 4,599 |
| May----- | 2,343 |
| June <u>2</u> /----- | 1,664 |
| July----- | 3,303 |
| August <u>3</u> /----- | 1,320 |
| September----- | 50 |
| October----- | 85 |
| November----- | 51 |

1/ Petition filed on Feb. 19.

2/ Adjusted to reflect transshipment error.

3/ Preliminary determination by Commerce on Aug. 5.

Table 16.--Natural bristle paint brushes: U.S. imports for consumption, by principal sources, 1982-84, January-September 1984, and January-September 1985

| Source | 1982 | 1983 | 1/ 1984 | January-September-- | |
|----------------------|------------------------|--------|---------|---------------------|--------|
| | | | | 1/ 1984 | 1985 |
| | Quantity (1,000 units) | | | | |
| China----- | 10,098 | 17,557 | 38,153 | 29,891 | 23,607 |
| Hungary----- | 653 | 1,368 | 460 | 460 | 0 |
| Other countries----- | 961 | 1,084 | 2,608 | 2,229 | 2,629 |
| Total----- | 11,712 | 20,009 | 41,221 | 32,580 | 26,236 |
| | Value (1,000 dollars) | | | | |
| China----- | 2,277 | 3,958 | 6,537 | 4,807 | 5,973 |
| Hungary----- | 517 | 1,362 | 485 | 485 | 0 |
| Other countries----- | 166 | 185 | 423 | 293 | 459 |
| Total----- | 2,960 | 5,505 | 7,445 | 5,585 | 6,432 |

1/ Imports have been adjusted to reflect an additional 463,182 brushes (valued at \$43,726) that were manufactured in China but erroneously recorded as having been of Canadian origin.

Source: Imports from China and Hungary compiled from official statistics of the U.S. Department of Commerce; imports from other sources compiled from questionnaires of the U.S. International Trade Commission.

Information concerning the distribution of imports of Chinese paint brushes by customs districts during 1984, as compiled from official statistics of the U.S. Department of Commerce, is presented in the following tabulation (in percent):

| <u>Customs district</u> | <u>Share of total imports from China</u> |
|-------------------------|--|
| New York, NY----- | 40.2 |
| Philadelphia, PA----- | 25.2 |
| Los Angeles, CA----- | 25.2 |
| Boston, MA----- | 2.3 |
| Charleston, SC----- | 1.6 |
| Buffalo, NY----- | 1.5 |
| Seattle, WA----- | 1.1 |
| Baltimore, MD----- | 1.0 |
| All other----- | 1.9 |
| Total----- | 100.0 |

U.S. producers imported increasing quantities of natural bristle paint brushes from China during 1982-84. Those imports are presented in the following tabulation:

| | 1982 | 1983 | 1984 | January-September-- | |
|---|-------|-------|--------|---------------------|-------|
| | | | | 1984 | 1985 |
| Quantity---1,000 units--- | 2,755 | 6,098 | 10,066 | 8,108 | 5,973 |
| Value----1,000 dollars--- | 979 | 1,455 | 2,642 | 2,120 | 1,996 |
| Share of total brush imports from China | | | | | |
| percent--- | 27.3 | 34.7 | 26.4 | 27.1 | 25.3 |
| Number of producers reporting such imports----- | *** | *** | *** | *** | *** |

In addition, U.S. producers purchased significant quantities of Chinese brushes from importers. * * * producers reported such purchases during the period investigated. * * * of these advised that these purchases were made in order to remain competitive.

U.S. market penetration

Total imports of paint brushes accounted for an increasing share of the U.S. market during the period examined. In 1982, imports supplied 24.3 percent of apparent U.S. paint brush consumption; their share rose to 30.1 percent in 1983 and to 40.4 percent in 1984 (table 17). Imports' share of the paint brush market dropped to 36.6 percent during January-September 1985.

Imports of natural bristle paint brushes accounted for 29.7 percent of U.S. consumption of such brushes in 1982, 42.2 percent in 1983, and 62.1 percent in 1984. Imports' share of the bristle brush market fell to 57.9 percent during January-September 1985.

Natural bristle brush imports from China supplied 7.9 percent of apparent U.S. consumption of all paint brushes in 1982, 12.1 percent in 1983, and 22.8 percent in 1984. As a share of apparent U.S. consumption of bristle brushes, such brushes from China accounted for 25.6 percent in 1982, 37.0 percent in 1983, and 57.5 percent in 1984. China's share of this market fell to 52.1 percent during January-September 1985.

Prices

Sales practices.--Industry sources described the market for paint brushes as highly competitive, with price being an important factor in purchasers'

Table 17.--Paint brushes: Ratios of imports from China and all countries to apparent U.S. consumption, 1982-84, January-September 1984, and January-September 1985

| (In percent) | | | | | |
|---------------------------------|------|------|------|-------------------|------|
| Item | 1982 | 1983 | 1984 | January-September | |
| | | | | 1984 | 1985 |
| Ratios of imports from | | | | | |
| China to apparent U.S. | | | | | |
| consumption of-- | | | | | |
| Paint brushes----- | 7.9 | 12.1 | 22.8 | 22.7 | 17.4 |
| Natural bristle paint brushes-- | 25.6 | 37.0 | 57.5 | 56.5 | 52.1 |
| Ratios of imports from | | | | | |
| all countries to apparent | | | | | |
| U.S. consumption of-- | | | | | |
| Paint brushes----- | 24.3 | 30.1 | 40.4 | 39.7 | 36.6 |
| Natural bristle paint brushes-- | 29.7 | 42.2 | 62.1 | 61.6 | 57.9 |

Source: Tables 2, 15, and 16.

decisions to buy one brand over another. Most domestic producers and importers of paint brushes issue annual price lists. Discounts off the list prices for large orders are allowed, with the amount of the discount frequently depending on competitive situations rather than on standard formulas. Shipping costs are absorbed by the supplier based on a minimum dollar value of purchases. This minimum order differs from supplier to supplier but is usually between \$250 and \$500. Because this minimum order can include several items, shipping costs are absorbed on the majority of sales and quoted prices are therefore "delivered." Paint brush producers and importers typically market their products all over the United States, and "delivered" prices reportedly do not vary by region. A number of nonprice factors affecting sales were identified, such as product quality, reliability of vendor, and packaging and sales techniques.

Domestic producers and importers sell their products primarily to two types of buyers: wholesaler/distributors and retailers. Data received by the Commission show that individual sales to retailers were often substantially smaller than sales to wholesaler/distributors. Consequently, producers' and importers' prices to retailers were generally higher, reflecting the smaller sizes of sales to some retailers and the general policy of lower prices granted for large orders. However, some suppliers indicated that they target the mass retailer market, and individual purchases by these customers were often as large as wholesalers' purchases. Thus, these suppliers reported prices identical or similar to the two customer types. Importers, unlike producers, also sell large volumes to domestic paint brush manufacturers. ^{1/}

^{1/} Producers also sell to other U.S. producers, but not on a regular basis. Importers' prices to U.S. manufacturers were substantially lower than importers' prices to wholesaler/distributors.

Prices of paint brushes vary with the width, length, and thickness of the bristles. Wider, longer, and thicker bristles are of higher quality and, therefore, command higher prices. The four general quality categories are identified as utility, good, better, and best. Utility brushes are also known in the trade as "chip" or "throw away" brushes and are most commonly used in industrial applications. Chip brushes represented the bulk of U.S. imports of brushes from China during the period January 1982 through September 1985.

The Commission requested 30 domestic producers and 20 importers of paint brushes to provide quarterly data during 1983-85 on their net selling prices for their largest quarterly sales by volume of four of the most common sizes of paint brushes for sales to wholesaler/distributors and to retailers. * * * domestic paint brush producers and * * * importers of paint brushes from China provided usable price data, although not necessarily for each product or period as requested. Four of the importers reporting price data are also U.S. producers of paint brushes. Some of the importers reported prices only for sales to paint brush manufacturers because they do not sell to wholesaler/distributors or retailers. ^{1/} Domestic producers provided price data on a delivered basis for both their U.S.-manufactured and imported products. Other importers provided price data on an f.o.b. basis (either f.o.b. importers' warehouse or landed but not duty paid), but generally could estimate the shipping costs to their customers. In order to enhance the comparability of price data received, the Commission staff adjusted some importers' prices to a delivered basis using the freight cost data provided by other importers. Because delivered prices are uniform within the continental United States and transportation costs represent a small proportion of the final price, delivered prices on sales to different locations can be compared with minimal price distortions. Producers' and importers' prices and margins of underselling are shown in tables 18-21 for the four products for which data were requested:

Product 1: Utility/chip brush, made with natural bristle, with a bristle dimension of 1-inch width x 5/16-inch thickness x 1-1/2 - 1-3/4-inch length.

Product 2: Utility/chip brush, made with natural bristle, with a bristle dimension of 2-inch width x 5/16-inch thickness x 1-1/2 - 1-3/4-inch length.

Product 3: Paint brush, good quality, made with natural bristle, with a bristle dimension of 2-inch width x 9/16-inch thickness x 2-1/4 - 2-1/2-inch length.

Product 4: Paint brush, good quality, made with natural bristle, with a bristle dimension of 4-inch width x 11/16-inch thickness x 2-1/4 - 2-3/4-inch length.

Price trends.--From January-March 1983 to July-September 1985, individual domestic producers' delivered prices for the above-named products generally either increased irregularly or remained steady at both the wholesale and retail levels. Domestic producers' weighted-average prices on both types of sales generally reached their highest levels for the period under

^{1/} Commission staff verified that other respondents' reported sales to wholesaler/distributors were not actually sales to U.S. brush manufacturers.

investigation during one or more of the quarters in 1985. 1/ In the last one or two quarters, however, producers' prices for 2-inch and 4-inch paint brushes sold to wholesaler/distributors and to retailers declined from their 1985 peaks, as have prices for 2-inch chip brushes sold to retailers.

From January-March 1983 to July-September 1985, U.S. producers' prices on sales to wholesaler/distributors generally increased, by 17.1 to 19.0 percent. Prices of the U.S.-produced 1-inch chip brush increased from \$.23 to \$.27 per brush, or by 17.4 percent. Wholesale prices of the U.S.-produced 2-inch chip brush fluctuated upward from \$.35 to \$.41 per brush, or by 17.1 percent. From January-March 1983 to July-September 1985, producers' prices of the good quality 2-inch paint brush generally fluctuated between \$1.52 and \$1.64 per brush and were at their highest levels during 1985. During July-September 1985, the price of this product was \$1.63 per brush or 19.0 percent higher than its January-March 1983 level of \$1.37 per brush, which was uncharacteristically low compared with price levels in other quarters of 1983. Producers' weighted-average price series for good quality 4-inch paint brushes sold to wholesaler/distributors shows a decline of 17.7 percent, from \$2.49 per brush in January-March 1983 to \$2.05 per brush in July-September 1985. The apparent decline in prices of this product is a statistical aberration caused by sporadic reporting * * *, and the majority of other producers, increased for this product during this period. 2/

On sales to retailers, although individual domestic producers generally either experienced prices increasing or remaining steady for all four products during the period under investigation, producers' weighted-average price series for the chip brushes show price declines of * * * percent for the 1-inch chip brush and * * * percent for the 2-inch chip brush. Domestic producers' prices for the chip brushes appear to decline because a * * * domestic producer of * * * reported significant sales (by volume) of these chip brushes only for the first four or five quarters. 3/ Weighted-average utility brush prices of the remaining producers (* * * by 3.3 percent for the 1-inch chip brush and by 2.3 percent for the 2-inch chip brush. Prices of the U.S.-produced 2-inch chip brush initially rose to * * * per brush during early 1985 from * * * per brush during 1984 but ended the period at * * * per brush.

Prices for the U.S.-produced 2-inch paint brushes sold to retailers fluctuated upward from * * * per brush in January-March 1983 to * * * per brush in July-September 1985 or by * * * percent. Retail prices for the U.S.-produced 4-inch paint brushes increased by * * * percent from * * * per brush in January-March 1983 to * * * per brush in July-September 1985.

1/ Domestic producers' prices of utility brushes sold to retailers are the exception to this price pattern due to statistical aberrations which are discussed below.

2/ The wide range of prices for brushes within each category suggests that factors beyond those specified in the Commission's product descriptions also affect quality and price. Among these are handle material (wood or plastic), finish (bare wood or varnished wood), etc. The factors may not always affect the performance of the brush in use, however. These differences in specifications do not appear to affect significantly either general price trends or the patterns of underselling by the subject imports from China.

3/ * * *.

Table 18.--Paint brushes: Domestic producers' weighted-average delivered prices on sales to wholesaler/distributors and on sales to retailers, by products and by quarters, January 1983-September 1985

| Product and period | Sales to wholesaler/distributors | | Sales to retailers | |
|-----------------------|-------------------------------------|--------------|--------------------|--------------|
| | Price | Quantity | Price | Quantity |
| | <u>Per unit</u> | <u>Units</u> | <u>Per unit</u> | <u>Units</u> |
| <u>Product 1: 1/</u> | | | | |
| 1983: | | | | |
| January-March----- | \$.23 | 9,342 | *** | *** |
| April-June----- | .22 | 11,852 | *** | *** |
| July-September----- | .22 | 14,268 | *** | *** |
| October-December----- | .23 | 8,314 | *** | *** |
| 1984: | | | | |
| January-March----- | .24 | 11,870 | *** | *** |
| April-June----- | .25 | 22,570 | *** | *** |
| July-September----- | .24 | 10,456 | *** | *** |
| October-December----- | .25 | 18,662 | *** | *** |
| 1985: | | | | |
| January-March----- | .27 | 18,612 | *** | *** |
| April-June----- | .26 | 18,936 | *** | *** |
| July-September----- | .27 | 11,474 | *** | *** |
| <u>Product 2: 2/</u> | | | | |
| 1983: | | | | |
| January-March----- | \$.35 | 10,885 | *** | *** |
| April-June----- | .37 | 12,641 | *** | *** |
| July-September----- | .35 | 12,384 | *** | *** |
| October-December----- | .34 | 13,528 | *** | *** |
| 1984: | | | | |
| January-March----- | .34 | 13,526 | *** | *** |
| April-June----- | .35 | 11,556 | *** | *** |
| July-September----- | .36 | 36,590 | *** | *** |
| October-December----- | .37 | 14,092 | *** | *** |
| 1985: | | | | |
| January-March----- | .36 | 15,984 | *** | *** |
| April-June----- | .39 | 23,220 | *** | *** |
| July-September----- | .41 | 21,252 | *** | *** |

See footnotes at the end of the table.

Table 18.--Paint brushes: Domestic producers' weighted-average delivered prices on sales to wholesaler/distributors and on sales to retailers, by products and by quarters, January 1983-September 1985--Continued

| Product and period | Sales to wholesaler/distributors | | Sales to retailers | |
|-----------------------|-------------------------------------|----------|--------------------|----------|
| | Price | Quantity | Price | Quantity |
| | Per unit | Units | Per unit | Units |
| Product 3: 3/ | | | | |
| 1983: | | | | |
| January-March----- | \$1.37 | 2,477 | *** | *** |
| April-June----- | 1.63 | 911 | *** | *** |
| July-September----- | 1.52 | 928 | *** | *** |
| October-December----- | 1.56 | 559 | *** | *** |
| 1984: | | | | |
| January-March----- | 1.55 | 1,264 | *** | *** |
| April-June----- | 1.58 | 1,331 | *** | *** |
| July-September----- | 1.55 | 1,237 | *** | *** |
| October-December----- | 1.39 | 1,100 | *** | *** |
| 1985: | | | | |
| January-March----- | 1.64 | 1,212 | *** | *** |
| April-June----- | 1.55 | 1,296 | *** | *** |
| July-September----- | 1.63 | 1,272 | *** | *** |
| Product 4: 4/ | | | | |
| 1983: | | | | |
| January-March----- | \$2.49 | 570 | *** | *** |
| April-June----- | 1.81 | 1,779 | *** | *** |
| July-September----- | 2.47 | 628 | *** | *** |
| October-December----- | 1.88 | 1,446 | *** | *** |
| 1984: | | | | |
| January-March----- | 1.99 | 2,546 | *** | *** |
| April-June----- | 2.49 | 818 | *** | *** |
| July-September----- | 2.52 | 827 | *** | *** |
| October-December----- | 2.51 | 686 | *** | *** |
| 1985: | | | | |
| January-March----- | 2.56 | 1,220 | *** | *** |
| April-June----- | 2.06 | 1,768 | *** | *** |
| July-September----- | 2.05 | 1,684 | *** | *** |

1/ Product 1: Utility/chip brush, made with natural bristle, with a bristle dimension of 1" width x 5/16" thickness x 1-1/2 - 1-3/4" length.

2/ Product 2: Utility/chip brush, made with natural bristle, with a bristle dimension of 2" width x 5/16" thickness x 1-1/2 - 1-3/4" length.

3/ Product 3: Paint brush, good quality, made with natural bristle, with a bristle dimension of 2" width x 9/16" thickness x 2-1/4 - 2-1/2" length.

4/ Product 4: Paint brush, good quality, made with natural bristle, with a bristle dimension of 4" width x 11/16" thickness x 2-1/4 - 2-3/4" length.

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

Table 19.--Paint brushes: Importers' weighted-average delivered prices on sales to wholesaler/distributors, retailers, and U.S. paint brush producers, by products and by quarters, January 1983-September 1985

* * * * *

Price trends for natural bristle paint brushes imported from China are not consistent in direction, timing, or degree. Importers' weighted-average delivered prices on sales to wholesaler/distributors fluctuated upward from January-March 1983 to July-September 1985 by * * * percent for the 1-inch chip brush and by * * * percent for the 2-inch chip brush. Importers' prices for the 2-inch paint brush sold to wholesaler/distributors fluctuated considerably but fell by * * * percent overall. * * *.

From January-March 1983 to July-September 1985, importers' prices to retailers for chip brushes fell, with price declines of * * * percent for the 1-inch chip brush and * * * percent for the 2-inch chip brush. Prices for the imported 2-inch paint brushes rose at the retail level during January-March 1983 to July-September 1985, however, by * * * percent. * * * 1/

Importers' prices for sales to manufacturers generally rose during the period under investigation with increases ranging from * * * for the 2-inch paint brushes to * * * percent for the 4-inch paint brushes. Prices for the 1-inch utility brush fell, however, by * * * percent from January-March 1983 to July-September 1985.

Price comparisons.--The questionnaire data resulted in 44 quarterly delivered price comparisons between domestically produced natural bristle paint brushes and the subject products imported from China on sales to wholesaler/distributors, and 44 comparisons on sales to retailers. Of the comparisons involving sales to wholesaler/distributors, 38 showed underselling by the imported brushes, and 43 of the 44 comparisons involving sales to retailers showed underselling.

Comparisons at the wholesale level.--Margins of underselling on sales to wholesaler/distributors for all product specifications averaged 12.5 percent of domestic producers' prices. Margins of underselling on sales to wholesaler/distributors were the highest for the 1-inch chip brush imported from China, which undersold domestic brushes in every instance, with margins ranging from 8.6 to 34.9 percent. From January-March 1983 to July-September

1/ Average importer prices to retailers are frequently below those to wholesaler/distributors. This may be the result of sales to mass retailer chains that buy in sufficient volume as to warrant large price discounts.

1985, average margins for this brush were \$.04 per brush or 17.5 percent of domestic producers' prices. In 10 out of 11 price comparisons, the 2-inch chip brushes imported from China were lower-priced than U.S.-produced brushes by margins ranging from 0.8 to 18.7 percent. Margins of underselling for the 2-inch chip brush averaged \$.04 per brush or 9.8 percent of domestic producers' prices. The good quality 2-inch paint brush undersold domestically-produced brushes in every instance by margins ranging from 0.1 to 39.9 percent of domestic producers' prices. Underselling for the good quality 2-inch paint brush averaged \$.23 per brush, or 15.1 percent below domestic producers' prices. Price comparisons on sales of the good quality 4-inch paint brush to wholesaler/distributors showed underselling by the imported product in only 6 out of 11 quarters and margins were generally small in these quarters. Underselling for this paint brush ranged from 4.4 to 6.7 percent and averaged \$.13 per brush or 5.3 percent below domestic producers' prices. Five instances of substantial overselling by importers of Chinese 4-inch paint brushes occurred throughout the period of investigation, with the price of the imported brushes being an average of \$.41, or 21.3 percent higher than prices of the domestically produced brushes. 1/

Comparisons at the retail level.--Margins of underselling by the Chinese brushes on sales to retailers were generally larger than on sales to wholesaler/distributors and averaged 28.0 percent for all four product specifications (compared with 12.5 percent for sales to wholesaler/distributors). The fact that underselling was higher to retailers partially reflects greater U.S. producer price differentials between weighted-average prices to the wholesale and retail levels for domestically produced brushes than that of importers. All of the 22 price comparisons for the Chinese 1-inch and 2-inch chip brushes showed underselling by the imported products that ranged from 29.3 to 59.6 percent for the 1-inch chip brush and from 13.3 to 48.1 percent for the 2-inch chip brush. Margins of underselling on sales to retailers were the highest for the imported 1-inch chip brushes which undersold domestic brushes by an average of \$.16 per brush or 43.1 percent of domestic producers' prices. Average underselling for the 2-inch chip brushes was \$.17 per brush or 32.0 percent below domestic producers' prices. Importers' prices on sales to retailers of the good quality 2-inch paint brush were also lower in every quarter, with margins typically falling in the 25-35 percent range. Margins for this paint brush averaged \$.49 per brush or 31.6 percent below domestic producers' prices. In 10 out of 11 quarters, 4-inch paint brushes sold by importers were slightly lower priced than those produced domestically by .7 to 6.6 percent, with margins of underselling averaging \$.07 or 2.8 percent.

Purchasers' prices.--The Commission requested over 40 purchasers of natural bristle paint brushes to report, for their largest purchase each quarter from January-March 1983 to July-September 1985, the f.o.b and delivered purchase prices and quantities purchased of the four selected paint brush products produced in the United States and in China. Nine purchasers provided some price data, although some provided price data for a few periods only. Others, with respect to a particular brush specification, either purchased a domestic brush or an imported brush, but did not purchase them both simultaneously. Thus, the lack of complete purchasers' price data prevents a thorough analysis of price trends and price comparisons. Because price data provided by U.S. producers and importers of Chinese brushes have

Table 20. Paint brushes: Average margins of underselling (overselling) between the domestic product and imports from China on sales to wholesaler/distributors, by products and by quarters, January 1983-September 1985

* * * * *

Table 21. Paint brushes: Average margins of underselling (overselling) between the domestic product and imports from China on sales to retailers, by products and by quarters, January 1983-September 1985

* * * * *

already been analyzed on a delivered-price basis, this report will briefly summarize the results of purchasers' price data and then discuss qualitative information reported by these purchasers.

Data provided by * * * purchasers can be used for direct delivered price comparisons. A purchaser in * * * reported that * * * it purchased * * * domestically produced * * * chip brushes for * * * per brush and also bought * * * of the subject brushes produced in China for * * * per brush. The imported brushes undersold the domestic brushes by \$.13 per brush or 52 percent of the domestic producers' price. The most recent direct price comparison, provided by a * * * in * * *, indicates that during * * * this company purchased * * * U.S.-produced * * * paint brushes for * * * per brush and * * * of these brushes produced in China for * * * per brush. In this instance, the Chinese brushes were \$.49 lower priced, or 34 percent below domestic producers' prices. The purchaser had been buying fairly large quantities regularly from both sources for some time. When asked by Commission staff why the company would choose to continue purchasing the higher priced, domestic brushes, a spokesman replied that the U.S. producer was willing to * * *, which service was unavailable with the imported brush. Other indirect price comparisons involving purchases in different time periods or from different purchasers generally support the pattern of underselling by importers of brushes from China described in the Price Comparisons section.

Purchasing decisions.--Purchasers were asked to rate several factors pertinent to their purchase decisions for paint brushes on a scale of 1 to 5, "1" being the least important and "5" being most important. The relevant factors and their average ratings by 15 purchasers of domestic brushes and 6 purchasers of Chinese brushes are presented in the following tabulation: 1/

| <u>Factor</u> | <u>United States</u> | <u>China</u> |
|---|----------------------|--------------|
| Price----- | 4.1 | 5.0 |
| Quality of product----- | 4.9 | 4.5 |
| Quality of service----- | 3.8 | 3.5 |
| Reliability of vendor----- | 4.5 | 4.2 |
| Proximity of vendor----- | 2.6 | 1.8 |
| Availability of product----- | 4.1 | 4.7 |
| Special arrangement with vendor----- | 3.0 | 2.2 |

Clearly, when purchasing either domestic or Chinese paint brushes, several factors play a role in the decision to purchase brushes from one source over another. For purchasers of U.S.-produced brushes, quality of product is the most important determinant, followed by reliability of vendor. Less important than these factors is the price of the product, which tied availability for the third most relevant factor. While purchasers of Chinese brushes reportedly base their decisions on similar factors, they rank these factors differently than do purchasers of U.S.-produced brushes. For purchasers of Chinese brushes the price of the product is the primary sourcing determinant, followed by availability of product. Quality of product was considered the third major determinant in sourcing decisions for Chinese paint brushes (compared with the most important factor for purchases of domestic brushes).

Transportation costs.--During the period under investigation, domestic producers shipped paint brushes primarily on common carriers. Transportation costs, as previously stated, are typically absorbed by the suppliers and represent a small percentage of the final delivered price. Thus, while they might affect suppliers' "netback," they would not be an important factor affecting price competitiveness. Average shipping costs for sales of the domestically produced products ranged from * * * percent of the delivered price. Average shipping costs as a percentage of the delivered price for the subject imported products were only slightly higher and ranged from * * * percent. The majority of responding purchasers stated that transportation costs were not an important factor in their decision to buy from one seller over another. Asked whether transportation costs gave importers of paint brushes from China a relative freight cost advantage over domestic producers, all responding purchasers replied in the negative.

Exchange rates.--The nominal value of the Chinese yuan depreciated steadily relative to the U.S. dollar, by approximately 33 percent during the period January 1983-September 1985, as shown in the following tabulation (January-March 1983=100):

1/ No other factors were suggested by respondents in the space provided as relevant to purchasing decisions.

| | |
|-----------------------|--------|
| 1983: | |
| January-March----- | 100.00 |
| April-June----- | 98.26 |
| July-September----- | 98.46 |
| October-December----- | 98.67 |
| 1984: | |
| January-March----- | 95.11 |
| April-June----- | 90.36 |
| July-September----- | 81.47 |
| October-December----- | 73.17 |
| 1985: | |
| January-March----- | 69.09 |
| April-June----- | 68.51 |
| July-September----- | 67.04 |

Real exchange rates of the Chinese yuan relative to the U.S. dollar 1/ were not calculated because China does not publish the price indexes that are necessary for such calculations. 2/

Lost sales and lost revenues

Domestic producers were asked to furnish the Commission with information concerning sales of natural bristle paint brushes lost to imports from China, as well as revenue lost by reducing prices or rolling back price increases in an attempt to meet price competition from the subject imports. During the preliminary and final investigations, domestic producers provided * * * allegations of lost sales that from 1983-85 involved over * * * and * * * allegations of lost revenues that involved approximately * * * in sales revenue lost during the same period. Some of these allegations were nonspecific ones in which producers cited customers to whom they had experienced a reduction in sales of natural bristle paint brushes and which they believed were now being supplied by imports from China. Three domestic producers, * * *, stated that they had not lost sales or revenues due to imports from China. * * *, another U.S. producer, supplied the following statement regarding lost sales and revenues:

* * * * *

During the final investigation, the Commission's staff was able to contact seven purchasers named in lost-sales allegations and five cited in lost-revenue allegations. A summary of their responses appears below, followed by responses from seven purchasers contacted during the preliminary investigation.

1/ Real exchange rates are nominal rates adjusted for relative levels of inflation in the subject countries.

2/ Such price indexes, if they were available, reflect Government-controlled prices in China, and would be inappropriate for this purpose.

Lost sales.--* * * alleged that, during * * *, * * *, reduced its purchases of * * * from * * * by over * * * valued at * * * in favor of Chinese brushes. * * *, confirmed this allegation and stated that, while the imported brushes were 42 to 58 percent less expensive than * * * U.S.-produced brushes, quality was the major consideration behind this purchasing decision. This buyer mentioned that while brush consumers care about price, their perceptions of quality are more firm than their perceptions of a proper price level. Regarding the chip brushes, * * * complained that * * *. Further, * * * spokesman complained that * * * had started to make a "sloppy brush," perhaps in an attempt to maintain its profit margins. With respect to paint brushes, this spokesman believes that U.S. producers in general made a tactical error by rapidly reducing the use of natural bristle in favor of polyester (around 1980), based on the misperception that the dominance of latex paints would quickly reduce the consumers' preference for natural bristle brushes. This policy created a "demand vacuum" for natural bristle that substantially contributed to the success of the imported Chinese brushes in the U.S. market. As of November 1985, * * * purchases the majority of its imported brushes from * * *, and purchases domestic brushes from * * *.

* * * named * * *, as an alleged purchaser of Chinese-produced brushes in * * *. Although * * * could not recall the instance, the spokesman's comments and his questionnaire responses indicate that he has not purchased U.S.-produced chip brushes in several years. Prior to the entrance of the Chinese into the U.S. market, the majority of his chip-brush purchases were produced in Taiwan. Starting in * * *, all of the company's chip-brush purchases were produced in China. Price is reportedly the major determinant in * * * purchasing decisions. * * * were mentioned as * * * suppliers of U.S.-produced brushes. With respect to purchases of other than chip brushes, in 1982, 78 percent of the company's total natural bristle paint brush purchases were U.S.-produced, 19 percent were Chinese-produced, and 3 percent were produced in other countries. In 1984, 60 percent of * * * purchases of natural bristle brushes were U.S.-produced, 28 percent were Chinese-produced and 12 percent were produced in other countries.

* * *, an * * *, in a lost sales allegation occurring in * * *. * * * for the firm could not recall the particular instance, but stated that lower prices or requests for wooden handles are reasons he has purchased the Chinese-produced brushes. * * * mentioned that he once lost a blanket order to supply the * * * because he was not offering chip brushes with wooden handles. This firm purchases its domestic brushes from * * * and its imported brushes from * * *. According to its purchaser questionnaire response, * * * did not purchase any chip brushes from * * * during * * * (the period of the allegation) and did purchase * * * of these brushes for * * * per brush from an importer of Chinese brushes during that quarter. * * * reported a purchase from * * * during * * * of * * * chip brushes for * * * per brush, but since that period has not purchased any of the four selected products from * * *.

* * * named * * *, in a * * * lost sales allegation occurring in * * *. * * *, a spokesman for * * * could not recall the instance. This purchaser has been buying Chinese-produced brushes for about * * * years, with many purchases of the Chinese brushes being supplied by U.S. brush producers. Price was the primary consideration for buying the Chinese brushes, although they were reportedly also of good quality. The purchaser denied that * * * has reduced purchases of U.S.-produced brushes substantially over the last few

years, stating that approximately 95 percent of the company's current brush purchases are produced domestically from such companies as * * *.

* * * alleged that in * * *, they lost sales of chip brushes to * * *, because the company decided to purchase Chinese chip brushes. * * *. According to * * *, chip brushes accounted for a substantial portion of * * * sales to * * *. In * * *, * * * allegedly bought * * * chip brushes from * * * at a sales value of * * *. Near the end of * * *, * * * reportedly advised * * * that they had concluded negotiations to purchase imported chip brushes at lower prices and that * * * were made to allow * * *. * * * began purchasing Chinese-produced brushes approximately * * * years ago primarily due to their high quality but also because they were priced right. According to the spokesman, the Chinese bristle on the imports is generally superior to the Chinese bristle used by U.S. producers in their U.S.-manufactured brushes. When asked about the price differential between U.S.-produced and Chinese-produced chip brushes, he said that the imported brushes were about 40 to 50 percent lower-priced and that this differential may have increased in recent years because the prices of domestically produced brushes have increased somewhat. Currently, the majority of * * * chip brush purchases are Chinese, although domestic-chip brushes are used occasionally as a second source of supply. * * * purchases of top quality brushes are still sourced domestically, from companies such as * * *.

* * * named * * * in a lost sales allegation involving chip brushes. * * *. * * *, spokesman for the company, stated that he has not purchased U.S.-manufactured chip brushes in several years because they are priced too high compared with imported brushes. Before Chinese brushes were available, the company purchased brushes from Taiwan and Korea. The company continues to purchase both Taiwan-produced and Chinese-produced chip brushes. Price is the most important determinant in * * * purchasing decisions. This spokesman reports that industrial distributors such as * * * will not get contracts to supply * * * if they are quoting domestically produced brushes. The company purchases domestically produced brushes from * * *, and Chinese brushes from * * *. Current purchase prices, reported by * * *, for various size chip brushes produced by * * * and chip brushes imported from China are shown in the tabulation below:

| <u>Size (inches)</u> | <u>U.S.-produced</u> | <u>Imported</u> |
|----------------------|----------------------|-----------------|
| 1/2 | *** | *** |
| 1 | *** | *** |
| 1-1/2 | *** | *** |
| 2 | *** | *** |
| 2-1/2 | *** | *** |
| 3 | *** | *** |

* * *, like many purchasers, continues to buy domestic brushes to fulfill its needs for larger or better brushes. For instance, the purchaser still buys a * * * U.S.-produced brush from * * *. This spokesman does not understand why domestic producers have singled out the Chinese imports since they are simply the latest entrants to the U.S. market.

* * * supplied * * * lost sales allegation on * * *, involving * * * by * * * to * * * to solicit the purchaser's business * * *, which did not result in a sale to * * *. * * * spokesman said that * * * was believed to * * * purchasing Chinese brushes around that time. Commission staff contacted * * * for the company, who could not recall such an instance. This spokesman stated that, to the best of his knowledge, the bulk of their purchases as far back as he can recall were produced domestically by * * *. * * * a year * * * purchases some Chinese brushes to be sold as a promotional item that is both less expensive and of lower quality than brushes from * * *. * * * did not believe that these occasional purchases would have substantially affected its sales volume of purchases from * * *. Further, this purchasing agent denied that * * * had ever reduced its prices to * * *. This spokesman commented that, regarding packaging or other services, * * * is willing to provide what * * * needs to sell * * * brushes.

Lost revenues.---* * *, was cited in a lost revenue allegation by * * *. In * * *, * * * reportedly had to reduce its prices by * * * percent to make a sale to * * * of * * * (various brushes) in order to meet competitors' prices of Chinese paint brushes. * * *, a spokesman for * * *, denied the allegation. He stated that * * * has never bought Chinese brushes but has purchased some white bristle chip brushes produced in Taiwan. * * * used to have * * * suppliers, * * * (a domestic producer). In * * *, he agreed to make * * * his only supplier so that he would have a total program to sell to hardware stores. When asked, * * * answered that the brushes he now purchases from * * * are domestically produced. No price reduction accompanied their agreement, although the company's spokesman believes he is getting very competitive prices from * * *. According to this spokesman, importers of brushes from China market their products on price alone and usually do not even warehouse the product. * * * does not purchase brushes imported from China because it requires buying container lots and waiting one month or more for an order.

* * * cited * * *, in a lost revenue allegation involving * * * natural bristle brushes sold during an unspecified period. * * *, confirmed that * * *, the firm's major brush supplier, had reduced its prices to * * * on several brushes about one and one half years ago due to * * * complaints of price competition from Chinese brushes. * * * recalled that, at that time, the buyers for several new hardware accounts specifically requested to buy less expensive imports. In * * *, * * * also directly imported natural bristle brushes from China. * * * spokesman had noticed that * * * imported Chinese brushes were high-quality and low-priced. * * * received price quotes from * * * on imported * * * good quality brushes for volume purchases * * *. These brushes were offered for * * * per brush in * * * and for * * * per brush in * * *. Declining * * * offers, * * * instead directly imported * * * Chinese brushes during * * * for approximately * * * per brush and offered them * * * to its customers. The directly imported brushes were not as good as the brushes imported by * * *, and the lead time for this purchase was approximately * * * months. During the same quarter that he directly imported Chinese brushes, he purchased * * * of the * * * good brushes produced domestically from * * * for * * * per brush. Following this one-time purchase, * * * will await the outcome of this investigation before importing any more Chinese brushes. Currently, * * * purchases domestic brushes from * * * exclusively for its distribution program, but also purchases some Chinese brushes from * * * that are "drop shipped" directly from * * * to * * * customers.

*** was cited by *** in an allegation of revenue lost in order to meet price competition from natural bristle brushes imported from China. *** stated that *** is *** major supplier and that *** has never directly imported Chinese brushes. He stated that he had purchased some Chinese chip brushes from *** in *** 1983 at low prices. *** did not even offer that particular brush at that time. In ***, *** offered to supply *** with chip brushes imported from China and meet *** price. *** now buys this imported brush from *** rather than from ***.

*** alleged that ***, had asked for and received price reductions in response to price competition from chip brushes imported from China. ***, confirmed that *** had reduced its prices to them about 3 years ago to about manufacturing costs in response to *** complaints about lower priced imports, but he explained that imports from several countries, rather than from China alone, were creating this downward pressure on prices. This *** has never directly or indirectly purchased brushes from China, but has been directly importing chip brushes from Taiwan since ***. The company returned a purchaser's questionnaire that indicated that *** sales prices to *** of its U.S.-produced chip brushes rose for the *** chip brush from *** per brush in *** to *** per brush in *** but remained steady at *** per brush for the *** chip brushes during this period. When asked how *** was able to increase its prices to ***, *** explained that *** could no longer afford to sell the *** chip brush at cost.

*** named ***, in a lost revenue allegation involving sales of chip brushes during ***. ***, *** confirmed this allegation. *** had been buying *** U.S.-produced brushes for several years. The purchaser notified *** that it could not continue to sell *** brushes and compete with suppliers of Chinese imports. *** responded by introducing a less expensive, lower quality chip brush line which it is now selling to *** for *** percent less than their original chip brushes. The purchaser's spokesman is not sure whether these brushes from *** are imported from China or actually manufactured by ***. *** questionnaire response suggests that they were selling Chinese brushes imported by *** to ***. *** stated that these brushes are of lower quality than *** original chip brushes because the ***.

*** was also cited by *** in a lost revenue allegation involving chip brushes sold during an unspecified period. *** for this company, stated that *** purchases most of its brushes from ***. The company has reportedly been purchasing Chinese brushes from importers for at least 5 years because they are priced at least *** percent below domestic brushes and has reduced its purchases of low-end domestic brushes for this reason. Asked whether any domestic producer had lowered its prices to his company in response to price competition from Chinese imports, he replied negatively. According to this spokesman he had asked for price reductions on U.S.-produced brushes, but domestic producers told him to "take it or leave it."

Purchasers contacted during the preliminary investigation.--The first allegation investigated during the preliminary investigation named *** as having purchased approximately *** worth of Chinese bristle brushes during 1981-84. When contacted, a representative for *** stated that his company began buying chip brushes imported from China from two U.S. producers in 1982. Prior to that the firm purchased chip brushes from *** (the U.S.

producer making this allegation). Price considerations were given as the factors leading to the dropping of * * * as a supplier of chip brushes. He estimated that * * * lost approximately * * * worth of * * * business over the past 3 years.

* * * was named by * * * as a customer where sales were lost to Chinese chip brushes during 1982-84. According to * * *, his firm supplies all types of brushes to industrial end users. * * * stated that he purchases both U.S.-made and China-made chip brushes and that the Chinese brushes are about half the cost of the U.S.-manufactured brushes. His high volume customers, * * *, will purchase the imported brush because the savings are significant. Smaller customers will request U.S.-made brushes as a matter of principle and because the dollars saved by buying imported brushes are not that significant.

Another allegation investigated named * * *, as the alleged purchaser of Chinese natural bristle paint brushes valued at * * *. * * *, for this firm, stated that * * * does in fact import chip brushes directly from China. According to * * *, his firm had previously bought Chinese-produced chip brushes from * * * (the U.S. producer supplying this lost sale allegation) until they found that they could import directly at a considerable savings. He could not estimate the difference in price or the value of his imports from China.

* * *, * * * was cited as a lost sale by * * *. * * * at this firm, purchases natural bristle paint brushes from several U.S. producers. One of these producers, * * *, supplies his firm with chip brushes imported from China. * * * stated that * * * buys these imported brushes from this producer not because they are less expensive than those he could get from other producers, such as * * *, but rather to add items to his purchases from * * * so as to reach the minimum quantities needed to receive prepaid delivery shipments.

* * *, * * *, was named by * * *. as a lost sale. * * *, stated that he purchases natural bristle paint brushes made in China from * * *. He described these brushes as low quality paint brushes. According to * * *, no other domestic producer has offered to sell him comparable U.S.-made brushes.

* * * was cited by * * * as a customer where sales have been lost to imports from China. * * * responded that the only China-made bristle brushes bought by his firm are chip brushes bought from * * *. * * * purchases its full line of paint brushes from * * *. * * * feels * * * was forced to import this inexpensive brush in order to compete with other paint brush suppliers who were already importing from China.

* * *, located in * * *, was also named by * * * as a lost sale. * * *, was contacted but he did not know the origin of the paint brushes carried in his store.

APPENDIX A

**NOTICE OF THE COMMISSION'S INSTITUTION OF A
FINAL ANTIDUMPING INVESTIGATION**

[Investigation No. 731-TA-244 (Final)]

Natural Bristle Paint Brushes From the People's Republic of China

AGENCY: United States International Trade Commission.

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

SUMMARY: The Commission hereby gives notice of the institution of final antidumping investigation No. 731-TA-244 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(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 from The People's Republic of China of natural bristle paint brushes, except artists' brushes, with or without handles, provided for in item 750.65 of the Tariff Schedules of the United States, which have been found by the Department of Commerce, in a preliminary determination, to be sold in the United States at less than fair value (LTFV). In response to a request from counsel for the respondents, Commerce has extended the date for its final LTFV determination in this investigation to December 13, 1985. As provided in section 735(b)(2)(B) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)(2)(B)), the Commission must make its final injury determination in antidumping investigations within 45 days of Commerce's final determination, or in this case by January 27, 1986.

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

EFFECTIVE DATE: August 5, 1985.

FOR FURTHER INFORMATION CONTACT: Lawrence Rausch (202-523-0300), Office of Investigations, U.S. International Trade Commission, 701 E Street NW., Washington, DC 20438. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-724-0002.

SUPPLEMENTARY INFORMATION:

Background

This investigation is being instituted as a result of an affirmative preliminary determination by the Department of

Commerce that imports of natural bristle paint brushes and brush heads from the People's Republic of China are being sold in the United States at less than fair value within the meaning of section 731 of the act (19 U.S.C. 1673). The investigation was requested in a petition filed on February 19, 1985 by the United States Paint Brush Manufacturers and Suppliers Ad Hoc Import Action Coalition, Washington, DC.

In response to that petition the Commission conducted a preliminary antidumping investigation and, on the basis of information developed during the course of that investigation, determined that there was a reasonable indication that an industry in the United States was materially injured by reason of imports of this subject merchandise (50 FR 15238, April 16, 1985).

Participation in the investigation

Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's rules (19 CFR 201.11), not later than twenty-one (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 will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Service list

Pursuant to § 201.11(d) of the Commission's rules (19 CFR § 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) and 207.3 of the rules (19 CFR 201.16(c) and 207.3), each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the service list), and certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Staff report

A public version of the prehearing staff report in this investigation will be placed in the public record on December 6, 1985, pursuant to § 207.21 of the Commission's rules (19 CFR 207.21).

Hearing

The Commission will hold a hearing in connection with this investigation beginning at 10:00 a.m. on December 19, 1985 at the U.S. International Trade

Commission Building, 701 E Street NW., Washington, DC. 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 December 12, 1985. 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 9:30 a.m. on December 13, 1985 in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is December 16, 1985.

Testimony at the public hearing is governed by § 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. Any written materials submitted at the hearing must be filed in accordance with the procedures described below and any confidential materials must be submitted at least three (3) working days prior to the hearing (see § 201.6(b)(2) of the Commission's rules (19 CFR 201.6(b)(2))).

Written submissions

All legal arguments, economic analysis, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 of the Commission's rules (19 CFR 207.22). Posthearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24) and must be submitted not later than the close of business on December 27, 1985. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before December 27, 1985.

A signed original and fourteen (14) 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 must 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 § 201.8 of the Commission's rules (19 CFR 201.8).

Authority: This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.20 of the Commission's rules (19 CFR 207.20).

Issued: August 29, 1985.

By order of the Commission.

Kenneth E. Mason,

Secretary.

[FR Doc. 85-21195 Filed 9-4-85; 8:45 am]

SELLING CODE 7030-03-0

APPENDIX B

**NOTICE OF THE DEPARTMENT OF COMMERCE'S
FINAL DETERMINATIONS**

[41-570-501]

Natural Bristle Paint Brushes and Brush Heads from the People's Republic of China; Final Determination of Sales at Less than Fair Value

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that natural bristle paint brushes and brush heads from the People's Republic of China (PRC) are being, or are likely to be, sold in the United States at less than fair value, and that "critical circumstances" exist with respect to imports of the merchandise under investigation. We have notified the U.S. International Trade Commission (ITC) of our determination and the ITC will determine within 45 days of publication of this notice, whether a U.S. industry is materially injured, or threatened with material injury, by reason of imports of this merchandise. We have directed the U.S. Customs Service to continue to suspend liquidation on all entries of subject merchandise as described in the "Suspension of Liquidation" section of this notice and to require a cash deposit or posting of a bond for each such entry in an amount equal to the dumping margin described in the "Suspension of Liquidation" section of this notice.

EFFECTIVE DATE: December 26, 1985.

FOR FURTHER INFORMATION CONTACT: Paul Tambakis or John Brinkman, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone (202)

SUPPLEMENTARY INFORMATION:
Final Determination

Based upon our investigation, we determine that natural bristle paint brushes and brush heads from the PRC are being, or are likely to be, sold in the United States at less than fair value, pursuant to section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act). We have determined the weighted-average margin of sales at less than fair value to be 127.07 percent. We found that the foreign market value of the subject merchandise exceeded the United States price on virtually all of the sales we compared. These margins ranged from 13 to 335 percent.

Case History

On February 18, 1985, we received a petition from the United States Paint Brush Manufacturers and Suppliers Ad Hoc Import Action Coalition, filed on behalf of the U.S. industry producing natural bristle paint brushes and brush heads. In compliance with the filing requirements of § 353.36 of the Commerce Regulations (19 CFR 353.36), the petitioner alleged that imports of natural bristle paint brushes and brush heads from the PRC are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Act, and that these imports materially injure, or threaten material injury to, a United States industry.

After reviewing the petition, we determined it contained sufficient grounds upon which to initiate an antidumping duty investigation. We notified the ITC of our action and initiated such an investigation on March 11, 1985 (50 FR 10523). On April 5, 1985, the ITC determined that there is a reasonable indication that imports of natural bristle paint brushes and brush heads from the PRC are threatening material injury to a United States industry. On July 2, 1985, petitioner amended its petition to allege that "critical circumstances" exist with respect to imports of this merchandise, as defined in section 733(e) of the Act.

On May 1, 1985, a questionnaire on United States price was presented to counsel for the China National Native Produce and Animal By-Products Import-Export Corporation (Animal By-Products Corporation), the only known exporter of natural bristle paint brushes and brush heads to the United States. On June 7, 1985, the Animal By-Products Corporation requested an extension of the time to respond to the Department's questionnaire. On June 12, 1985, we granted a two-week extension to June

By-Products Corporation requested an additional extension of 7 days to complete the response. This request was denied. We received a partial response from the Animal By-Products Corporation on July 26, 1985, which was not timely and not in proper form for consideration in our preliminary determination. In response to our August 19, 1985, deficiency letter additional responses were received from the Animal By-Products Corporation on August 28, 1985 and October 25, 1985.

On July 29, 1985, we issued our preliminary determination that natural bristle paint brushes and brush heads were being, or were likely to be, sold in the United States at less than fair value. (50 FR 31638). To determine whether sales in the United States were made at less than fair value, we used best information available for calculating United States price. We based foreign market value on a simple average of delivered home market selling prices of the two Sri Lankan respondents for the most common sizes of paint brushes believed to be sold by the PRC to the United States net of discounts. We also preliminarily determined that critical circumstances exist in this case. In our preliminary determination, we stated that we would issue a final determination by October 14, 1985.

On August 14, 1985, the Animal By-Products Corporation requested that we extend the period for the final determination for 60 days, until not later than the 135th day after publication of our preliminary determination, in accordance with section 735(a)(2)(A) of the Act. This request was granted on August 23, 1985, and our final determination was postponed until not later than December 18, 1985 (50 FR 35285).

We conducted verifications in Sri Lanka of the Ravi and Harris responses during the week of August 19, 1985. Verification of the Animal By-Products Corporation's responses took place in the PRC between October 7-12, 1985.

As required by the Act, we afforded interested parties an opportunity to submit oral and written comments, and on November 8, 1985, a public hearing was held to allow parties to address the issues arising in this investigation.

On November 18, 1985, the Animal By-Products Corporation submitted a proposal for suspension of this investigation. The Department was unable to accept this proposed suspension agreement because it was not filed on a timely basis and did not meet the statutory requirements of section 734(e) of the Act.

We have determined that the PRC is a state-controlled-economy country for

the purpose of this investigation. This is further discussed under the "Foreign Market Value" section of this notice.

Scope of Investigation

The products covered by this investigation are natural bristle paint brushes and brush heads as currently provided for in item 750.65 of the *Tariff Schedules of the United States (TSUS)*.

The period of investigation is from September 1984, through February 1985.

Fair Value Comparison

To determine whether sales in the United States of the subject merchandise were made at less than fair value, we compared United States price with the foreign market value based on prices of similar merchandise sold to unrelated purchasers in Sri Lanka and the weighted-average price of imports of similar merchandise into the United States.

United States Price

We used the purchase price of the subject merchandise to represent United States price because the merchandise was sold to unrelated purchasers prior to its importation into the United States. We calculated the purchase price of the subject merchandise, as provided in section 722(b) of the Act, based on the C.I.F., packed prices net of discounts to unrelated purchasers in the United States. We made deductions, where appropriate, for foreign inland freight and insurance, brokerage and handling charges in the PRC, ocean freight and marine insurance. In accordance with the policy set forth in recent final determinations involving state-controlled-economy countries, including *Carbon Steel Wire Rod from Poland*, (49 FR 29434 (1984)), we based foreign inland freight and insurance on charges incurred for similar services in a "non-state-controlled-economy" country. We based those charges denominated in Renminbi Yuan (RMB) on costs for similar services in Sri Lanka.

Foreign Market Value

In accordance with section 773(c) of the Act, we used the home market prices and costs of Sri Lankan paint brush producers and the weighted-average price of brush imports into the United States to determine foreign market value. Petitioner alleged that the PRC is a "state-controlled-economy" country and that sales of the subject merchandise in that country or to third countries do not permit a determination of foreign market value under section 773(a) of the Act. After an analysis of the PRC's economy and consideration of the brief submitted by the parties, we

determined that the PRC is a "state-controlled-economy" country for purposes of this investigation. For a further discussion of this issue, see the Department's response to respondent's comment 2.

As a result, section 773(c) of the Act requires us to use price of sales in the home market or to other countries, or the constructed value, of such or similar merchandise of a "non-state-controlled-economy" country. Section 353.8(a) of our regulations establishes a preference for foreign market value based upon prices at which *similar* merchandise is sold for consumption in the home market of that country, or to other countries, including the United States. Section 353.8(b) further provides that, to the extent possible, we should determine foreign market value on the basis of prices in a "non-state-controlled-economy" country that is at a stage of economic development comparable to the country with the state-controlled economy.

After an analysis of the countries that produce natural bristle paint brushes, we determined that Sri Lanka would be an appropriate surrogate since it is at a level of economic development comparable to the PRC. Accordingly, we mailed questionnaires to the two known Sri Lankan producers of paint brushes, Harris, Ltd. and Ravi Industries, Ltd., and received responses from these two companies on May 28 and July 28, 1985, respectively.

After reviewing the Harris and Ravi responses, we determined that while the Sri Lankan merchandise is similar to a portion of the Chinese merchandise subject to this investigation, it is not similar to a significant percentage of the Chinese brushes exported to the U.S. In particular, it cannot be considered similar to Chinese "chip" brushes. Section 771(18) of the statute defined "such or similar merchandise" as follows, in the order of preference, as: "(A) The merchandise which is the subject of an investigation and other merchandise which is identical in physical characteristics with, and was produced in the same country by the same person as, the merchandise," or "(B) merchandise (i) produced in the same country and by the same person as the merchandise which is the subject of the investigation, (ii) like that merchandise in component material or materials and in the purposes for which used, and (iii) approximately equal in commercial value to that merchandise," or "(C) merchandise (i) produced in the same country and by the same person and of the same general class or kind as the merchandise which is the subject of

the investigation, (ii) like that merchandise in the purposes for which used, and (iii) which the administering authority determines may reasonably be compared with that merchandise."

Based on our analysis of the Sri Lankan and Chinese merchandise, we have determined that, with respect to Chinese chip brushes, the Sri Lankan product cannot be satisfactorily categorized under definitions (A), (B), or (C) above. The black bristle paint brushes produced in Sri Lanka do not satisfy the criteria under (A) because they are not physically identical to the chip brushes. The Chinese chip brushes are made with significantly fewer bristles and cheaper wooden handles. The Sri Lankan brushes also fail to satisfy the criteria under (B) and (C) because they are not like the Chinese merchandise in the purposes for which they are used. While Sri Lankan brushes (like the non-chip Chinese brushes) are used to apply paint, stain and varnish, the Chinese chip brushes are used extensively in the industrial market to remove chips and other scrap generated during machining operations, and to apply lubricants, glue and other adhesives.

Therefore, having determined that the Sri Lankan merchandise is not such or similar to the Chinese chip brushes, for purposes of our fair value comparisons with respect to chip brush sales, we based foreign market value on the weighted-average F.A.S. price of brushes, both chip and non-chip, imported into the United States. We considered this "basket" information, the most specific information on world chip brush prices compiled by the Department, to be the best information available. We were not able to base foreign market value for chip brushes on the sales of a surrogate or upon constructed value, as provided in section 773(c) of the Act, because we first received information from respondent indicating it sold chip brushes in its supplemental response of August 28, 1985.

For purposes of our fair value determination with respect to shipments of brushes other than chip brushes, we based foreign market value on the delivered, packed, home market selling prices of sales by Harris, Ltd. to its unrelated customers in Sri Lanka. For purposes of this determination, we disregarded the selling prices of Ravi Industries, Ltd., pursuant to § 353.22(b) of the regulations (19 CFR 353.22(b)), since all home market sales by this company were made to a related distributor in Sri Lanka. We made deductions for inland freight and

insurance and discounts. We made adjustments for differences in credit terms and advertising expenses in accordance with § 353.15 of the regulations (19 CFR 353.15).

We also made adjustments for known differences in the physical characteristics of the merchandise based on costs of materials and labor in Sri Lanka, in accordance with § 353.16 of the Commerce Regulations. We used PRC inputs furnished by the Wuxi, Shanghai and Lan Xi Brush Factories and the Shanghai Bristle and Brush Factory, since the brush styles included in our final calculations were produced at these locations. With regard to materials, we made adjustments for differences in bristle and ferrule weight, timber usage, epoxy and nails. We disregarded in our adjustments any costs for materials purchased by Harris from related companies because there was no evidence that such purchases were made at arm's length. For these adjustments, we used Ravi's purchases of materials from unrelated sources. Since packing was identical in the two markets, no adjustment was made for this expense.

Petitioner's Comments

Comment 1. Petitioner argues that the Department should make a final affirmative determination that critical circumstances exist. There is a history of dumping as evidenced by a Canadian finding of dumping for natural bristle paint brushes from the PRC in October, 1984. With regard to the second prong of the test, whether there have been massive imports over a relatively short period, petitioner points out that: (1) The import penetration ratios for PRC brushes have increased from 1982 to 1984; (2) imports from the PRC have surged recently; (3) recent imports are significantly above the average calculated over the last three years; (4) there are no seasonal factors.

DOC Response. We agree that critical circumstances exist in this case. See the section of this notice entitled "Affirmative Determination of Critical Circumstances".

Comment 2. Petitioner requests that the Department calculate deductions from United States price in accordance with Departmental practice. Specifically, for ocean freight petitioner cites to the Departmental practice of verifying that rates charged by COSCO, the PRC state-owned carrier, are commensurate with rates charged by "non-state-controlled-economy" carriers and requests that we do the same in this case. Moreover, because brokerage and handling charges are included in COSCO's ocean freight rate, that rate should exceed the "non-

state-controlled-economy" carrier rate and if it doesn't, brokerage and handling charges incurred by Sri Lankan producers on their export shipments should be deducted from United States price. Finally, for inland freight, petitioner requests that we use the cost per mile for inland freight in Sri Lanka.

DOC Response. Only two of the shipments were transported on PRC flag vessels, the remainder being shipped on vessels from "non-state-controlled" countries. The fees paid to COSCO and the China Foreign Vessel Agent Company for shipments on vessels from "non-state-controlled" countries included both port charges and ocean freight rates.

Therefore, since both rates include brokerage and handling, there is no need to calculate these charges based on costs of similar services in Sri Lanka. We verified that the fees charged by COSCO were comparable to those charged by carriers from "non-state-controlled" countries. Inland freight deductions were calculated using the per mile cost of inland freight in Sri Lanka.

Comment 3. Petitioner agrees with the Department's selection of Sri Lanka as the appropriate surrogate and argues that the Sri Lankan producers' home market prices should be preferred to their export prices as the basis for calculating foreign market value. In regard to the two Sri Lankan producers from whom the Department obtained home market prices, Ravi and Harris, of the domestic sales of Ravi were to a related distributor. As a result, petitioner claims that these prices cannot be used because there is no way to demonstrate that they are comparable to those that would be charged to unrelated customers. Therefore, petitioner argues that the prices charged by Ravi's distributor and, preferably, the prices charged by Harris, who sells directly to unrelated purchasers in the home market, should be used as the basis for calculating foreign market value.

DOC Response. We agree that the home market prices for similar merchandise charged by a producer in a market economy at a comparable level of economic development to the state-controlled economy in question are preferred to the export prices of that surrogate producer for purposes of calculating foreign market value. (See *Carbon Steel Plate from Romania; Final Results of Administrative Review of Suspension Agreement*, 49 FR 12282 (1984)). Therefore, we have compared the Sri Lankan home market prices for paint brushes to the prices charged for

PRC paint brushes. Because one of the Sri Lankan producers that responded to our questionnaire made sales directly to related customers (Ravi) and we do not have information necessary to make circumstances-of-sale adjustments to the prices charged by Ravi's distributor, we disregarded this producer's prices to its related distributor. Accordingly, we based foreign market value for paint brushes on home market sales to the unrelated customers of Harris.

As discussed elsewhere in this notice, we have determined that the paint brushes sold in Sri Lanka are not similar to the chip brushes sold by the PRC in the United States. Therefore, we developed an alternative measure for foreign market value for the chip brushes, the weighted-average price of imports to the United States from countries other than the PRC.

Comment 4. Petitioner contends that unless the Department has verified: (1) The existence and percentage rates of quantity discounts claimed by respondent for the PRC's sales in the U.S. and (2) that the discounts are consistently applied and justifiable on the basis of a real cost savings for volume production and/or sale, then no adjustments to foreign market value should be made for quantity discounts.

DOC Response. We verified that discounts were actually given on various PRC sales based on, *inter alia*, the quantity ordered and the length of time that the U.S. purchaser had been a customer. Consistent with our practice, we used the price net of discounts for United States price.

As we did not request information relative to specific sales by Harris in its home market, we did not compare PRC paint brush sales to sales of comparable quantities in Sri Lanka. Instead, we relied upon standard prices listed for the various brush sizes, which we verified were the actual prices charged in the home market. We verified that Harris offered a wholesaler discount and that the discount was given on over 80 percent of Harris' sales during the period for which we gathered information. Therefore, also consistent with our practice, we based foreign market value for paint brushes on prices net of the weighted-average discount given on Harris' home market sales during the period of investigation.

For chip brushes, because we used import statistics, no adjustment was made to foreign market value for quantity discounts.

Comment 5. Petitioner urges the Department to reject respondent's claim for a level-of-trade adjustment because respondent has not demonstrated that

different costs are incurred in selling at the wholesale and retail levels.

DOC Response. We agree. No evidence has been submitted demonstrating that there are differing costs associated with selling paint brushes at different levels of trade in Sri Lanka. See respondent's comment 8 and the Department's response thereto. Also, no level-of-trade adjustment was made for sales of chip brushes.

Comment 6. Petitioner contends that there is no evidence that the Sri Lankan producers incur costs for warranties, guarantees or technical assistance. Therefore, foreign market value should not be adjusted for these circumstances of sale.

DOC Response. We have not made circumstance of sale adjustments for warranties, guarantees or technical assistance because the Sri Lankan producer, whose home market paint brush prices we have used, did not incur these types of expenses. Circumstances of sale adjustments were made to account for direct advertising expenses incurred by Harris and differences in the credit terms offered by the Sri Lankan and PRC producers on paint brush sales.

No circumstances-of-sale adjustments were made for chip brushes because we did not have the necessary information to adjust the prices of imports to the United States from other countries.

Comment 7. Petitioner contends that there is no evidence of significant differences between the grades of bristle used by the PRC producers as opposed to the Sri Lankan producers, nor that the bristle used in Sri Lanka has undergone further processing. Therefore, no adjustments for differences in quality of the bristle should be made to the per unit price of bristle in Sri Lanka. Moreover, specific deductions requested by respondent to account for the fact that Harris purchases its bristle from its U.K. parent should not be allowed because they have not been quantified or verified.

DOC Response. The paint brushes produced by Ravi and Harris have almost identical physical characteristics. For the reasons stated in the "Foreign Market Value" section, we have used the costs of bristle to Ravi, the Sri Lankan producer who purchases bristles directly from unrelated suppliers, to make adjustments for the differing amounts of bristle contained in the Sri Lankan and PRC paint brushes. Therefore, any additional costs that may be built into Harris's bristles do not affect our calculations. For bristles purchased by Ravi, we verified that no further processing is done to the bristles and, thus, no adjustment is warranted in this regard. Also, no adjustment has

been made for differences in the grade of bristle used by Ravi and the PRC producers in their paint brushes because no evidence was submitted to demonstrate that any difference in grades used by Ravi resulted in different costs.

No adjustments were made for any differences in the physical characteristics of chip brushes.

Comment 8. Petitioner argues that no adjustment should be made to the prices of Sri Lankan brushes to account for differences in the physical characteristics of the ferrules used by the PRC producers. In the case of Harris, who purchases ferrules from its U.K. parent, the specific deductions called for by respondent have not been quantified or verified. For Ravi, who purchases nickel-plated ferrules from Italy, neither the cost nor the amount of Italian raw materials or labor inputs associated with nickel-plating is known. In the petitioner's view, even if these were known, comparing Italian costs to the labor-intensive methods of production in the PRC would likely require an upward rather than downward adjustment to foreign market value. Moreover, by respondent's admission, nickel-plating is an inexpensive process and, hence, could be disregarded as an insignificant adjustment. Finally, the Sri Lankan producers' decision to import ferrules and thereby incur additional costs of transportation, freight and insurance reflects responses to economic forces operating in a free market. The PRC producers' decision to produce the ferrules themselves was not a result of such forces. Therefore, the surrogate's choice should be recognized and no adjustments should be made to reflect the potentially higher costs of importing ferrules.

DOC Response. We have used the prices paid by Ravi for its ferrules in examining whether adjustments based upon differences in the types of ferrules used for paint brushes are appropriate. Thus, there was no need to consider the specific adjustments to the prices paid by Harris. The ferrules used by Ravi are nickel-plated whereas some of the PRC brushes have tin-plated ferrules. Ideally, any adjustment for these physical differences in the merchandise would be made by comparing the prices Ravi paid for tin-plated ferrules. However, Ravi did not use the tin-plated ferrules.

We did not seek material or labor input information or costs from the Italian ferrule producers to ascertain or value the differences in physical characteristics between their ferrules and the PRC ferrules. Our reasons for not doing so are twofold. Italy would not

be considered at a comparable level of economic development to the PRC and, hence, a revaluation along the lines offered by petitioner (*i.e.*, one taking into account the labor-intensive production methods in the PRC) would be inappropriate.

Therefore, the adjustment we have made to account for physical differences in the ferrules used by Ravi and the PRC producers for paint brushes reflects only the weight differences in the ferrules. Because the type of plating can affect the weight of the ferrule, this adjustment may account, in part, for different costs of using nickel-plated and tin-plated ferrules.

Comment 2. Petitioner believes that PRC brush producers import timber for manufacture of brush handles. If so, the cost of the handles is easily identified and should exceed the cost of timber to Sri Lankan producers because of the additional charges for transportation.

DOC Response. We verified that the timber used by the PRC brushmakers for the Shanghai and Jiangsu branches is from domestic sources.

Comment 10. Petitioner claims that the Department must use labor hours reported in the PRC response rather than the actual labor hours verified for certain styles of brushes for computing costs related to differences in physical characteristics. The response appears to report total labor hours per brush style. Worksheets from verification, however, report labor input in working days per unit of brushes. These were converted by the Department to a total amount for labor input by multiplying the number of days by the number of hours in an average working day, *i.e.*, eight hours. Because the average working day may exceed eight hours the Department should rely on the standard labor hour total reported in the response.

DOC Response. We disagree. In making adjustments for physical differences in the characteristics of Sri Lankan and PRC paint brushes, we have used the actual, verified labor hours of the Shanghai Branch in our final determination because these numbers were supported by accounting records and daily production reports. The data shown in the accounting records does not represent total labor hours. Rather, these numbers represent total working days per 10,000 units. The Department multiplied the number of days by the verified average number of hours in a workday. We also divided by ten to convert labor hours per 10,000 units to labor hours per 1,000 units.

Respondent's Comments

Comment 1. Respondent urges the Department to find that critical

circumstances are not present in this case. Specifically, imports from the PRC should not be considered massive over a relatively short period because increased imports following the filing of the petition are explained by seasonal factors, and because the increase in imports from the PRC is consistent with import growth from other suppliers. Furthermore, Congress intended the critical circumstances remedy to be used in situations where the domestic industry is badly injured by large volumes or a surge of imports and to deter exporters from shipping large quantities before the preliminary determination and thereby circumvent the law. Respondent claims that neither of these considerations are present in this case because the ITC only reached a preliminary determination of threat of material injury and because significant quantities of the post-petition imports were purchased directly by petitioner's members of through importers who are primarily suppliers to petitioner's members. Finally, the overwhelming majority of post-petition imports were ordered prior to the filing of the petition and could not constitute in any way stockpiling of inventories or an attempt to circumvent the intent of the law.

DOC Response. As explained in the section of this notice entitled "Affirmative Determination of Critical Circumstances", the Department based that determination on its standard analysis of recent import statistics. Based on that analysis, we found that imports increased significantly following the filing of the petition, and that recent imports are significantly above average imports calculated over the last three years. Furthermore, seasonality is not an issue because, by the respondent's own admission, the bulk of the shipments are of chip brushes. Though there were instances of post-petition imports that had been ordered prior to the filing of the petition, three of these orders were quite large and occurred within two weeks of the filing. Thus, there is evidence that stockpiling may have been undertaken in an attempt to circumvent the intent of the law.

Comment 2. Respondent claims that the most appropriate measure of foreign market value for PRC brushes is home market prices in the PRC. In respondent's view, the current economic climate in the PRC generally and the business practices of the Animal By-Products Corporation particularly, render the use of a surrogate unnecessary and inappropriate because the PRC economy is not state controlled within the meaning of section 773(c) of the Act. According to the respondent, information submitted by the Animal

By-Products Corporation establishes that costing of materials and labor are done in PRC factories, that usual and normal markups over cost of production are taken by the factories and the relevant branches, that charges such as ocean freight & insurance are at prevailing rates and that, in an overall sense, at least the brush business in the PRC operates on free market principles.

DOC Response. We are not persuaded that the PRC economy as a whole or the PRC brush producing entities, in particular, operate under economic forces which would permit a determination of foreign market value on the basis of home market prices or costs. The information submitted by respondent does not demonstrate that the quantities and prices of inputs to brushes, including capital and labor, are not centrally controlled. Nor has respondent demonstrated that the quantities, styles and prices of PRC brushes are not in accordance with centrally-set goals. Also, there is no evidence that home market prices of brushes in the PRC are affected by competition among PRC producers of brushes or substitute products or imports. Finally, no information was presented regarding the convertibility of the Renminbi, the national currency of the PRC, a factor which the Department takes into account in determining whether an economy can be treated as non-state controlled for purposes of an antidumping duty proceeding.

Comment 3. Assuming a surrogate measure of foreign market value was necessary, respondent argues that it would be more appropriate to select a number of major brush producing countries, including Taiwan and Korea, for pricing comparisons. Such an approach is provided for expressly in section 773(c) of the Act, whereas the criterion of economic comparability is an administrative construct created by regulation rather than law. Respondent claims that by choosing surrogate countries at a comparable level of economic development the Department limited itself to producers that are insignificant in worldwide production.

DOC Response. As respondent has recognized, § 353.8(b) of our regulations provides that in investigations involving state-controlled economies, foreign market value "shall be determined, to the extent possible, from the prices or costs in a 'non-state-controlled-economy' country or countries at a stage of economic development comparable to the 'state-controlled-economy' country from which the merchandise is exported." In accordance with this regulation we have used paint brush

prices in Sri Lanka, a country we have determined to be at a level of economic development comparable to this PRC. As discussed above, because the Sri Lankan product is not similar to the PRC chip brushes, we have used the weighted-average prices of imports into the United States for calculating foreign market value for chip brushes. While the Act does not dictate a preference for choosing countries at a comparable level of economic development to act as surrogates, it was clearly within the Department's authority, and a reasonable exercise thereof, to incorporate this preference in its regulations. The antidumping duty statute consistently provides for a fair value comparison between such or similar merchandise, and it allows several adjustments to ensure that the merchandise sold in different markets does not differ in ways that may affect the differences in its price. In promulgating section 353.8(b), the Department recognized that sales of comparable merchandise, at comparable terms, were more likely to occur in countries at equivalent stages of development. Respondent does not dispute that Sri Lanka is at a comparable level of economic development.

Comment. Respondent contends that the inappropriateness of Sri Lanka as a surrogate is further demonstrated by the particular characteristics of the Sri Lankan producer investigated. In particular, for one Sri Lankan producer (Ravi) all home market sales are made to a related distributor who, in turn, sells to unrelated retailers. The prices charged to the distributor cannot be used absent a showing, which respondent believes cannot be made, that the same prices would be charged to unrelated purchasers. Moreover, although prices to retailers were obtained, no information was provided on discounts, credit expenses, and freight or insurance.

For the second Sri Lankan producer (Harris), the primary materials for brush manufacture, bristles and ferrules, are obtained from its parent company in the U.K. The circumstances under which Harris purchases these materials raise the prospect that Harris home prices are inflated; first because they are obtained at transfer prices and, second, because of the additional transportation and duty charges incurred in importing these materials. As a result, any adjustments made to Harris' home market prices to account for differences in the physical characteristics of the merchandise would reflect these additional layers of costs.

Finally, for both Ravi and Harris, the brushes sold in Sri Lanka are of medium to high quality for the application of paint, stain and varnish. In respondent's view, these cannot be considered such or similar merchandise to the "chip" or industrial brushes which constitute the overwhelming majority of the PRC's sales in the U.S. because of the differences in components and purposes for which the brushes are used. Hence, the Sri Lankan brushes cannot be used for comparison purposes.

In summary, respondent asserts that given the peculiarities of the two Sri Lankan producers, use of their prices and costs without, at the very least, fundamental and extensive accounting adjustments, contradicts Congressional intent and agency rationale for economically comparable merchandise comparisons.

DOC Response. We agree that the paint brushes sold in the Sri Lankan home market are not similar to the chip brushes sold by the PRC in the United States. Therefore, we have only used Sri Lankan home market prices for calculating foreign market value of paint chip brushes sold by the PRC in the United States. As described elsewhere, we have used the home market prices of Harris, who does sell to a related distributor. Also, adjustments for physical differences in the bristles and ferrules have not been based on Harris' costs.

Comment 5. Respondent argues that if Sri Lankan home market prices are used, an adjustment must be made for differences in quantities sold. Presumably, Sri Lankan home market sales are in significantly smaller quantities than the PRC export sales. Also, the Sri Lankan producers are essentially paint brush assemblers. Although quantity discounts are not reflected in PRC price lists, their prices are negotiated individually with U.S. buyers and reflect the size and volume of the purchases. Such discounts are based on economies of scale achieved by the PRC producers and their totally integrated production process.

DOC Response. An adjustment has been made to Harris' paint brush prices to reflect that firm's wholesaler discounts. Discounts given on PRC sales have also been deducted from United States prices. See DOC position on petitioner's comment 4.

Comment 6. If Sri Lankan prices are used as the basis for foreign market value, respondent argues that adjustments for difference of circumstances of sales must be made. Respondent claims that the Animal By-Products Corporation incurs no direct

selling expenses for its U.S. sales, whereas the Sri Lankan producers extend credit and incur such selling expenses as advertising, salesmen's salaries, management overhead and expenses and travel for salesmen.

DOC Response. We made circumstances of sale adjustments to account for differences in credit expenses and direct advertising expenses incurred on Sri Lankan paint brush sales. For PRC sales where the letters of credit were drawn down after shipment, we treated this period as the number of days credit was outstanding and applied Harris' short-term cost of borrowing to this credit period. We adjusted Harris' prices for the difference between PRC credit expenses and credit expenses incurred by Harris based on the average number of days for which Harris extended credit. The other types of expenses allegedly incurred are not considered directly related to Harris' sales and, hence, no adjustment has been made for these. Also, because weighted-average F.A.S. import prices were used for calculating the foreign market value of PRC chip brushes, no circumstances-of-sale adjustments were made.

Comment 7. Given the limited nature of the Sri Lankan operations and the fact that the Sri Lankan producers purchase major components, such as bristles and ferrules, related and/or foreign suppliers, respondent claims that adjustments for differences in the physical characteristics of the Sri Lankan and PRC merchandise should factor out costs which are peculiarly and solely related to the Sri Lankan producers' methods of procurement and production to allow differences in the physical characteristics of the merchandise to be adjusted on a comparable cost basis.

DOC Response. In making adjustments for differences in the PRC and Sri Lankan paint brushes, we have relied on Ravi's costs for bristles and ferrules, since Ravi purchases these materials from unrelated suppliers. As explained in the "Foreign Market Value" section of this notice, we excluded any costs for materials purchased by Harris from related companies. Therefore, the issue of specific adjustments to the Harris prices is moot.

In regard to adjustments to Ravi's costs, respondent would make an adjustment to account for additional processing of bristle in Sri Lanka. The bristle purchased by Ravi undergoes no additional treatment, as claimed by respondent, and, therefore, no adjustment is necessary. For ferrules, respondent would have us factor out the

allegedly higher resulting from producing ferrules in Italy rather than Sri Lanka, the freight and insurance incurred in shipping the product from Italy, and the import duties and other taxes associated with importing the ferrule. We disagree that such adjustments should be made. Ravi chose to purchase ferrules overseas rather than to produce them itself, presumably for sound business reasons. Therefore, it is reasonable to assume that use of the prices paid to Italian ferrule producers does not skew or inflate the cost of components.

Comment 8. Respondent claims that Sri Lankan home market sales are to retailers or related distributors while PRC sales in the U.S. are to manufacturers of importers. For this reason, respondent requests an adjustment an adjustment for differences in levels of trade.

DOC Response. We have not made a level of trade adjustment because no evidence has been provided to demonstrate that different costs are incurred in selling at different levels of trade.

Comment 9. Respondent argues that retroactive imposition of antidumping duties under the critical circumstances provision of the Act is unconstitutional. This provision allegedly violates the due process clause of the Fifth Amendment, under the "vagueness doctrine." The major principle of the vagueness doctrine is that statutes and regulations which purport to govern conduct must give an adequate warning of what they command or forbid.

A critical circumstances determination results in the retroactive application of the preliminary margin to entries beginning 90 days prior to the preliminary determination. Respondent argues that this violates the vagueness doctrine, because until an antidumping petition is filed and the ITA selects a surrogate, an importer purchasing goods from a "state-controlled economy" country does not know what sales will be used as a pricing benchmark, and thereby lacks any ability whatsoever to know if the purchases being made are unlawful, i.e., at less than fair value, or to exercise a meaningful choice as to his conduct.

DOC Response. Congress enacted the critical circumstances provisions of the antidumping and countervailing duty laws as part of the Trade Agreements Act of 1979. However, the Antidumping Act of 1921 and the International Antidumping Code of 1967 also contained retroactivity provisions. One of the purposes of the critical circumstances provisions was "to deter exporters whose merchandise is subject

to an investigation from circumventing the intent of the law by increasing their exports to the United States during the period between initiation of an investigation and a preliminary determination by the authority." H.R. Rep. No. 96-317, 96th Cong., 1st Sess. 63 (1979). The Department has further stated that "the retroactive levying will serve as necessary and effective warning that merchandise subject to United States antidumping or countervailing duty investigations may not be rushed into the United States in order to avoid possible antidumping or countervailing duties." *Certain Steel Products from France*, 47 FR 35656, 35660 (1982).

Thus, both Congress and the Department view the initiation of an antidumping duty investigation as sufficient notice that the subject merchandise may be subject to antidumping duties in the future. There is no reason that the initiation serves as notice of the possible imposition of a duty deposit rate only at the time of a preliminary determination. Section 733(e)(2) provides that liquidation may be suspended retroactively with respect to "unliquidated entries of merchandise entered . . . on or after the date which is 90 days before the date on which suspension of liquidation was first ordered." The earliest date upon which suspension of liquidation may be ordered in an antidumping duty investigation is the date of the preliminary determination, which occurs within 160 days after the filing of the petition, pursuant to section 733(b)(1) of the Act in a normal antidumping investigation where critical circumstances are found to exist. Suspension of liquidation would not begin to apply until at least 70 days after the filing of the petition, or 50 days after the date of initiation.

In this investigation, the preliminary determination was issued on July 29, 1985, and the notice was published in the Federal Register of August 5, 1985. The retroactive suspension of liquidation applies to entries 90 days prior to the date of publication, or beginning May 7, 1985. This date is actually 77 days after the filing of the petition, and 57 days after the date of initiation, and 53 days after publication of the notice of initiation.

The notice of initiation was therefore sufficient notice to any importer of the subject merchandise that this merchandise could be subject to antidumping duty deposits, under either the critical circumstances provisions or the normal schedule dictated by the Act.

Interest Party Comments

Comment 1. Wagman-Wolf, Inc., an importer of brushes from the PRC, claims that the Department cannot make an affirmative finding of critical circumstances unless it has concluded that imports have been massive over a relatively short period and there is reason to believe (1) massive imports would continue or recur absent the imposition of special antidumping duties applied retroactively; (2) the massive imports have been injuring the domestic industry; and (3) the recent imports were intended to circumvent the U.S. antidumping law by being entered prior to the Department's preliminary determination.

With respect to massive imports, the importer notes that in examining whether imports have been massive over a relatively short period, imports in the second quarter of 1985 (following filing of the petition in February) declined from the prior quarter and were not significantly greater than import levels during the first and last quarters of 1984. The relatively high level of imports in July, 1985 should not be seen as leading to critical circumstances because import levels are historically high in July and July, 1985 imports are lower than July, 1984 imports. Moreover, the brushes which entered after the filing of the petition were generally ordered long before the filing to fill orders placed by the importers' customers, a standard practice in the industry, and, therefore, did not represent an attempt to circumvent the law. Also, the increase in imports in the first quarter of 1985 may have resulted from the need to replenish depleted stocks occasioned by the low level of shipments arriving in prior months. An additional reason that imports increased was the sharp decline in the Renminbi/dollar exchange rate. The exchange rate has now stabilized, precluding the possibility of imports increasing by substantial amounts in the future. Finally, the importer claims that any perceived surge in imports most probably resulted from petitioners' own activities as they are substantial importers as well as customers of importers.

DOC Response. The Department has determined that critical circumstances exist. See the sections of this notice entitled "Affirmative Determination of Critical Circumstances" and the Department's response to respondent's comment 1.

Affirmative Determination of Critical Circumstances

Counsel for the petitioner alleged that imports of natural bristle paint brushes from the PRC present "critical circumstances." Under section 735(a)(3) of the Act, "critical circumstances" exist if we determine (1) there is a history of dumping in the United States or elsewhere of the class or kind of the merchandise which is the subject of the investigation, or the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than its fair value; and (2) there have been massive imports of the class or kind of merchandise that is the subject of the investigation over a relatively short period.

For a preliminary determination under section 733(e)(1) of the Act, on the other hand, we determine only "whether there is a reasonable basis to believe or suspect" that such elements are present (emphasis added). The standard for a final affirmative determination is more stringent, since we must make an actual finding of whether the necessary elements exist.

In our preliminary determination in this case, we made an affirmative critical circumstances determination. We found a reasonable basis to believe or suspect that imports were massive over a relatively short period, and that there was a history of dumping of the class or kind of the merchandise which is the subject of this investigation.

For purposes of this final determination, we still have found a history of dumping in the United States or elsewhere of natural bristle brushes and brush heads from the PRC. In making this determination, we reviewed past antidumping findings of the Department of the Treasury as well as past Department of Commerce antidumping duty orders. We also reviewed the antidumping actions of other countries, and found a 1984 Canadian antidumping duty order issued on natural bristle paint brushes from the PRC.

Since there is a history of dumping in the United States or elsewhere, we do not need to consider whether there is reason to believe or suspect that importers of this product know or should have known that it was being sold at less than fair value. We generally consider the following concerning massive imports: (1) Recent trends in import penetration levels; (2) whether imports have surged recently; (3) whether recent imports are significantly above the average calculated over the

last three years; and (4) whether the pattern of recent imports may be explained by seasonal factors. Based on this analysis, we find that imports of the subject merchandise from the PRC during the period subsequent to receipt of the petition have been massive when compared to recent import levels and that recent imports are significantly above average imports calculated over the last three years. We also find that the pattern of recent imports cannot be explained by seasonal factors.

Therefore, we determine that critical circumstances exist with respect to imports of natural bristle paint brushes and brush heads from the PRC.

Verification

In accordance with section 778(a) of the Act, we verified all data used in making this final determination using standard verification procedures, including on-site inspection of manufacturers' facilities and examination of records and selected original source documentation containing relevant information.

Continuation of Suspension of Liquidation

In accordance with section 733(d) of the Act, on August 5, 1985, we directed the United States Customs Service to suspend liquidation of all entries of natural bristle paint brushes and brush heads from the PRC for all manufacturers/producers/exporters, which were entered, or withdrawn from warehouse, for consumption 90 days prior to August 5, 1985. As of the date of publication of this notice in the Federal Register, the liquidation of all entries or withdrawals from warehouse, or natural bristle paint brushes and brush heads, for consumption, or this merchandise shall continue to be suspended. The Customs Service shall require a cash deposit or the posting of a bond equal to the estimated weighted-average amount by which the foreign market value of the merchandise subject to this investigation exceeds the United States price. The bond or cash deposit amount established in our preliminary determination of August 5, 1985, is no longer in effect. The weighted-average margin is 127.07 percent. This suspension of liquidation will remain in effect until further notice.

ITC Notification

In accordance with section 735(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 consent of the Deputy Assistant Secretary for Import Administration. The ITC will determine whether the domestic industry is materially injured, or threatened with material injury, by reason of these imports within 45 days of the publication of this notice.

If the ITC determines that material injury or threat of material injury does not exist, this proceeding will be terminated and all securities posted as a result of the suspension of liquidation will be refunded or cancelled. If, however, the ITC determines that such injury does exist, we will issue an antidumping duty order, directing Customs officers to assess antidumping duties on natural bristle paint brushes and brush heads from the PRC, as appropriate.

This notice is published in accordance with section 735(d) of the Act.

Dated: December 18, 1985.

Paul Freudenberg,

Assistant Secretary for Trade Administration.

[FR Doc. 85-30475 Filed 12-24-85; 8:45 am]

SHLW CODE 2510-05-01

APPENDIX C

LIST OF WITNESSES APPEARING AT THE HEARING

TENTATIVE CALENDAR OF PUBLIC HEARING

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

Subject : Natural Bristle Paint Brushes from
The People's Republic of China

Inv. No. : 741-TA-244 (Final)

Date and time : December 19, 1985 - 10:00 a.m.

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

IN SUPPORT OF THE IMPOSITION OF
ANTIDUMPING DUTIES:

Bishop, Liberman, Cook, Purcell, and Reynolds--Counsel
Washington, D.C.
on behalf of

The United States Paint Brush Manufacturers and
Suppliers Ad Hoc Import Action Coalition

Arthur Stark, Rubberset Company

Harry Lieberman, Bestt Liebco Company

John Foster, President, Baltimore Brushes, Inc.

Charles R. Johnston, Jr.)
William Alberger)--OF COUNSEL
Ronelle Adams)

- more -

**IN OPPOSITION TO THE PETITION OF
ANTIDUMPING DUTIES:**

**Mandel, Resti, Pollack and Borakove--Counsel
New York, N.Y.
on behalf of**

**American Brush Company, Inc., Britbull Industries,
A. Hirsch Inc., Linzer Products, Inc., and
National Native Produce and Animal By-Products
Corporation, China**

Sidney Zichlin, Linzer Products, Inc.

James A. Resti--OF COUNSEL

UNITED STATES
INTERNATIONAL TRADE COMMISSION
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