

CERTAIN SILICA FILAMENT FABRIC FROM JAPAN

**Determination of the Commission
in Investigation No. 731-TA-355
(Preliminary) Under the Tariff
Act of 1930, Together With
the Information Obtained in
the Investigation**

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Note.--Information that would reveal the confidential operations of individual concerns may not be published and therefore has been deleted from this report.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-355 (Preliminary)

CERTAIN SILICA FILAMENT FABRIC FROM JAPAN

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission determines, pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)), that there is a reasonable indication that an industry in the United States is materially injured, or threatened with material injury, by reason of imports from Japan of woven fabrics, of glass (silica filaments), whether or not colored, containing not over 17 percent of wool by weight, provided for in items 338.25 and 338.27 of the Tariff Schedules of the United States, which are alleged to be sold in the United States at less than fair value (LTFV). 2/

Background

On October 27, 1986, a petition was filed with the Commission and the Department of Commerce by counsel representing Haveg Division, Ametek, Inc., of Wilmington, DE, and HITCO of Newport Beach, CA, alleging that an industry in the United States is materially injured and threatened with material injury by reason of LTFV imports of commercial grade amorphous silica filament fabric from Japan. Accordingly, effective October 27, 1986, the Commission instituted preliminary antidumping investigation No. 731-TA-355 (Preliminary).

Notice of the institution of the Commission's investigation and of a public conference to be held in connection therewith was given by posting

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

2/ Commissioner Eckes determines there is a reasonable indication of material injury.

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 November 5, 1986 (51 F.R. 40271). The conference was held in Washington, DC, on November 19, 1986, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION

We determine that there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of commercial grade silica filament fabric from Japan that are allegedly sold at less than fair value (LTFV). ^{1/} ^{2/}

We base this determination on the rapid increase in imports during the period of investigation, both in absolute terms and relative to domestic shipments, and the evidence of underselling by those imports. ^{3/} Further, the increased imports occurred at a time when indicators of domestic industry performance, including profitability and employment, declined significantly. Finally, the evidence of record indicates that Japanese capacity has increased significantly during the period of investigation, that substantial excess capacity exists in Japan, and that since 1984 most of Japanese production has been exported to the United States.

Like product and the scope of the domestic industry

The Commission is required to define the scope of the relevant domestic industry for the purpose of assessing material injury. The term "industry" is defined by statute 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." ^{4/}

^{1/} Material retardation is not an issue in this investigation.

^{2/} Commissioner Eckes determines that there is a reasonable indication of material injury; therefore, he does not address threat.

^{3/} Chairman Liebler and Vice Chairman Brunsdale do not base their decisions in this case on evidence of underselling by imported products. They believe that such evidence is ordinarily not probative on the issue of causation. See Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Canada, Inv. No. 731-TA-254 (Final), USITC Pub. 1808 at 11, n.25 (1986).

^{4/} 19 U.S.C. § 1677(4)(A).

"Like product" is defined 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" ^{5/}

The imported product subject to this investigation is commercial grade amorphous silica filament fabric, ^{6/} a woven textile composed of numerous fine, discrete silica strands and containing a minimum of 96 percent silica. The commercial grade fabric possesses a number of chemical and physical properties which make it useful in industrial applications such as insulation and heat resistance. Imported commercial grade fabric is usually 36 inches wide and comes in two weights, lightweight and heavyweight. ^{7/} The commercial grade fabric may also possess a number of different topical coatings depending upon a customer's requirements. ^{8/}

Petitioners insist that the product "like" the imported commercial grade fabric is domestically produced commercial grade fabric, and should not include aerospace and controlled-shrinkage fabric. ^{9/} Respondents, however,

^{5/} 19 U.S.C. § 1677(10). See also S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

^{6/} Commercial grade amorphous silica filament fabric is provided for in items 338.25 and 338.27 of the Tariff Schedules of the United States. Report of the Commission (Report) at A-5.

^{7/} Heavyweight fabric is generally twice the weight of lightweight material. The difference in weight is due to the greater thickness of the fabric. Both types of commercial fabric are produced from the same raw material undergoing the same production process and are put to similar uses. Because of the different thickness, heavyweight fabric requires a thicker fiberglass raw material, takes somewhat longer to produce, and has greater insulation ability. None of the parties has argued that heavyweight and lightweight commercial fabric constitute separate like products, nor do we find any reason for treating such products separately. Id. at A-2.

^{8/} Id. at A-2-A-3.

^{9/} Commercial grade fabric represented a substantial majority of the total market. Id. at A-13. The two domestic producers of commercial grade fabric, Haveg Division, Ametek, Inc. (Haveg) and HITCO, also produce aerospace and controlled-shrinkage products.

maintain that the domestic like product should include commercial, aerospace, and controlled-shrinkage silica filament fabrics.

Our investigation indicates that while the aerospace and controlled-shrinkage products share some properties and production processes with the commercial grade fabric, ^{10/} there are a number of differences between the two. First, the type of fiberglass that is used for the commercial grade product cannot be used for the aerospace fabric. ^{11/} Second, while the leaching process is similar for all types of fabric, the remainder of the production processes differ. The different heat treatments for these products improve the tensile strength and abrasion resistance for the commercial grade fabric, but reduces the tensile strength and abrasion resistance while shrinking the aerospace and controlled-shrinkage fabric. ^{12/} Third, aerospace and controlled-shrinkage fabrics have a very low residual shrinkage of 2 percent or less, compared with 14 to 16 percent in the commercial grade product. Fourth, the minimum silica content is 98 percent for the aerospace and controlled-shrinkage fabrics, compared with 96 percent for the commercial grade fabric. Further, the aerospace and controlled-shrinkage fabrics are weaker and less abrasion resistant than the commercial grade fabric. ^{13/}

Commercial grade fabric is used in such applications as shields for ducting and pipes, protection from sparks and molten metal splash, insulation

^{10/} Generally, all silica fabric is used as heat insulation material and is manufactured from fiberglass cloth almost totally composed of silica filaments. Moreover, all silica fabric is produced in a production process that involves leaching of the fiberglass raw material to increase the silica content of the material. Id. at A-3-A-4.

^{11/} Id.

^{12/} Id.

^{13/} Id. at A-2-A-3.

blankets in heat-treating and high-temperature processing operations, and refractory lining and furnace curtains. Controlled-shrinkage fabric is used by nonaerospace customers that require low residual shrinkability but can do without the abrasion-resistance, strength, and ease of handling of the commercial grade fabric. A typical application would be as a drape over a forging furnace to maintain heat. The aerospace product is sold to firms for further processing to coat or impregnate the fabric with resins, and is then resold to fabricators of aerospace parts. ^{14/}

In this preliminary investigation, we determine that domestically produced commercial grade silica filament fabric is like the imported product. We believe that the differences in raw material, production processes, physical characteristics, and applications for commercial grade fabric, as opposed to the aerospace and controlled-shrinkage fabric, are more significant than their similarities. Therefore, the domestic industry consists of the domestic production of the commercial grade fabric and does not include domestic production of aerospace or controlled-shrinkage fabric. ^{15/ 16/} The domestic producers of commercial grade silica filament fabric are Haveg of Wilmington, DE, and HITCO of Newport Beach, CA.

^{14/} Id.

^{15/} Given the dominant position of the commercial fabric in the overall market, use of a broader like product and domestic industry definition would not have altered our determination.

^{16/} Although Chairman Liebler and Vice Chairman Brunsdale concur with their colleagues on the like product issue in this preliminary decision, they do so with reservation. They note that the appropriate like product may properly encompass the aerospace and controlled-shrinkage fabric as well as commercial grade fabric. If this case continues to a final investigation, they will reassess this issue and will look for additional evidence, particularly on prices and consumption for the two types of silica filament fabrics, that has a direct bearing on whether the two types of fabrics are very close substitutes.

Condition of the domestic industry

In assessing the condition of the domestic industry, the Commission considers, among other factors, domestic consumption, U.S. production, capacity, capacity utilization, shipments, inventories, employment, and profitability. ^{17/}

Apparent U.S. consumption of commercial grade silica fabric decreased by 21 percent from 1983 to 1984, increased by 12 percent in 1985, and remained stable in January–September 1986 compared to the corresponding 1985 period. ^{18/} Domestic production declined throughout the period with domestic capacity remaining the same. Capacity utilization decreased and is currently 30 percent below its 1983 level. ^{19/}

Domestic producers' domestic shipments also declined steadily. ^{20/} U.S. producers' inventories increased sharply from 1983 to 1984 before declining in 1985 to a level higher than in 1983. ^{21/}

The number of workers and hours worked by production workers both dropped from 1983 through interim 1986. ^{22/}

Financial data reveal that the domestic industry's condition has deteriorated. Aggregate net sales declined steadily. Aggregate operating income and operating income margins both increased from 1983 to 1984 before dropping sharply in 1985 to levels below those reached in 1983. For interim

^{17/} 19 U.S.C. § 1677(7)(C)(iii).

^{18/} Report at A-9-A-10. Since there are only two U.S. producers of commercial grade silica fabric, virtually all the domestic industry data are confidential. Therefore much of the discussion of the condition of the domestic industry is, of necessity, general.

^{19/} Id. at A-11-A-12.

^{20/} Id. at A-12-A-13.

^{21/} Id. at A-14.

^{22/} Average hourly wages and total compensation, however, increased. Id. at A-15.

1986, the operating margin continued to drop from the corresponding interim 1985 levels. 23/

On the basis of the record in this preliminary investigation, we determine that there is a reasonable indication that the domestic industry is currently experiencing material injury. 24/ 25/ 26/

Reasonable indication of material injury by reason of allegedly LTFV imports from Japan

In determining whether the domestic industry is materially injured "by reason of" LTFV imports, the Commission is to consider, among other factors, the volume of the imports subject to investigation and the effect of these imports on prices in the United States for the like product and on the domestic industry. 27/

Imports of Japanese commercial grade silica fabric have increased during the period of investigation. Moreover, the expansion in Japan's market share

23/ Id. at A-16-A-17.

24/ Vice Chairman Brunsdale has serious concerns about whether the domestic industry is materially injured in this case. Should this case continue to a final investigation, she will carefully examine the industry's financial performance, together with other indicators of the industry's condition. However, for purposes of this preliminary investigation she gives petitioner the benefit of the doubt and notes that the standard in preliminary investigations is that the Commission find that there is a reasonable indication of material injury.

25/ Commissioner Stern does not regard it as analytically useful or appropriate to consider the question of material injury completely separate from the question of causation. See Additional Views of Commissioner Stern in Cellular Mobile Telephones and Subassemblies Thereof from Japan, Inv. No. 731-TA-207 (Final), USITC Pub. 1786 at 18-19 (Dec. 1985).

26/ Commissioner Eckes believes that the Commission is to make a finding regarding the question of material injury in each investigation. See Cellular Mobile Telephones and Subassemblies Thereof from Japan, Inv. No. 731-TA-207 (Final), USITC Pub. 1786 at 20-21 (Dec. 1985).

27/ 19 U.S.C. § 1677(B).

has been dramatic: it grew five-fold in 1984-85 and even further in interim 1986 compared with interim 1985. 28/

The major method of marketing silica fabric in the United States is bid competition for volume sales to large end-users such as electric utilities or shipyards. Contracts awarded in such bid competition are typically either spot sales or long-term supply contracts. Secondary channels of distribution include sales through independent distributors and sales to original equipment manufacturers. 29/

In spot sales, the domestic industry captured the bulk of the largest bid awards in 1984. In 1985, the Japanese imports made substantial inroads in this area of the market, more than doubling their market share. In 1986, imports increased their share by two-thirds. In long-term contract sales, Japanese market share was substantial in 1984, rose slightly in 1985, and virtually doubled in interim 1986 from the interim 1985 level. Price data obtained by the Commission indicate that the success of the Japanese in the spot and long-term contract markets is almost entirely attributable to Japanese underbidding of domestic producers. 30/

In the distributor market, domestic producers' prices fluctuated, especially in 1984 and 1985, but declined in interim 1986. For lightweight fabric, the Japanese importer undersold one of the domestic producers in nine of the ten most recent quarters and undersold the other domestic producer in seven of the ten most recent quarters. 31/ For heavyweight fabric, the

28/ Report at A-21-A-23.

29/ Id. at A-23-A-25.

30/ Id. at A-25-A-29.

31/ Id. at A-32, Tables 27-28.

Japanese importer undersold both domestic producers in each of the 11 most recent quarters. 32/ 33/

Reasonable indication of threat of material injury by reason of allegedly LTFV imports from Japan

In determining whether there is a reasonable indication of a threat of material injury, the Commission considers, among other factors, (1) any rapid increase in market penetration of the imports and the likelihood that such penetration will reach an injurious level, (2) any substantial increase in inventories of the imported product, (3) the likelihood of increased imports in the future because of increased capacity or existing underutilized capacity in the foreign country, and (4) the probability that future imports will have a price depressing or suppressing effect in the domestic market. 34/

We have already discussed the rapid increase in market penetration by Japanese imports and the evidence of underselling by those imports. Available data regarding inventories of Japanese imports indicate that such inventories more than doubled from year-end 1984 to year-end 1985. Finally, the data indicate that Japanese capacity increased significantly in 1984, more than doubled in 1985, and almost doubled again in interim 1986 compared to interim 1985. 35/ Capacity utilization during interim 1986 was lower than during the previous two years. Virtually the entire increase in Japanese production

32/ Id. at A-32, Tables 29-30.

33/ See footnote 3, supra, for Chairman Liebel's and Vice Chairman Brunsdale's views on underselling.

34/ 19 U.S.C. § 1677(7)(F)(i).

35/ Report at A-19-A-20.

during the period of investigation has been exported to the U.S. market. 36/ 37/

Conclusion

On the basis of the record in this preliminary investigation, we determine that there is a reasonable indication that the domestic industry is currently experiencing material injury or is threatened with material injury by reason of allegedly LTFV imports from Japan.

36/ Id. at A-20.

37/ Vice Chairman Brunsdale bases her determination, in part, on the alleged dumping margins. In this case they were high and ranged from 89 percent to 359 percent. Report at A-2. For a discussion of her views on the relevance of dumping and subsidy margins to causation analysis, see Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Canada, Inv. No. 731-TA-254 (Final), USITC Pub. 1808 at 13-14 (1986). It must be emphasized that the influence of margins must be assessed in the context of the demand and supply conditions appropriate to each industry and that even large margins are not by themselves sufficient to reach an affirmative decision. See Certain Ethyl Alcohol from Brazil, Inv. No. 701-TA-239 (Final), USITC Pub. 1818 at 15-16 (1986).

ADDITIONAL VIEWS OF CHAIRMAN LIEBELER**Certain Silica Filament from Japan****Inv. No. 731-TA-355 (Preliminary)**

I determine that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly dumped imports of certain silica filament from Japan. I join with my colleagues in finding one like product and one domestic industry in this preliminary investigation. I also join in their discussion of condition of the industry. Because my views on causation differ, I offer these views.

Material Injury by Reason of Imports

In order for a domestic industry to prevail in a preliminary investigation, the Commission must determine that there is a reasonable indication that the dumped or subsidized imports cause or threaten to cause material injury to the domestic industry producing the like product. The Commission must determine whether the

domestic industry producing the like product is materially injured or is threatened with material injury, and whether any injury or threat thereof is by reason of the dumped or subsidized imports. Only if the Commission finds a reasonable indication of both injury and causation, will it make an affirmative determination in the investigation.

Before analyzing the data, however, the first question is whether the statute is clear or whether one must resort to the legislative history in order to interpret the relevant sections of the this import relief law. In general, the accepted rule of statutory construction is that a statute, clear and unambiguous on its face, need not and cannot be interpreted using secondary sources. Only statutes that are of doubtful¹ meaning are subject to such statutory interpretation.

The statutory language used for both parts of the analysis is ambiguous. "Material injury" is defined as "harm which is not inconsequential, immaterial, or

¹

Sands, Sutherland Statutory Construction § 45.02
(4th Ed.).

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unimportant." As for the causation test, "by reason of" lends itself to no easy interpretation, and has been the subject of much debate by past and present commissioners. Clearly, well-informed persons may differ as to the interpretation of the causation and material injury sections of title VII. Therefore, the legislative history becomes helpful in interpreting title VII.

The ambiguity arises in part because it is clear that the presence in the United States of additional foreign supply will always make the domestic industry worse off. Any time a foreign producer exports products to the United States, the increase in supply, ceteris paribus, must result in a lower price of the product than would otherwise prevail. If a downward effect on price, accompanied by a Department of Commerce dumping or subsidy finding and a Commission finding that financial indicators were down were all that were required for an affirmative determination, there would be no need to inquire further into causation.

But the legislative history shows that the mere presence of LTFV imports is not sufficient to establish causation. In the legislative history to the Trade Agreements Acts of 1979, Congress stated:

[T]he ITC will consider information which indicates that harm is caused by factors other³ than the less-than-fair-value imports.

The Finance Committee emphasized the need for an exhaustive causation analysis, stating, "the Commission must satisfy itself that, in light of all the information presented, there is a sufficient causal link between the less-than-fair-value imports and the requisite injury."⁴

The Senate Finance Committee acknowledged that the causation analysis would not be easy: "The determination of the ITC with respect to causation, is under current law, and will be, under section 735, complex and difficult, and is matter for the judgment of the ITC."⁵ Since the domestic industry is no doubt worse off by the

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Report on the Trade Agreements Act of 1979, S. Rep. No. 249, 96th Cong. 1st Sess. 75 (1979).

4

Id.

5

Id.

presence of any imports (whether LTFV or fairly traded) and Congress has directed that this is not enough upon which to base an affirmative determination, the Commission must delve further to find what condition Congress has attempted to remedy.

In the legislative history to the 1974 Act, the Senate Finance Committee stated:

This Act is not a 'protectionist' statute designed to bar or restrict U.S. imports; rather, it is a statute designed to free U.S. imports from unfair price discrimination practices. * * * The Antidumping Act is designed to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a United States industry.

Thus, the focus of the analysis must be on what constitutes unfair price discrimination and what harm results therefrom:

[T]he Antidumping Act does not proscribe transactions which involve selling an imported product at a price which is not lower than that needed to make the product competitive in the U.S. market, even though the price of the imported product is lower than its home market price.

6

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

7

Id.

This "complex and difficult" judgment by the Commission is aided greatly by the use of economic and financial analysis. One of the most important assumptions of traditional microeconomic theory is that firms attempt to maximize profits.⁸ Congress was obviously familiar with the economist's tools: "[I]mporters as prudent businessmen dealing fairly would be interested in maximizing profits by selling at prices as high as the U.S. market would bear."⁹

An assertion of unfair price discrimination should be accompanied by a factual record that can support such a conclusion. In accord with economic theory and the legislative history, foreign firms should be presumed to behave rationally. Therefore, if the factual setting in which the unfair imports occur does not support any gain to be had by unfair price discrimination, it is reasonable

8

See, e.g., P. Samuelson & W. Nordhaus, Economics 42-45 (12th ed. 1985); W. Nicholson, Intermediate Microeconomics and Its Application 7 (3d ed. 1983).

9

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

to conclude that any injury or threat of injury to the domestic industry is not "by reason of" such imports.

In many cases unfair price discrimination by a competitor would be irrational. In general, it is not rational to charge a price below that necessary to sell one's product. In certain circumstances, a firm may try to capture a sufficient market share to be able to raise its price in the future. To move from a position where the firm has no market power to a position where the firm has such power, the firm may lower its price below that which is necessary to meet competition. It is this condition which Congress must have meant when it charged us "to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a United States industry."¹⁰

In Certain Red Raspberries from Canada, I set forth a framework for examining what factual setting would merit an affirmative finding under the law interpreted in light¹¹ of the cited legislative history.

10

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

11

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

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

12

elasticity of supply of other imports).

The statute requires the Commission to examine the volume of imports, the effect of imports on prices, and the

13

general impact of imports on domestic producers. The legislative history provides some guidance for applying these criteria. The factors incorporate both the statutory criteria and the guidance provided by the legislative history. Each of these factors is evaluated in turn.

Causation analysis

Examining import penetration is important because unfair price discrimination has as its goal, and cannot take place in the absence of, market power. Import penetration was virtually non-existent in 1983. Imports

12

Id. at 16.

13

19 U.S.C. § 1677(7)(B)-(C) (1980 & cum. supp. 1985).

did occur in significant quantities in 1985. In conjunction with decreasing apparent domestic consumption, imports accounted for a moderate but rapidly increasing share of the market in 1985 and January-September¹⁴ 1986.

The second factor is a high margin of dumping or subsidy. The higher the margin, ceteris paribus, the more likely it is that the product is being sold below the competitive price¹⁵ and the more likely it is that the domestic producers will be adversely affected. In a preliminary investigation, the Commerce Department has not yet had time to calculate any margins. I therefore usually rely on the margins alleged by petitioner. Petitioners' allege margins ranging from 89 to 359 percent.¹⁶ These alleged margins are high and not inconsistent with a finding of unfair price discrimination.

The third factor is the homogeneity of the products. The more homogeneous the products, the greater will be the

¹⁴

The exact market share figures are confidential. Report at Table 22.

¹⁵

See text accompanying note 7, supra.

¹⁶

Report at A-1.

effect of any allegedly unfair practice on domestic producers. Although there are significant differences between grades of fabric, for the purposes of this preliminary determination I have determined that the like product is commercial grade fabric. The record at this stage does not indicate that imports of commercial grade fabric differ from the like product.

As to the fourth factor, evidence of declining domestic prices, ceteris paribus, might indicate that domestic producers were lowering their prices to maintain market share. The price trends for the domestic product are inconclusive at this point.¹⁷

The fifth factor is foreign supply elasticity (barriers to entry). If there is low foreign elasticity of supply (or barriers to entry) it is more likely that a producer can gain market power. There have been no imports of silica filament from other countries during the period of investigation.¹⁸

¹⁷
Report at A-30-A-32.

¹⁸
Report at Table 22.

These factors must be considered in each case to reach a sound determination. Pricing data is inconclusive. On the other hand, market share, alleged margins, homogeneity and foreign supply elasticity all weigh in favor of an affirmative preliminary determination in this case.

Conclusion

Therefore, I conclude that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly dumped imports of certain silica filament fabric from Japan.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On October 27, 1986, a petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce by counsel representing Haveg Division, Ametek, Inc., of Wilmington, DE, (Haveg) and HITCO of Newport Beach, CA, alleging that an industry in the United States is materially injured and threatened with material injury by reason of imports from Japan of commercial grade amorphous silica filament fabric which are being, or are likely to be, sold in the United States at less than fair value (LTFV). Accordingly, effective October 27, 1986, the Commission instituted investigation No. 731-TA-355 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)). The purpose of the Commission's investigation is 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 from Japan of woven fabrics, of glass (silica filaments), whether or not colored, containing not over 17 percent of wool by weight, provided for in items 338.25 and 338.27 of the Tariff Schedules of the United States (TSUS), which are alleged to be sold in the United States at LTFV.

Notice of the institution of the Commission's investigation 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 November 5, 1986 (51 F.R. 40271). 1/ The Commission held a public conference in Washington, DC, on November 19, 1986, at which time all interested parties were allowed to present information and data for consideration by the Commission. 2/ The Commission voted on this investigation on December 3, 1986. The statute directs the Commission to make its determination within 45 days of the receipt of a petition, or in this case by December 11, 1986. Commercial grade amorphous silica filament fabric has not been the subject of any previous statutory investigation by the Commission.

Nature and Extent of the Alleged LTFV Sales

The petition alleges that commercial grade amorphous silica filament fabric (silica fabric) from Japan is being sold in the United States at LTFV margins ranging between 89 percent and 359 percent. 3/ Petitioners' allegations were based on differences between the U.S. price and the foreign-market value (Japanese domestic price). The petitioners assumed that Sandtex Corp., the sole U.S. first-level marketer of the imported product, purchases the silica fabric imported from Japan in arm's-length transactions. Petitioners calculated the U.S. price (Japanese ex-factory export price) on the basis of the purchase price calculation procedure. 4/ For the foreign-

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

2/ A list of witnesses who appeared at the public conference is presented in app. B.

3/ Petition, p. 22.

4/ Ibid., p. 24. Petitioners estimated Japanese ex-factory prices by calculating from known or estimated Sandtex sales prices or bids to U.S. purchasers.

market value, petitioners used prices of silica fabric sold in Japan to dealers. The prices were actual f.o.b. packed mill price quotations obtained by petitioners in Japan during November 1985. 1/

The Product

Description and uses

Commercial grade silica filament fabric is a woven textile product composed of numerous, fine, discrete silica strands. The product contains a minimum of 96 percent silica, which is in the "amorphous," or non-crystalline, state.

The silica fabric possesses a combination of chemical and physical properties, including thermal survivability, low thermal conductivity, chemical non-reactivity, flexibility, strength, abrasion resistance, and ease of handling. These properties make it useful in a number of industrial applications, especially to insulate and to resist extreme heat.

The thermal insulation characteristics of this fabric cover a wide range of temperatures. Specifically, the silica fabric is capable of withstanding heat up to 1,850 degrees F without sacrificing any of its other properties and will remain in usable cloth form up to approximately 2,500 degrees F, albeit with some loss of flexibility. The fabric will continue to provide some protection up to its melting point of 3,100 degrees F.

Silica fabric is manufactured in two weights, lightweight (18 ounces per square yard) and heavyweight (36 ounces per square yard). There are also a number of topical coatings that may be requested by the customer to enhance the product's characteristics for some uses. These coatings include neoprene or silicone for water repellency and greater abrasion resistance; chrome compounds to maintain flexibility at particularly high temperatures; and aluminizing to increase heat reflectivity. Silica fabric is made predominantly in 36-inch widths, although the imported fabric is also offered in 24-inch and 48-inch widths. 2/

Commercial grade silica fabric is used to insulate and to resist extreme heat so as to conserve energy and protect people, materials, and machinery from potential injury or damage. Some specific applications of this fabric are as shields for ducting and pipes; as protection from sparks and molten metal splash; as insulating blankets in heat-treating and high-temperature processing operations; and as refractory lining and furnace curtains.

The two domestic producers manufacture aerospace and controlled-shrinkage grade silica filament fabric in addition to the commercial grade fabric. Although the aerospace and controlled-shrinkage products share some properties and production processes with the commercial grade fabric, there are three key

1/ Ibid., pp. 26 and 27.

2/ Over 99 percent of the silica fabric sold in the United States is 36 inches in width.

differences between the two grades. First, and most important, the aerospace and controlled-shrinkage products have a very low residual areal shrinkage of 2 percent or less, compared with 14 to 16 percent residual shrinkage in the commercial grade product.

Second, the aerospace and controlled-shrinkage products have a minimum silica content of 98 percent, versus the minimum 96 percent in the commercial grade fabric. The higher silica content is specified by the aerospace customers because it is believed to enhance the ablative properties of the material, enabling the end product to maintain its structural integrity over a longer period of time. In addition, the higher silica content increases the chemical purity of the fabric, restoring some of the interlaminar strength lost in the shrinking process.

Finally, the aerospace and controlled-shrinkage fabrics are weaker and less abrasion resistant than the commercial grade product. This is due both to the shrinking process, which substantially weakens the fabric by exposing it to extremely high temperatures, and to the absence of the hydrocarbon finish, which is left off the fabric to preserve its purity. In general, no coatings are used on the aerospace and controlled-shrinkage fabrics, although in a very few instances the controlled-shrinkage fabric is impregnated with chromia to restore some flexibility. The special production processes and tolerances for the aerospace product make it more costly to produce and thus more expensive.

The aerospace product is sold to firms that coat or impregnate the fabric with resins and then resell it in bulk or in custom-cut pieces to other companies that use the material to fabricate aerospace parts, such as ablative rocket nozzles or heat shields in reentry vehicles. The controlled-shrinkage fabric is sold to nonaerospace customers who require low residual shrinkability but who can also do without the abrasion resistance, strength, and ease of handling offered by the commercial grade product. Specifically, this fabric might be used to drape over forging furnaces to maintain heat. In most cases, the controlled-shrinkage product is fabric that was produced for aerospace applications but did not meet the tolerance levels specified by aerospace customers. The resulting fabric is thus sold under the controlled-shrinkage designation.

Manufacturing process

Silica fabrics are all produced from a woven, electrical grade fiberglass precursor containing approximately 50 percent silicon dioxide. The exact manufacturing process and construction of the fiberglass precursor, however, is determined by the type of silica fabric for which it will be used. Generally, the fiberglass material used for the commercial grade product cannot be used for the aerospace fabric. For the aerospace product, close control of the raw material from the initial stage of filament manufacture is essential in order to determine the correct time, temperature, and acid levels that must be maintained during the critical leaching process.

The technology applied in the production of silica fabric is similar throughout the industry; however, the actual manufacturing processes differ slightly between the two domestic producers. HITCO processes its fabrics using semi-continuous production lines whereby ***. ***.

At this point, the processes used in production of the commercial grade fabric and the aerospace and controlled-shrinkage product diverge. The commercial grade product ***.

The aerospace and controlled shrinkage products are ***. ***.

Haveg's production process is slightly different from that used by HITCO; however, the technology and essential differences between the production of the commercial grade and aerospace and controlled shrinkage fabrics are the same as at HITCO. Haveg uses a batch production process whereby ***. ***.

At this point, the two fabric types are subjected to completely different processes. ***.

For the aerospace and controlled shrinkage products, ***. ***.

Substitute products

Asbestos, fiberglass, Kevlar, and alumina silicate fabrics are possible substitutes for commercial grade silica fabric, but none of these offers at a comparable cost the combination of characteristics that silica fabric possesses.

Asbestos offers optimal thermal resistance and insulating properties at approximately one-half the cost of silica fabric. As such, asbestos has in the past supplied a very broad market as a low cost, high performance heat resistor and insulator. However, it is a carcinogenic product subject to severe legislative, corporate, and public restraints on its use. The asbestos replacement market is now divided along the temperature range once served by asbestos among a number of heat-resisting products, including fiberglass and silica fabric.

Fiberglass, which is also roughly one-half the cost of silica fabric, provides thermal resistance and low conductivity but has a melting point of 1,100 degrees F compared with silica fabric's capacity to protect against direct heat and remain in usable cloth form up to 2,500 degrees F. Similarly, Kevlar is not usable in applications where temperatures exceed 1,000 degrees F.

Alumina silicate fabric, which is constructed by twisting short silicate fibers around a core of fiberglass, cotton, or wire and weaving them into cloth form, is limited by the properties of the core material. Thus, fiberglass-core alumina silicate fabrics will melt at 1,200 to 1,300 degrees F. Wire-core alumina silicate fabric will withstand heat up to the low 2,000 degrees F range, but it is twice as expensive as commercial grade silica fabric. Furthermore, alumina silicate filaments are less flexible because of the unique core construction.

3M Co. produces a material called Nextel which, like commercial grade silica fabric, is made of continuous filaments. It maintains strength and flexibility up to 2,000 degrees F but has a cost factor many times that of silica fabric. Ceramic fiber fabrics have an even higher heat tolerance but, like Nextel, are more costly than silica fabric.

Petitioners argued that there are no substitute products for silica fabric. Respondent argued that fiberglass is a substitute product that has been purchased on several occasions in place of silica fabric. 1/ Purchasers contacted by the Commission's staff in connection with lost sales allegations agreed that domestic and imported silica fabric are direct substitutes; further, these purchasers did not consider other products as substitutes for silica fabric. 2/

U.S. tariff treatment

Imports of the silica fabric covered by this investigation are classified in items 338.25 and 338.27 of the TSUS. 3/ The current column 1 or most-favored-nation duty rates are 8.6 percent and 11.6 percent ad valorem, respectively; they are scheduled to be reduced to 8.3 percent and 11.1 percent ad valorem, respectively, effective January 1, 1987. The column 2 rates of duty, applicable to imports from those Communist countries and areas specified in general headnote 3(d) of the TSUS, are 50 percent and 60 percent ad valorem, respectively.

1/ Transcript of the conference, pp. 128-132. Respondent argued that fiberglass is used by two shipyards (Bath Ironworks and Ingalls Shipyards) for the same applications that other shipyards (e.g., Newport News, Todd, and Bethlehem) use silica fabric. Mr. Forest of Bath Ironworks, whose contract for silica fabric is supplied by the respondent, explained that Bath uses both fiberglass and silica fabric, depending on the specific application. Fiberglass is used as a consumable item, particularly as welding blankets and protective garments that don't face extreme levels of heat over a sustained period of time. Silica fabric is used in higher temperature applications where the material must stay in place over time, such as covering high temperature pipes. (Telephone conversation between Dave Faust, welding engineer, Bath Ironworks, and Jennifer Hinshaw of the Commission's staff, Nov. 25, 1986).

2/ Telephone conversations between Howard Gooley and purchasers from Nov. 4 to Nov. 19, 1986 (see p. A-72). Following the conference, the respondent submitted voluminous promotional information on nonasbestos textile materials available as an alternative to silica fabric. Staff reviewed this information and found one product, WELDFLEX, that offers characteristics similar to those of silica fabric, including heat resistance to 2,750 degrees F. WELDFLEX is a blend of aramids, such as Kevlar, wrapped around a fiberglass core. This product costs approximately 20 to 35 percent more than silica fabric.

3/ Both TSUS classifications include products other than commercial grade silica fabric.

Preferential treatment of imports under TSUS items 338.25 and 338.27 is not provided for developing countries under the Generalized System of Preferences or under the Caribbean Basin Economic Recovery Act. Imports under these TSUS items are eligible for reduced rates of 6 percent and 8.1 percent ad valorem, respectively, if they are the product of Israel.

U.S. Producers

Two firms manufacture commercial grade silica fabric in the United States. The firms and their plant locations and production in 1985 are shown in the following tabulation (in thousands of pounds):

<u>Firm</u>	<u>Plant location</u>	<u>Production</u>
Haveg 1/.....	Wilmington, DE	***
HITCO 2/.....	Newport Beach, CA	***
Total.....		***

1/ Haveg is a division of Ametek, Inc., a diversified company.

2/ HITCO is a wholly owned subsidiary of Owens-Corning Fiberglass Corp.

Haveg produces both commercial grade and aerospace and controlled-shrinkage grade products for sale in the United States and abroad. The firm began producing silica fabric in 1959, at first exclusively for aerospace applications. In about 1975, Haveg undertook to broaden the market for silica fabric by modifying the product for use in industrial heat shielding and insulating applications. The commercial grade fabric has accounted for *** percent of the firm's total shipments of silica fabric since 1983. 2/ Haveg markets its commercial grade fabric through original-equipment manufacturers (OEM's), distributors, and bid sales. Its aerospace fabric is marketed almost exclusively through direct sales to companies that impregnate the fabric with resins for future resale to aerospace firms.

HITCO also produces both commercial grade and aerospace and controlled-shrinkage grade products. Like Haveg, HITCO initially produced only silica fabric for the aerospace industry. In the mid-1960's, HITCO developed a commercial grade product for sale to a broad range of industrial end users. Commercial grade silica fabric generally constituted approximately *** percent of HITCO's total shipments of silica fabric during 1983-85, but only about *** percent in 1986. In order to serve the commercial grade and aerospace markets more effectively, HITCO reorganized its marketing operations into separate entities in 1984 and established separate channels of distribution for the two products.

1/ The applications now served by commercial grade silica fabric were formerly served mostly by asbestos-based materials.

U.S. Importer

All silica fabric from Japan is imported into the United States by Hitachi Chemical Co. America, Ltd., of New York (HCA), a wholly owned subsidiary of Hitachi Chemical Co., Ltd., of Tokyo, Japan. The fabric is loaded from ships onto trains at west coast harbors and transported by HCA to Chicago, IL, where the import documents are processed by the U.S. Customs Service. All imported silica fabric is sold by HCA to Sandtex Corp. of Incline Village, NV, the exclusive first-level U.S. distributor. The current president of Sandtex Corp. negotiated the exclusive marketing agreement for silica fabric with HCA in the fall of 1983. The first shipments of silica fabric, which is produced in Japan by Nippon Muki Co., Ltd. (NM), 1/ arrived in December 1983. Sandtex sells only commercial grade silica fabric; it does not regularly sell aerospace grade fabric. 2/

Sandtex was incorporated in August 1984. It consists of four employees: Mr. Teague, president; Mrs. Teague, vice president; Miss Teague (daughter); and Michael Holman, inside sales person. Sandtex also employs two part-time persons for clerical help on an as needed basis.

Sandtex leases space in two public warehouses to store its inventory of silica fabric. Sandtex had its beginning with two large end-user customers, Newport News Shipbuilding (Norfolk, VA) and Bechtel Corp. (for projects in New York State). Sandtex selected Richmond, VA, and Syracuse, NY, as warehousing/inventory sites to provide good delivery for its first two large accounts.

The Market

Channels of distribution

Table 1 shows the percentage distribution of U.S. producers' and Sandtex's shipments of silica fabric by types of customers. The U.S. producers sold an average of *** percent of their products directly to end users and *** percent through distributors. Sandtex's sales were *** to end users in 1984 (***)

1/ Hitachi of Japan, the parent of HCA, *** of Nippon Muki.

2/ Sandtex and its counsel stated prior to completing the Commission's questionnaire that, to the best of their knowledge, Sandtex does not import or sell, nor does Nippon Muki manufacture, aerospace or controlled-shrinkage grade silica fabric (meeting between Messrs. Gooley, McLaughlin, Vastagh, and Mrs. Garrett of the Commission staff and Messrs. Teague, Palmetter, Richards, and Ms. Polino of the respondent, Nov. 3, 1986). Sandtex also completed its questionnaire indicating no sales or imports of aerospace or controlled shrinkage grade silica fabric. During the staff conference, however, counsel for Sandtex stated that Sandtex has, in fact, imported and sold aerospace or controlled-shrinkage grade silica fabric (transcript at pp. 134 and 135). Subsequently, Sandtex's counsel informed the staff that its first sale of silica fabric in the United States in 1984 was *** pounds (***) percent of Sandtex's total 1984 sales) of lightweight controlled-shrinkage fabric, but no more controlled-shrinkage or aerospace grade fabric was imported or sold by Sandtex during the remainder of 1984, 1985, or 1986.

Table 1.--Silica fabric: Percentage distribution of U.S. producers' shipments and shipments of imports from Japan, by types of customers, 1984, 1985, and January-September 1986

(In percent)			
Item	1984	1985	Jan.-Sept. 1986
Commercial grade silica fabric:			
Domestic product sold to--			
End users.....	***	***	***
Distributors.....	***	***	***
Total.....	100	100	100
Imported from Japan and sold to--			
End users.....	***	***	***
Distributors.....	***	***	***
Total.....	100	100	100
Aerospace grade silica fabric: <u>1/</u>			
Domestic product sold to--			
End users.....	***	***	***
Distributors.....	***	***	***
Total.....	100	100	100

1/ No shipments were reported of aerospace grade silica fabric imported from Japan.

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

percent) and in 1985 (***) percent. A trend of increasing sales of the imported product through distributors became apparent during January-September 1986 when the ratio of sales to end users decreased to *** percent, with the balance being sold to distributors. Sandtex has one outside salesman, its president, whereas each of the two domestic producers has six or seven outside salesmen. Sandtex's goal is to further increase its sales through distributors. 1/

Table 2 shows the quantity distribution of shipments of commercial grade silica fabric. Respondent argued that it has increased sales in the distributor market by finding new uses for the product. 2/ The data in table 2, although covering less than a 3-year period, show that the absolute quantity of shipments to distributors by U.S. producers declined whereas shipments of the imported product increased. Shipments of imported products to end users also increased rapidly; there are several thousand distributors compared with a few end users, hence it takes longer to increase sales in the distributor market.

1/ Respondent's postconference brief, pp. 20-23.

2/ Transcript of the conference, p. 111, and respondent's postconference brief, p. 21.

Table 2.--Commercial grade silica fabric: U.S. producers' shipments and shipments of imports from Japan, by types of customers, 1984, 1985, and January-September 1986

(In thousands of square yards)			
Item	1984	1985	Jan.-Sept. 1986
Sold to distributors:			
Domestic product.....	***	***	***
Imported product.....	***	***	***
Sold to end users:			
Domestic product.....	***	***	***
Imported product.....	***	***	***

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

U.S. consumption

Apparent U.S. consumption of commercial grade silica filament fabric decreased from approximately *** million pounds in 1983 to approximately *** million pounds in 1984, or by 21 percent, and then rose to *** million pounds in 1985 (table 3). Consumption during January-September 1986, at *** million pounds, was 1 percent less than consumption during the corresponding period of 1985. Combined consumption of aerospace and commercial grade fabric followed a trend similar to that of the commercial grade product.

According to the petitioners, the silica fabric market is mature and no major changes in overall consumption have occurred: military ship construction remained unchanged and the petrochemical industry's slump bottomed out during 1983. 1/ However, the respondent argues that the overall market has declined by more than 0.5 million pounds and is expected to decline further because of a drastic reduction in powerplant and ship construction. 2/

The Commission collected data on direct shipments by Haveg, HITCO, and Sandtex of commercial grade silica fabric to the major consuming industries. Data were requested on such shipments to the power industry, 3/ shipbuilding and repair industry, 4/ steel and aluminum industries, mining and petrochemical industries, and military uses (excluding shipbuilding). Most sales to the power and shipbuilding industries are made directly by the three vendors. Sales to the other user industry groups cited are lower in volume and their

1/ Transcript of the conference, pp. 68-71, and petitioners' postconference brief, pp. 14 and 15.

2/ Transcript of the conference, p. 100, and respondent's postconference brief, pp. 17-20.

3/ Nuclear and conventional powerplant construction and maintenance combined.

4/ Military and commercial combined.

Table 3.--Silica fabric: U.S. producers' domestic shipments, importer's shipments, and apparent consumption, by grades, 1983-85, January-September 1985, and January-September 1986

Period	Producers'	Importer's	Consump-	Ratio to consumption	
	domestic	shipments	tion	of--	
	shipments	shipments		Producers'	Imports
	-----1,000 pounds-----			-----Percent-----	
Commercial grade:					
1983.....	***	***	***	***	***
1984.....	***	***	***	***	***
1985.....	***	***	***	***	***
January-September--					
1985.....	***	***	***	***	***
1986.....	***	***	***	***	***
Aerospace grade:					
1983.....	***	***	***	100.0	-
1984.....	***	***	***	100.0	-
1985.....	***	***	***	100.0	-
January-September--					
1985.....	***	***	***	100.0	-
1986.....	***	***	***	100.0	-
Total:					
1983.....	***	***	***	***	***
1984.....	***	***	***	***	***
1985.....	***	***	***	***	***
January-September--					
1985.....	***	***	***	***	***
1986.....	***	***	***	***	***

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

consumption of silica fabric is less concentrated; hence, sales are made primarily through distributors. Therefore, the data collected from the three vendors are not indicative of aggregate shipments to those three user groups.

Total shipments to the power industry in 1984 by U.S. producers and Sandtex were *** square yards; they remained relatively level at *** square yards in 1985. Shipments to the shipbuilding industry increased sharply from *** square yards in 1984 to *** square yards in 1985, or by *** percent. Shipments of commercial grade silica fabric by the U.S. producers and Sandtex to the power and shipbuilding industries are shown in the following tabulation (in thousands of square yards):

<u>Item</u>	<u>1984</u>	<u>1985</u>	<u>Jan.-Sept. 1986</u>
Shipments to power industry:			
Domestic producers.....	***	***	***
Sandtex.....	***	***	***
Total.....	***	***	***
Shipments to shipbuilding industry:			
Domestic producers.....	***	***	***
Sandtex.....	***	***	***
Total.....	***	***	***

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

U.S. production, capacity, and capacity utilization

Commercial grade silica fabric--U.S. production of commercial grade silica fabric decreased from *** million pounds in 1983 to *** million pounds in 1984, or by *** percent, and then dropped further to *** million pounds in 1985, representing a decline of *** percent compared with production in 1984 and a decrease of *** percent compared with that in 1983. During January-September 1986, production was just under *** million pounds, representing a decline of *** percent compared with production in the corresponding period of 1985 (table 4).

Table 4.--Commercial grade silica fabric: U.S. production, capacity, and capacity utilization, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

Practical annual capacity ^{1/} of the U.S. producers did not change during the period under investigation. Capacity utilization by U.S. producers decreased from *** percent in 1983 to *** percent in 1984, and then dropped to *** percent in 1985; it slipped further to *** percent during January-September 1986.

^{1/} 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.

Aerospace grade silica fabric.--U.S. production, capacity, and capacity utilization for aerospace grade silica fabric are shown in table 5. ***. Production capacity for aerospace grade silica fabric is *** percent of the combined capacity to produce both commercial grade and aerospace grade silica fabric. In 1983, the aerospace grade represented *** percent of the aggregate U.S. production of silica fabric. Because of increases in aerospace grade production and decreases in commercial grade production, the share of total production accounted for by the aerospace grade fabric rose to *** percent in 1984 and *** percent in 1985 and during January-September 1986.

Table 5.--Aerospace grade silica fabric: U.S. production, capacity, and capacity utilization, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

Combined production and capacity utilization data for commercial and aerospace grade silica fabric (table 6) show similar trends as the separate data for the commercial grade fabric.

Table 6.--Silica fabric: 1/ U.S. production, capacity, and capacity utilization, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

U.S. producers' domestic shipments

Domestic shipments of commercial grade silica fabric by U.S. producers decreased from *** million pounds in 1983 to *** million pounds in 1984, or by *** percent, then further decreased to *** million pounds in 1985, representing a decline of *** percent compared with shipments in 1984 and a total decline of *** percent from those in 1983. Producers' shipments during January-September 1986, at *** pounds, were *** percent below the *** million pounds shipped during January-September 1985 (table 7). The value of such shipments was *** million in 1983, *** million in 1984, representing a decrease of *** percent, and *** million in 1985, representing a decrease of *** percent compared with that in 1984 and a total decrease of *** percent from the value of shipments in 1983.

Because of increased space program purchases, aerospace grade silica fabric shipments ***. ***.

Table 7.--Silica fabric: U.S. producers' domestic shipments, by grades and by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

Data on the combined shipments of commercial and aerospace grade silica fabric show the same trend as shipments of commercial grade silica fabric, both in quantity and in value. Commercial grade silica fabric, by quantity, represented *** percent of the total silica fabric shipments in 1983 and about *** percent since 1983, with aerospace grade accounting for the balance. In terms of the value of shipments, the commercial grade silica fabric's share was *** percent in 1983, *** percent in 1984, *** percent in 1985, and *** percent during January-September 1986.

Shipments of the lightweight and heavyweight fabric are shown separately in tables 8 and 9, respectively. U.S. producers shipped *** square yards (or *** percent) less lightweight fabric in 1985 than in 1984. Based on the January-September 1986 data shown, *** may be expected by the end of 1986. Shipments of the imported lightweight fabric increased during 1984-86, but *** (table 8). Shipments of heavyweight commercial grade silica fabric by domestic producers dropped significantly from 1983 to 1984 (by *** percent) and remained relatively stable thereafter. Shipments of imported heavyweight fabric increased during the period (table 9). Unit values reported for the imported fabric were generally *** than those of the U.S.-produced fabrics.

Table 8.--Lightweight commercial grade silica fabric: Domestic shipments by U.S. producers and by the importer, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

Table 9.--Heavyweight commercial grade silica fabric: Domestic shipments by U.S. producers and by the importer, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

U.S. exports

U.S. exports of commercial grade silica fabric *** annually during 1983-85; they accounted for between *** and *** percent of total shipments, both in terms of quantity and value (table 10). The unit values of export shipments of the U.S. producers are ***.

Table 10.--Commercial grade silica fabric: U.S. exports of U.S. produced merchandise, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

There were some exports of aerospace grade silica fabric during the period under investigation, as shown in table 11; they represented *** percent or less of the U.S. producers' total shipments of such fabric.

Table 11.--Aerospace grade silica fabric: U.S. exports of U.S. produced merchandise, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

U.S. producers' inventories

U.S. producers' yearend inventories of commercial grade silica fabric increased sharply from *** pounds in 1983 to *** pounds in 1984, or by *** percent. This increase coincided with the drop in domestic shipments. Production was adjusted to reduce inventories to *** pounds in 1985, despite the further decline in shipments.

As a share of domestic shipments, inventories increased from *** percent in 1983 to *** percent in 1984, then declined to *** percent in 1985 (table 12).

Table 12.--Commercial grade silica fabric: U.S. producers' inventories, by firms, as of Dec. 31 of 1983-85, and Sept. 30 of 1985-86

* * * * *

Inventories of aerospace grade silica fabric are shown in table 13.

Table 13.--Aerospace grade silica fabric: U.S. producers' inventories, by firms, as of Dec. 31 of 1983-85, and Sept. 30 of 1985-86

* * * * *

Employment and productivity

The number of workers producing commercial grade silica fabric in U.S. plants slipped from *** in 1983 to *** in 1984 and then fell to *** in 1985, representing a decline of *** percent from that in 1984. Hours worked by production workers averaged *** in 1983; *** in 1984; and *** in 1985. Average hourly wages increased annually from *** in 1983 to *** in 1985, or by *** percent. Average hourly total compensation (which includes fringe benefits) also increased, although slightly, from *** in 1983 to *** in 1985, or by *** percent (table 14). Workers at both firms that produce the subject product are represented by unions.

Table 14.--Commercial grade silica fabric: Number of production and related workers, hours worked by such workers, hourly wages paid and total hourly compensation per worker, productivity, and capacity utilization, by firms, 1983-85, January-September 1985, and January-September 1986

* * * * *

Worker productivity *** at Haveg ***. HITCO's worker productivity ***. The two companies employ different production processes, ***.

U.S. producers were asked to report any reductions in the number of production and related workers producing commercial grade silica fabric if such reductions involved at least 5 percent of the workforce. *** reported such reductions, as shown in the following tabulation:

<u>Firm and date</u> <u>of layoff</u>	<u>Number of workers</u> <u>affected</u>	<u>Duration of</u> <u>reduction</u>	<u>Reason for</u> <u>reduction</u>
--	---	--	---------------------------------------

* * * * *

There were no material reductions in the number of production and related workers producing commercial grade silica fabric at ***. The company submitted the following statement: ***.

Financial experience of U.S. producers

Both domestic producers of commercial grade silica filament fabric furnished usable income-and-loss data on (a) their operations in producing such merchandise, (b) their operations in producing aerospace and controlled-shrinkage grade silica filament fabric, and (c) the overall operations of their establishments in which commercial grade and aerospace grade silica filament fabric are produced. Both domestic producers maintain profitability data for their commercial grade silica fabric separately from aerospace grade silica fabric and separately from other products. Hence, the data reported represent actual, not allocated, costs and revenues. 1/

Operations producing commercial grade silica fabric.--Aggregate net sales of the two producers declined steadily from *** in 1983 to *** in 1985, or by *** percent (table 15). During the interim periods ended September 30, sales decreased by *** percent from *** in 1985 to *** in 1986. Aggregate operating income increased from *** in 1983 to *** in 1984, and then plunged by *** percent to *** in 1985. The operating income margins were *** percent, *** percent, and *** percent during 1983-85, respectively. Although operating income *** from *** in interim 1985 to *** in interim 1986, the operating income margin ***. ***.

Table 15.--Income-and-loss experience of U.S. producers on their operations producing commercial grade silica fabric, by firms, accounting years 1983-85 and interim periods ended Sept. 30, 1985, and Sept. 30, 1986

* * * * *

Operations producing aerospace grade silica fabric.--Income-and-loss data of the two U.S. producers on their operations producing aerospace and controlled-shrinkage grade silica filament fabric are presented in table 16 and their combined operations in producing both commercial grade and aerospace/controlled-shrinkage grade are shown in table 17. A comparison of operating

Table 16.--Income-and-loss experience of U.S. producers on their operations producing aerospace grade silica fabric, by firms, accounting years 1983-85 and interim periods ended Sept. 30, 1985, and Sept. 30, 1986

* * * * *

1/ Petitioners' postconference brief, p. 9.

Table 17.--Income-and-loss experience of U.S. producers on their operations producing commercial and aerospace grade silica fabric, by firms, accounting years 1983-85 and interim periods ended Sept. 30, 1985, and Sept. 30, 1986

* * * * *

income or (loss) margins on their operations in manufacturing each grade of silica fabric and their combined operations in producing both grades is shown in the following tabulation (in percent):

<u>Firm and grade</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Interim period</u>	
				<u>1985</u>	<u>1986</u>
Haveg:					
Commercial grade.....	***	***	***	***	***
Aerospace grade.....	***	***	***	***	***
Combined operations....	***	***	***	***	***
HITCO:					
Commercial grade.....	***	***	***	***	***
Aerospace grade.....	***	***	***	***	***
Combined operations....	***	***	***	***	***

Overall establishment operations.--Income-and-loss data of the two producers on their overall establishment operations are presented in table 18. ***.

Table 18.--Income-and-loss experience of U.S. producers on the overall operations of their establishments within which silica fabric is produced, by firms, accounting years 1983-85 and interim periods ended Sept. 30, 1985, and Sept. 30, 1986

* * * * *

Capital expenditures, research and development expenses, and value of property, plant, and equipment.--Capital expenditures by Haveg and HITCO for facilities used in the production of all establishment products and in the production of silica fabric are presented in table 19. The table also shows their investment in productive facilities in which silica fabric is produced. Research and development expenses on silica fabric reported by the two producers are shown in the following tabulation (in thousands of dollars):

<u>Grade and firm</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1986</u>
Commercial grade:					
Haveg.....	***	***	***	***	***
HITCO.....	***	***	***	***	***
Total.....	***	***	***	***	***
Aerospace grade:					
Haveg.....	***	***	***	***	***
HITCO.....	***	***	***	***	***
Total.....	***	***	***	***	***

Table 19.--Silica filament fabric: U.S. producers' capital expenditures and end-of-period value of their investment in property, plant, and equipment, by firms, accounting years 1983-85 and interim periods ended Sept. 30, 1985, and Sept. 30, 1986

* * * * *

Capital and investment.--The producers were asked to describe any actual or potential negative effects of imports of commercial grade silica filament fabric from Japan on their firm's growth, investment, and ability to raise capital. Their replies were as follows:

Haveg.--"***."

HITCO.--"***."

Consideration of the Question of Threat of Material Injury

In its examination of the question of threat of material injury to an industry in the United States, the Commission may take into consideration such factors as the rate of increase of the subject imports, the rate of increase in U.S. market penetration by such imports, the rate of increase of imports held in inventory in the United States, the capacity of producers in the exporting country to generate exports (including the existence of under-utilized capacity and the availability of export markets other than the United States), the potential for product shifting by the foreign manufacturers, and the price depressing or suppressing effect of the subject imports on domestic prices. Information on the nature of alleged LTFV sales is presented in the section of the report entitled "Nature and extent of the alleged LTFV sales," and discussions of rates of increase in imports and their U.S. market penetration, as well as available information on their prices, are presented in the section of the report entitled "Consideration of the causal relationship between the alleged LTFV imports and the alleged injury." Available information on inventories of silica fabric from Japan and the

ability of the foreign producers to generate exports, as well as the potential for product shifting, is presented in the following sections.

U.S. inventories of commercial grade silica fabric from Japan

Imports of commercial grade silica fabric from Japan did not begin entering the United States until late in 1983. There have been virtually no imports of aerospace grade silica fabric from Japan. Sandtex Corp., the sole first-level marketer of the Japanese commercial grade silica fabric in the United States, reported inventories as shown in the following tabulation (in thousands of pounds):

<u>Period</u>	<u>Inventories of imported silica fabric</u>
As of--	
Dec. 31--	
1983.....	***
1984.....	***
1985.....	***
Sept. 30--	
1985.....	***
1986.....	***

The December 31, 1983, inventory represented the first shipment of the subject product from Japan. Inventories rose from *** pounds at the end of 1984 to *** pounds by December 31, 1985. The September 30, 1986, inventory was *** pounds, representing a ***-percent increase over the inventory of September 30, 1985.

Sandtex's inventories are kept in public warehouses in Syracuse, NY, and Richmond, VA. Sandtex's strategy is ***. 1/

Capacity of producers in Japan to generate exports

The petitioners and counsel for the U.S. importer identified one firm that produces commercial grade silica fabric in Japan, Nippon Muki Co., Ltd. The petitioners also cited Arisawa Mfg. Co., Ltd., and Nichias Corp. as other possible producers, although they have been unable to confirm whether these two enterprises are, in fact, producing or exporting silica fabric.

The Commission sought information on the Japanese industry producing silica fabric from several possible sources. The Ceramics and Construction Materials Division, Consumer Goods Industries Bureau, MITI, has stated that MITI has just begun to look at this industry and has no statistics.

1/ Sandtex's questionnaire response.

The Commission also asked counsel for Sandtex, as well as counsel representing Hitachi Chemicals before the U.S. Department of Commerce, to obtain information regarding Nippon Muki's production, capacity, and shipments of the subject product.

In its postconference brief, counsel for the respondent provided no data on Japanese production, capacity, or shipments of silica fabric, but stated the following:

"Moreover, the question of the Japanese manufacturer's capacity and utilization, whatever their levels, are not of themselves sufficient to provide a reasonable indication of threat of material injury. Particularly in view of the fact that prices to Sandtex are rising, there is nothing to suggest that the Japanese manufacturer is pushing his supply on the U.S. market. In fact, the manufacturer plays no role whatsoever in selling the product in the U.S. market and it is the demand for the product which determines the level of imports. As noted above, Sandtex anticipates its increased sales, if any, would be in the expanding non-bid/distributor market, which will not threaten the petitioners with injury. Under these circumstances, even an increase in capacity would not threaten injury to the domestic industry." (At p. 29).

"Sandtex itself has sold a very limited amount of the controlled-shrinkage material. When it did so, it had no trouble obtaining this merchandise from the Japanese manufacturer, who does not produce the controlled-shrinkage fabric on a regular basis; however the Japanese manufacturer can easily produce it when necessary due to the almost identical production processes shared by the controlled-shrinkage and commercial grade silica fabric." (At p. 5),

On December 2, 1986, counsel representing the Japanese producer, Nippon Muki, Ltd. before the U.S. Department of Commerce, provided the Commission with data on Nippon Muki's production, capacity and shipments of commercial grade silica fabric, as shown in the following tabulation (in square meters:)

<u>Item</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>January-September--</u>	
				<u>1985</u>	<u>1986</u>
Capacity.....	***	***	***	***	***
Production.....	***	***	***	***	***
Sales in Japan.....	***	***	***	***	***
Exports to U.S.....	***	***	***	***	***
Exports to ***.....	***	***	***	***	***
Exports to ***.....	***	***	***	***	***

Counsel stated that capacity increases for the products of commercial grade silica fabric are the result of ***. The Japanese producer anticipates growth of the Japanese market. For example customers in Japan are asking for silica to be used as a shield in kerosene heaters. The replacement of asbestos based materials is also anticipated in Japan. According to counsel Nippon Muki is producing both commercial grade silica fabric and controlled shrinkage silica fabric but could not provide data on the production of the controlled shrinkage fabric.

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

U.S. imports

U.S. imports of silica fabric are not reported separately in official statistics of the U.S. Department of Commerce. Such imports are reported under TSUS items 338.25 and 338.27, which also include other glass fiber fabrics used in the apparel industry, and which are not covered by the investigation. 1/

The petitioners and the respondent both testified that there are no imports of silica fabric from any country other than Japan and that there is no company other than Sandtex that handles the imported Japanese silica fabric. 2/ There is virtually no aerospace grade silica fabric imported into the United States. The quantity and value of imports of commercial grade silica fabric are shown in table 20.

Table 20.--Commercial grade silica fabric: U.S. imports for consumption from Japan, 1983-85, January-September 1985, and January-September 1986

* * * * *

Imports of commercial grade silica fabric from Japan were *** pounds in 1983 (first shipment in December 1983); they were virtually unchanged at *** pounds in 1984, and then increased *** to *** pounds in 1985. The quantity of imports increased by *** percent to *** pounds during January-September 1986 over imports during the corresponding period of 1985. The value of imports was *** in 1983, *** in 1984, and *** in 1985. The January-September 1986 imports were valued at ***, compared with *** in the corresponding period of 1986.

1/ During the period under investigation, the bulk of the imports under these provisions consisted of products that are not covered by this investigation.
2/ The parties in this investigation are aware of only one other foreign producer of the product under investigation; that firm is in the United Kingdom.

The imports arrive by ship to west coast ports where they are transported by train to Chicago; they are then entered through U.S. customs and sold to Sandtex Corp.

U.S. importer's shipments

Shipment data for commercial grade silica fabric imported from Japan were obtained from Sandtex Corp. Shipments of such imports increased from *** pounds in 1984, the first year of shipments, to *** pounds (or by *** percent) in 1985. Shipments amounted to *** pounds during January-September 1985 and *** pounds during January-September 1986, as shown in the following tabulation:

	<u>Quantity</u> <u>(1,000 pounds)</u>	<u>Value</u> <u>(1,000 dollars)</u>
1983.....	1/	-
1984.....	***	***
1985.....	***	***
Jan.-Sept.--		
1985.....	***	***
1986.....	***	***

Shipments of the imported product by weights and widths are shown in table 21. Shipments of imported 36-inch-wide lightweight silica fabric increased from *** square yards in 1984 to *** square yards in 1985, or by *** percent. Shipments of imported 36-inch-wide heavyweight silica fabric increased from *** square yards in 1984 to *** square yards in 1985, or by over *** percent. Shipments of other than 36-inch-wide imported silica fabric represented *** percent of the total shipments of lightweight silica fabric and *** percent of the total shipments of heavyweight silica fabric in 1984, the first year of Sandtex's operation. The comparable shares were *** percent for lightweight and *** percent for heavyweight fabric in 1985, and *** and *** percent, respectively, during January-September 1986.

Table 21.--Commercial grade silica fabric: U.S. importer's domestic shipments, 1983-85, January-September 1985, and January-September 1986

* * * * *

1/ There were no U.S. sales of silica fabric from Japan in 1983.

U.S. market penetration

Market penetration by imports of commercial grade silica fabric from Japan, which first entered the United States in December 1983, increased sharply from *** percent of consumption in 1984 to *** percent in 1985 and *** percent during January-September 1986. Penetration of the aerospace market is effectively zero, as virtually no such products have been imported. The penetration of the total silica fabric market is similar in trend to that of the commercial grade silica fabric market (table 22).

The share of the imported product is *** in the heavyweight fabric market and *** in the lightweight fabric market; *** the trends of market penetration are similar.

Prices

Marketing methods.--Domestic and imported silica filament fabric are marketed through three channels of distribution. The major marketing arena is bid competition for volume sales to large end users such as electric utilities or shipyards. A network of independent distributors constitutes a second but overlapping channel of distribution. Direct sales by producers to OEM's, although very small in total volume (*** to *** percent of all shipments), are a third channel of distribution.

The bid process involves price quotes made by selected competing vendors in response to requests for quotes (RFQ's) solicited by the end user. Awards to supply a specified quantity are made to the low bidder. Public power entities such as the Tennessee Valley Authority have an open bidding process with the results of the bidding process sent to all bidders. Investor-owned utilities generally do not make all bids public, and losing bidders often may not know the winning quote or the bidder's identity. Bid competition may be direct between the U.S. producers, Haveg and HITCO, or between one or both of those producers and Sandtex, the vendor of the imported Japanese fabric. In other instances, the bid competition may involve distributors of the domestic or imported product quoting against each other or against a direct bid from a U.S. producer or Sandtex. 1/

1/ There have been instances in which distributors initially bidding have been bypassed by a domestic producer in order to better compete against a direct quote by Sandtex on the imported product.

Table 22.--Silica fabric: U.S. producers' and importer's shipments, apparent consumption, and market penetration, by grades, 1983-85, January-September 1985, and January-September 1986

Item	Producers' domestic shipments	Importer's shipments	Consump- tion	Market penetration by imports Percent
Commercial grade:				
1983.....1,000 pounds..	***	0	***	-
1984.....do....	***	***	***	***
1985.....do....	***	***	***	***
January-September--				
1985.....do....	***	***	***	***
1986.....do....	***	***	***	***
Aerospace grade:				
1983.....do....	***	0	***	-
1984.....do....	***	0	***	-
1985.....do....	***	0	***	-
January-September--				
1985.....do....	***	0	***	-
1986.....do....	***	0	***	-
Total:				
1983.....do....	***	0	***	-
1984.....do....	***	***	***	***
1985.....do....	***	***	***	***
January-September--				
1985.....do....	***	***	***	***
1986.....do....	***	***	***	***
Commercial grade lightweight:				
1983.....1,000 square yards..	***	0	***	-
1984.....do....	***	***	***	***
1985.....do....	***	***	***	***
January-September--				
1985.....do....	***	***	***	***
1986.....do....	***	***	***	***
Commercial grade heavyweight:				
1983.....1,000 square yards..	***	0	***	-
1984.....do....	***	***	***	***
1985.....do....	***	***	***	***
January-September--				
1985.....do....	***	***	***	***
1986.....do....	***	***	***	***

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

RFQ's to supply a specified quantity of silica filament fabric for immediate or one-time-only delivery are, at times, written invitations or, at other times, solicited by phone. These awards generally are made by purchase orders. Awards to supply an end user's fabric requirements for a specified time--usually a year or at times as long as 2 years--are made by contract for anticipated volume requirements to be delivered "as scheduled" or "as needed." Some large end users satisfy their requirements by frequent RFQ's and issuance of purchase orders. Others use the long-term contract to ensure supply at an agreed price. Contracts or repeat purchase orders issued by electric utilities generally are associated with particular new nuclear or fossil fuel plant projects.

Haveg's distributor network consists of about *** distributors with roughly *** selling locations and accounts for *** to *** percent of its total sales volume. These are stocking distributors. They include contractor supply companies, refractory and industrial supplies distributors, packing and gasket firms, and distributors of protective clothing and gloves. Until recent months, distributor sales (and sales to OEM's) were made from producers' published list prices. The traditional distributor discount is *** percent. A distributor of domestic fabric is tied to a particular brand. There is a "sole distributor clause" in the contract that requires that distributor not to handle another brand of silica filament fabric. Although the distributor net covers all of the United States, most of the sales volume is east of the Mississippi and in the gulf coast area.

Sandtex utilizes a network of *** or more distributors with multiple sales outlets. Most of these are not stocking distributors. Sandtex ships product to these distributors not for stock but to cover sales already made. Sandtex uses a published distributor price list.

Bid competition.--In order to analyze the competitive position of the various suppliers of domestic and imported silica filament fabric, the two domestic producers and Sandtex were asked to provide data on bids made on the 10 to 13 largest volume purchase order or contract awards to supply commercial grade silica filament fabric for (a) one-time-only delivery and (b) long-term contract. Such data were requested for 1984, 1985, and January-November 1986. These data are organized by respondent firm in tables 23 and 24 to show the aggregate quantity of the bids made and the total quantity of bids won, by firm, as a result of those bids. The data also show bids lost by each domestic firm to Sandtex or to a competing domestic firm. Bids lost to Sandtex and the competing domestic producer are shown as a percent of total quantity bid.

One-time-only sales.--Awards for one-time-only sales by Haveg show that the ratio of bids won to bids lost in terms of quantity (aggregate linear yards) *** each period (table 23). In 1984, Haveg reported lost bids on *** linear yards of fabric, or *** percent of the *** linear yards bid on overall. 1/ Haveg lost *** linear yards of possible sales volume in 1985, or

1/ Haveg's shipments totaled *** linear yards in 1984, *** yards in 1985, and *** yards during January-November 1986.

Table 23.--Commercial grade silica filament fabric: Total potential sales volume of projects bid on by domestic and import suppliers for one-time delivery, and the number of bids won and lost, by quantity and percent, 1984, 1985, and January-November 1986

* * * * *

*** percent of the aggregate volume on which it bid. During January-November 1986, Haveg lost bids on an aggregate volume of *** linear yards, or *** percent of the total potential sales volume on which it bid. In each time period, the entire lost volume was ***. ***'s share of the potential aggregate linear yards of sales volume *** during the subject time period.

HITCO shared the potential sales volume on which it bid *** with *** in 1984. It won *** of *** bids that totaled *** linear yards, or *** percent of the aggregate volume on which it bid (table 23). The bids reported lost by HITCO in 1984 were ***; in aggregate, these *** awards totaled *** linear yards. 1/ In 1985, HITCO won *** of *** bids but the aggregate volume of these awards *** to *** percent, or *** linear yards. ***, an aggregate volume of *** linear yards. HITCO won *** of the *** bids during January-November 1986 but *** in volume terms; the *** awards amounted to *** percent, or *** linear yards, of the total potential volume on which HITCO bid. *** won *** percent of HITCO's total possible sales volume with *** awards that totaled *** linear yards. *** won *** of the *** bids that HITCO lost; they totaled *** linear yards of fabric.

Awards listed by Sandtex for one-time-only sales show that the ratio of bids won *** each period. Aggregate linear yards awarded to Sandtex *** from *** in 1984 to *** in 1985 and *** during January-November 1986. 2/ Sandtex won *** of *** bids on possible awards of *** linear yards in 1984 and lost an aggregate volume of *** linear yards to ***. In 1985, Sandtex won *** of *** bids but lost awards totaling *** linear yards, or *** percent of the aggregate potential volume. Sandtex won *** of *** bids during January-November 1986, or *** percent of the *** linear yards awarded. Awards to the competing domestic firms totaled *** linear yards.

Long-term contracts.--The ratio of bids won to bids lost by Haveg *** in terms of quantity bid on from *** percent in 1984 to *** percent in 1985 and to *** percent during January-November 1986 (table 24). In absolute terms, Haveg's aggregate awards *** from *** linear yards in 1984 to *** linear yards in 1985 and *** linear yards during January-November 1986. *** won *** of the *** long-term contracts on which Haveg bid in 1984; they totaled *** linear yards, or *** percent of the total volume awarded.

1/ HITCO's shipments totaled *** linear yards in 1984; *** yards in 1985; and *** yards during January-November 1986.

2/ Sandtex's shipments totaled *** linear yards in 1984; *** yards in 1985; and *** yards during January-October 1986.

Table 24.--Commercial grade silica filament fabric: Total potential sales volume of projects bid on by domestic and import suppliers for long-term contract, and the number of bids won and lost, by quantity and percent, 1984, 1985, and January-November 1986

* * * * *

*** won *** that year for *** linear yards, or *** percent of the aggregate volume. *** won *** bids on which Haveg bid in 1985, for *** percent of the *** linear yard volume awarded, or *** linear yards. *** won *** for *** linear yards, or *** percent of the total volume awarded on these *** RFQ's. *** won *** of the *** RFQ's listed by Haveg for January-November 1986. *** amounted to *** linear yards, or *** percent of the *** linear yard volume awarded. *** won *** for *** linear yards, or *** percent of the total volume awarded. HAVEG bid for *** other long-term contracts that totaled *** linear yards. These awards are pending.

HITCO won *** of the *** bids it listed in 1984 and was awarded contracts that totaled *** yards, or *** percent of the *** yard total volume potential (table 24). In 1985, HITCO bid on *** contracts that totaled *** linear yards of possible sales volume. HITCO won *** bids that totaled *** linear yards, or *** percent of the total volume awarded. During January-November 1986, HITCO bid on *** projects and won *** awards for *** linear yards, or *** percent of the *** linear yard total award volume.

Sandtex won *** of the *** bids it listed in 1984 and was awarded contracts that totaled *** linear yards, or *** percent of the *** yards on which it bid (table 24). In 1985, Sandtex bid on *** RFQ's that offered an aggregate potential award volume of *** linear yards. Sandtex won *** bids and its ratio of bids won *** to *** percent of the total volume awarded, or *** linear yards. Sandtex bid on *** RFQ's in 1986 that offered a potential total award volume of *** linear yards. Sandtex won *** of these awards that amounted to *** linear yards, or *** percent of the total volume awarded under these *** RFQ's.

Single order awards won by Sandtex.--This section and the following section analyze, case by case, the bid competition of awards won by Sandtex that are shown in aggregate form in tables 23 and 24. Questionnaire responses listing the largest volume RFQ's bid on to supply silica fabric for one-time-only delivery yielded *** awards to Sandtex on which price quotes could be compared (table 25). *** of these awards to Sandtex were by ***.

Table 25.--Commercial grade silica filament fabric: Purchase orders for one-time delivery awarded to Sandtex, quantity, winning bid, unit price, range of competing domestic bids, and range of Sandtex margin of underselling, by awarding firms, 1984, 1985, and January-November 1986

* * * * *

In 1984, Sandtex, competing against ***, was awarded *** purchase orders (PO's) by *** that totaled *** linear yards of silica fabric. Sandtex won *** with a bid of *** per linear yard against a *** quote of ***, a margin of underbidding of *** percent. Another award for *** linear yards was bid at *** against the *** price of ***; the margin of underbidding was *** percent. A third award to Sandtex, also for *** linear yards, was at a price of *** per linear yard, *** percent lower than ***'s bid of ***. The *** award to Sandtex in 1984 was for *** linear yards, quoted at ***, or *** percent below ***'s price of ***.

Sandtex also won an award in 1984 to supply *** linear yards of silica fabric to ***. ***, Sandtex was competing with ***. Sandtex's bid was *** per linear yard, or *** percent lower than ***'s price of ***. These *** awards totaled *** in sales volume.

*** awarded *** sales to Sandtex in 1985. Sandtex bid *** on an RFQ for *** linear yards, or *** percent under ***'s quote of ***. A *** award to Sandtex was for *** linear yards of silica fabric. Sandtex, competing against ***, quoted a price of *** per linear yard, *** percent below the *** bid of *** and *** percent under ***'s bid of ***.

Sandtex also won an award in 1985 for *** linear yards of heavyweight silica fabric from ***. *** quoted a price of ***; Sandtex bid *** per linear yard, or *** percent lower than ***. A *** award of *** linear yards from *** also went to Sandtex. This was ***. Sandtex quoted *** against a *** bid by ***. ^{1/} These *** awards totaled *** in sales volume.

During January-November 1986, Sandtex won *** awards from ***. An award of *** linear yards went to Sandtex on a bid of *** per linear yard, or *** percent lower than ***'s quote of ***. A *** award to Sandtex was for *** linear yards. Sandtex again quoted ***, or *** percent under the *** price of ***. *** awarded *** to Sandtex for *** linear yards of fabric. The winning bid was *** per linear yard against a *** quote of ***; Sandtex underbid the domestic producer by *** percent. Another *** award of *** linear yards went to Sandtex for a price of ***, or *** percent lower than the *** bid.

*** awarded Sandtex an order for *** linear yards of heavyweight fabric. The Sandtex price was ***, or *** percent under the *** price. Another award to Sandtex for *** linear yards came from ***. The Sandtex bid of *** was *** percent lower than ***'s quote of *** per linear yard. *** won an award for *** linear yards of heavyweight silica fabric. *** was the domestic competitor. The imported Sandtex fabric was quoted at *** against a *** bid of ***; this award was won by a narrow margin of *** percent, or *** per linear yard. The remaining award to Sandtex in 1986 was an order for *** linear yards of lightweight silica fabric from ***. Sandtex's winning bid was *** per linear yard, or *** percent under the *** bid of ***. In total, the *** awards cited for January-November 1986 represented *** in sales volume.

^{1/} ***.

Long-term contract awards won by Sandtex.--Questionnaire responses listing the largest volume RFQ's bid on to supply silica fabric on long-term contract yielded *** awards to Sandtex on which price quotes could be compared (table 26).

Table 26.--Commercial grade silica filament fabric: Contracts for long-term supply awarded to Sandtex, quantity, winning bid, unit price, range of competing domestic bids, and range of Sandtex margin of underselling, by awarding firms, 1984, 1985, and January-November 1986

* * * * *

*** awarded a contract to Sandtex in 1984 for *** linear yards of lightweight silica fabric. Sandtex quoted *** per yard against bids of *** and ***, respectively, from *** and ***. The margin of underbidding by Sandtex ranged from *** to *** percent. *** awarded Sandtex a contract in 1984 to supply *** linear yards of Japanese heavyweight silica fabric. Sandtex won this award with a quote of *** per linear yard. The competing bids of *** and *** were *** and ***, respectively. Sandtex underbid the U.S. producers by margins of *** percent and *** percent, respectively. These *** long-term contracts represented *** million in sales volume to Sandtex.

*** price comparisons of long-term contract awards to Sandtex were possible for 1985. *** awarded Sandtex a ***-linear-yard contract. The Sandtex quote for Japanese heavyweight silica fabric was *** against competing bids from *** and *** of *** and ***, respectively. The margins of underbidding by Sandtex were *** percent and *** percent.

*** awarded Sandtex a long-term contract to supply *** with *** linear yards of lightweight Japanese silica fabric. The Sandtex price was *** against a competing bid of *** from ***. Sandtex underbid the U.S. product by *** percent.

In 1985, *** awarded Sandtex a long-term contract for *** linear yards of heavyweight Japanese silica fabric. Sandtex won the award with a quote of *** per linear yard ***. The details of this bid competition are related in the lost sales section of this report.

*** awarded a long-term contract to Sandtex to supply *** linear yards of heavyweight Japanese silica fabric. Sandtex quoted *** per linear yard against the domestic competitor, ***, who bid the project at *** per linear yard. Sandtex undersold *** by *** percent. These *** contracts in 1985 gave Sandtex a sales volume of ***.

A single comparison of quotes for a large, long-term contract awarded to Sandtex was possible for 1986. Sandtex was awarded a contract for *** linear yards of lightweight silica fabric by ***. Sandtex quoted *** per linear yard. *** bid *** per yard. *** bid this contract at *** per linear yard. Sandtex underbid the U.S. competitors by *** percent and *** percent, respectively. This contract represented a sales volume of *** for Sandtex.

Prices to distributors.--Both the U.S. producers and Sandtex, the vendor of silica fabric imported from Japan, provided data on their prices to distributors for lightweight and heavyweight silica fabric. The data received span the period January 1984-November 1986 and reflect the prices received for the three largest quarterly shipments of each of the above representative silica fabric products. Tables 27 through 30 present weighted averages of each U.S. producer's price data compared, separately, with the weighted-average price of the fabric imported from Japan. These quarterly comparisons are the basis for calculations of margins by which the Japanese silica fabric undersold (or oversold) the U.S. fabric.

Trends in prices.--Prices of lightweight silica fabric sold to distributors by Haveg reflect a *** trend in 1984 that continued in 1985 (table 27). From a base period price of *** per linear yard (January-March 1984) the weighted-average price per linear yard *** percent to *** during July-September, then *** to *** during October-December. The domestic price *** to *** during January-March 1985, *** during April-June, then *** to *** per linear yard during July-September, *** percent *** than the base period price. Although the average price level *** during October-December 1985, the price *** in January-March 1986 then *** during April-November at an average of *** in each quarter.

The price trend of domestic lightweight fabric sold to distributors by HITCO (table 28) reflects a *** pattern than that of Haveg prices. Average prices were *** the base period price in every quarter of the subject timespan except in ***. During October-November 1986, the average price of *** per linear yard was *** percent *** the base period price of ***.

Prices of imported Japanese lightweight fabric show a *** trend that began in mid-1984 when the weighted-average price *** to *** (July-September). Prices *** in the following quarter and by January-March 1985 had *** an average of *** per linear yard. The trend reversed during April-June 1985 and *** pushed the average price to a period *** of *** during July-September 1986, *** percent *** the base period price of ***. During October-November 1986, the price level *** to *** per linear yard.

Prices of heavyweight fabric sold to distributors by Haveg show an *** trend similar to Haveg's lightweight fabric prices. From a base period price of *** (table 29), prices *** in 1984 and early 1985, *** in 1985 to *** during July-September, *** again during October-December of that year to ***, then *** to *** during April-June 1986, *** the base period price, but *** to *** per linear yard during July-September and ended the period at an average price of ***.

HITCO's prices for heavyweight fabric sold to distributors do not reflect quite as *** a pattern as its prices for lightweight fabric (table G-8). From a 1984 base price of ***, the average price *** to *** during July-September, a price that *** in the following quarter. During January-March 1985, however, the price *** to ***, but *** irregularly in the balance of 1985. This *** pattern continued in the first three quarters of 1986, with prices at a level *** the base period price. The average price reached *** during October-November 1986, *** percent *** the base period price.

Table 27.--Lightweight silica fabric: Weighted-average prices for sales of the U.S. product by Haveg and of the imported Japanese product by Sandtex to distributors, indexes of those prices, and average margins by which imports from Japan undersold or oversold 1/ the U.S.-produced fabric, 2/ by quarters, January 1984-November 1986

* * * * *

Table 28.--Lightweight silica fabric: Weighted-average prices for sales of the U.S. product by HITCO and of the imported Japanese product by Sandtex to distributors, indexes of those prices, and average margins by which imports from Japan undersold or oversold 1/ the U.S.-produced fabric, 2/ by quarters, January 1984-November 1986

* * * * *

Table 29.--Heavyweight silica fabric: Weighted-average prices for sales of the U.S. product by Haveg and of the imported Japanese product by Sandtex to distributors, indexes of those prices, and average margins by which imports from Japan undersold or oversold 1/ the U.S.-produced fabric, 2/ by quarters, January 1984-November 1986

* * * * *

Table 30.--Heavyweight silica fabric: Weighted-average prices for sales of the U.S. product by HITCO and of the imported Japanese product by Sandtex to distributors, indexes of those prices, and average margins by which imports from Japan undersold or oversold 1/ the U.S.-produced fabric, 2/ by quarters, January 1984-November 1986

* * * * *

The trend of prices for heavyweight Japanese fabric sold by Sandtex to distributors reflects a pattern that *** that of lightweight Japanese fabric prices to distributors. From a base price of ***, the average price *** rather steadily to *** per linear yard during July-September 1986, then *** to *** during October-November, *** percent *** the base price.

Margins of underselling.--Quarterly comparisons of the weighted-average selling prices of each U.S. producer with those of Sandtex are the basis for analyzing margins of underselling or (overselling). These comparisons reveal a broad pattern of underselling by the imported product, although scattered instances of overselling appear.

Lightweight silica fabric.--Nine of twelve comparisons of quarterly weighted-average prices of Haveg and Sandtex to distributors reveal underselling by the lightweight fabric imported from Japan (table 27). Margins ranged from *** to *** percent, or from *** to *** per linear yard. Two of the three comparisons that show overselling appear in *** and are ***, ranging from *** to *** percent, or from *** to *** per linear yard. ^{1/} The remaining instance of overselling reflects a margin of *** percent, or *** per linear yard.

Seven of twelve comparisons of weighted-average prices of the lightweight product sold by HITCO and Sandtex to distributors show underselling (table 28). The margins range from *** to *** percent, or from *** to *** per linear yard. Again, overselling appears in *** with *** margins ranging from *** to *** percent, or from *** to *** per linear year. The Japanese fabric also oversold HITCO's lightweight fabric in ***. The margins are ***, ranging from *** to *** percent, or from *** to *** per linear yard.

Heavyweight silica fabric.--Eleven of twelve comparisons of Haveg and Sandtex prices of heavyweight silica fabric sold to distributors reflect underselling (table 29). Margins of underselling ranged from *** to *** percent, or from *** to *** per linear yard. The single instance of overselling appeared during *** with a margin of *** percent, or *** per linear yard.

Again, 11 of 12 comparisons of HITCO and Sandtex weighted-average prices of the heavyweight product sold to distributors show underselling (table 30). The margins ranged from *** to *** percent, or from *** to *** per linear yard. The single example of overselling, also during ***, showed a margin of *** percent, or *** per linear yard.

Lost sales

U.S. producers in their petition listed 36 alleged lost sales ^{2/} that involved 16 different user projects. In terms of quantity, they represented

^{1/} ***.

^{2/} These instances of alleged lost sales were compiled from a confidential survey conducted by Economic Consulting Services Inc. Haveg and HITCO also reported these lost sales in their questionnaire response.

an alleged lost volume of *** linear yards in 1984, *** linear yards in 1985, and *** linear yards during the period January 1-October 6, 1986. The overall volume of alleged lost sales amounted to *** linear yards of silica fabric, an estimated *** yards and *** yards of which was to be delivered under long-term contract in 1987 and 1988, respectively. The Commission staff investigated 28 alleged lost sales involving nine firms and which amounted to *** linear yards of silica fabric.

* * * * *

Exchange rates

Table 31 presents nominal- and real-exchange-rate indexes for U.S. dollars per Japanese yen. The real-exchange-rate index represents the nominal index adjusted for differences in the relative inflation rates between the United States and Japan. As shown in the table, the nominal value of the Japanese yen depreciated relative to the U.S. dollar by 8.5 percent between January-March 1983 and January-March 1985. The real-exchange-rate index shows that the Japanese yen actually depreciated by 11.5 percent during that period. Between January-March 1985 and July-September 1986, the nominal value of the Japanese yen appreciated relative to the U.S. dollar by 65.4 percent and the projected real value of the Japanese yen appreciated by 54.2 percent.

Table 31.--Indexes of nominal and real exchange rates between the U.S. dollar and the Japanese yen, by quarters, January 1983-September 1986

(January-March 1983=100)		
Period	Nominal-exchange- rate index	Real-exchange- rate index
1983:		
January-March.....	100.0	100.0
April-June.....	99.2	98.0
July-September.....	97.2	95.2
October-December.....	100.6	97.4
1984:		
January-March.....	102.1	97.9
April-June.....	102.7	97.8
July-September.....	96.8	93.2
October-December.....	95.8	92.2
1985:		
January-March.....	91.5	88.5
April-June.....	94.0	90.2
July-September <u>1/</u>	98.8	94.4
October-December.....	113.8	105.7
1986:		
January-March.....	125.5	115.4
April-June.....	138.6	124.5
July-September.....	151.3	<u>2/</u> 136.5

1/ In September 1985, the United States and its major trading partners agreed to intervene in foreign-exchange markets to reduce the value of the dollar.

2/ Projected.

Source: International Monetary Fund, International Financial Statistics, November 1986.

APPENDIX A

THE COMMISSION'S FEDERAL REGISTER NOTICE

[Investigation No. 731-TA-355
(Preliminary)]

**Certain Silica Filament Fabric From
Japan; Import Investigations**

AGENCY: United States International
Trade Commission.

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

SUMMARY: The Commission hereby gives
notice of the institution of preliminary
antidumping investigation No. 731-TA-
355 (Preliminary) under section 733(a) of
the Tariff Act of 1930 (19 U.S.C. 1673(a))
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 from Japan of woven
fabrics, of glass (silica filaments),
whether or not colored, containing not
over 17 percent of wool by weight,
provided for in items 338.25 and 338.27
of the Tariff Schedules of the United
States, which are alleged to be sold in
the United States at less than fair value.
As provided in section 733(a), the
Commission must complete preliminary
antidumping investigations in 45 days,
or in this case by December 11, 1986.

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

EFFECTIVE DATE: October 27, 1986.

FOR FURTHER INFORMATION CONTACT:
Stephen Vastagh (202-523-0283), Office
of Investigations, U.S. International
Trade Commission, 701 E Street NW.,
Washington, DC 20436. Hearing-
impaired individuals may obtain
information on this matter by contacting
the Commission's TDD terminal on 202-
724-0002. Information may also be
obtained via electronic mail by

accessing the Office of Investigations' remote bulletin board system for personal computers at 202-523-0103.

SUPPLEMENTARY INFORMATION:

Background.

This investigation is being instituted in response to a petition filed on October 27, 1986, by counsel on behalf of Ametek, Inc. (Haveg Division), of Wilmington, DE, and HITCO of Newport Beach, CA.

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 seven (7) days after publication of this notice in the *Federal Register*. Any entry of appearance filed after this date will be referred to the Chairman, 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 a document for filing without a certificate of service.

Conference.

The Director of Operations of the Commission has scheduled a conference in connection with this investigation for 9:30 a.m. on November 19, 1986, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, DC. Parties wishing to participate in the conference should contact Stephen Vastagh (202-523-0283) not later than November 13, 1986, to arrange for their appearance. Parties in support of the imposition of antidumping duties in this investigation and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference.

Written submissions.

Any person may submit to the Commission on or before November 21, 1986, a written statement of information pertinent to the subject of the

investigation, as provided in § 207.15 of the Commission's rules (19 CFR 207.15). 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 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 § 201.6 of the Commission's rules (19 CFR 201.6).

Authority. This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to section 207.12 of the Commission's rule (19 CFR § 207.12).

By order of the Commission.

Issued: October 31, 1986.

Kenneth R. Mason,

Secretary.

[FR Doc. 86-25040 Filed 11-4-86; 8:45 am]

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APPENDIX B

LIST OF WITNESSES

THESE DOCUMENTS CONTAIN INFORMATION

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CALENDAR OF PUBLIC CONFERENCE

Investigation No. 731-TA-355 (Preliminary)

CERTAIN SILICA FABRIC FROM JAPAN

Those listed below appeared at the United States International Trade Commission's conference held in connection with the subject investigation on November 19, 1986, in the Sunshine Room of the USITC Building, 701 E Street, NW., Washington, DC.

In support of the imposition of antidumping duties

Stroock & Stroock & Lavan--Counsel
Washington, DC
on behalf of--

Ametek, Inc., Haveg Division, Wilmington, DE
H. Dudley Barton, Vice President and Gen. Manager
HITCO, Newport Beach, CA
Robert Portik, Vice President and Gen. Manager,
Materials Plant

George G. Lorinczi)
Mark N. Rae) -- OF COUNSEL
Matthew H. McCarthy)

Mark Love, Vice President) -- CONSULTANTS
Economic Consulting Services) -- FOR
Kenneth R. Button, Ph.D. Chief Economist) -- THE
Economic Consulting Services) -- PETITIONERS

In opposition to the imposition of antidumping duties

Mudge Rose Guthrie Alexander & Ferdon--Counsel
Washington, DC
on behalf of--

The SANDTEX Corp., Incline Village, NV
Gary R. Teague, President
Robert N. Richards, Counsel

David Palmeter)
Martin Lewin) --OF COUNSEL
Teresa M. Polino)

