

CERTAIN STEEL WHEELS FROM BRAZIL

Determination of the Commission in
Investigation No. 701-TA-296
(Final) Under the Tariff Act
of 1930, Together With the
Information Obtained in the
Investigation



USITC PUBLICATION 2193

MAY 1989

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Anne E. Brunsdale, Chairman
Ronald A. Cass, Vice Chairman
Alfred E. Eckes
Seeley G. Lodwick
David B. Rohr
Don E. Newquist

Staff assigned:

Debra Baker, Office of Investigations
Adam Topolansky, Office of Industries
Jeffrey Anspacher, Office of Economics
Chand Mehta, Office of Investigations
Craig McKee, Office of the General Counsel

Robert Carpenter, Supervisory Investigator

Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

C O N T E N T S

	<u>Page</u>
Determination-----	1
Views of Commissioners Eckes, Lodwick, and Newquist-----	3
Views of Chairman Anne Brunsdale-----	23
Additional views of Vice Chairman Cass-----	43
Information obtained in the investigation:	
Introduction-----	A-1
Background-----	A-2
Nature and extent of subsidies-----	A-2
Programs determined to confer subsidies-----	A-3
Upstream subsidy investigation-----	A-4
The product:	
Background on wheel design-----	A-6
Like product issues-----	A-6
Description and uses-----	A-7
Manufacturing considerations:	
Manufacturing process-----	A-8
Machinery and equipment-----	A-10
Quality standards-----	A-10
Mexican maquiladora industry-----	A-11
Substitute products-----	A-11
U.S. tariff treatment-----	A-13
The U.S. market:	
U.S. producers-----	A-14
U.S. importers-----	A-20
Channels of distribution-----	A-21
Market factors:	
Trends in demand-----	A-21
Other factors affecting demand-----	A-21
Apparent U.S. consumption-----	A-24
Consideration of material injury to an industry in the United States-----	A-27
U.S. production, capacity, and capacity utilization-----	A-27
U.S. producers' domestic shipments, intracompany transfers, and exports-----	A-28
U.S. producers' inventories-----	A-31
Steel rim operations-----	A-33
Employment and productivity-----	A-34
Financial experience of U.S. producers-----	A-37
Overall establishment operations-----	A-37
Standard and custom steel wheel operations-----	A-39
Standard, custom, and aluminum wheel operations-----	A-39
Standard steel wheel operations-----	A-39
Custom steel wheel operations-----	A-42
Aluminum wheel operations-----	A-42
Steel rim operations-----	A-42
Investment in productive facilities and return on assets-----	A-44
Capital expenditures-----	A-44
Research and development expenses-----	A-44
Impact of imports on capital and investment-----	A-44

CONTENTS

	<u>Page</u>
Information obtained in this investigation--Continued	
Consideration of the question of threat of material injury-----	A-49
The steel wheel industry in Brazil and its ability to generate	
exports-----	A-50
Standard steel wheels-----	A-51
Custom steel wheels-----	A-52
U.S. inventories of steel wheels from Brazil-----	A-53
World wheel market-----	A-54
Consideration of the causal relationship between imports of the	
subject merchandise and the alleged material injury:	
U.S. imports-----	A-54
U.S. market penetration by imports-----	A-57
Prices-----	A-61
Bid competition-----	A-63
Chrysler-----	A-63
General Motors-----	A-65
Ford-----	A-66
Aftermarket-----	A-67
Lost sales and lost revenues-----	A-69
Exchange rates-----	A-70
Appendix A. The Commission's and Commerce's <u>Federal Register</u> notices---	B-1
Appendix B. List of witnesses who appeared at the hearing-----	B-19
Appendix C. Canadian operations-----	B-23
Appendix D. Effects of imports on U.S. producers-----	B-25
Appendix E. Data on producers' and importers' reported bids for	
standard steel and aluminum wheels-----	B-27
Appendix F. Data on producers' and importers' reported shipments	
pursuant to standard steel wheel bids-----	B-29

Tables

1. Standard steel wheels, custom steel wheels, and aluminum wheels:	
U.S. producers, plant locations, type of wheel production	
within plant, and position on the petition, by firms-----	A-15
2. Standard steel wheels, custom steel wheels, and aluminum wheels:	
U.S. producers, production, and shares of production, by firms,	
1988-----	A-19
3. U.S. production of passenger cars and light trucks and estimated	
U.S. consumption of wheels used in the production of passenger	
cars and light trucks, 1985-88-----	A-22
4. U.S. and Canadian production of passenger cars and light trucks,	
U.S.-produced and Canadian-made cars and light trucks produced	
with aluminum wheels as original equipment, and shares of U.S.-	
produced and Canadian-made cars and light trucks produced with	
aluminum wheels are original equipment, 1985-88-----	A-23
5. Standard steel wheels, custom steel wheels, and aluminum wheels:	
Apparent U.S. consumption, 1986-88-----	A-25

CONTENTS

Tables--Continued

	<u>Page</u>
6. Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. capacity, production, and capacity utilization, by products, 1986-88-----	A-27
7. Standard steel wheels, custom steel wheels, and aluminum wheels: Shipments of U.S. producers, by types and by products, 1986-88---	A-29
8. Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers' exports, by products, 1986-88-----	A-31
9. Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers' inventories, by products, as of Dec. 31 of 1986-88-----	A-32
10. Steel rims: U.S. production, capacity, capacity utilization, and U.S. shipments of domestically-produced and imported rims, 1986-88-----	A-33
11. Standard steel wheels and steel rims, custom steel wheels, and aluminum wheels: Number of production and related workers, hours worked by such workers, total compensation paid to such workers, hourly wages paid, productivity, and unit labor costs, 1986-88---	A-35
12. Income-and-loss experience of U.S. producers on the overall opera- tions of their establishments within which standard steel wheels, steel rims, custom steel wheels, and/or aluminum wheels are produced, accounting years 1985-88-----	A-38
13. Income-and-loss experience of U.S. producers on their operations producing standard steel wheels and custom steel wheels, accounting years 1985-88-----	A-40
14. Income-and-loss experience of U.S. producers on their operations producing standard steel wheels, custom steel wheels, and alumi- num wheels, accounting years 1985-88-----	A-41
15. Income-and-loss experience of U.S. producers on their operations producing standard steel wheels, accounting years 1985-88-----	A-42
16. Income-and-loss experience of U.S. producers on their operations producing custom steel wheels, accounting years 1985-88-----	A-42
17. Income-and-loss experience of U.S. producers on their operations producing aluminum wheels, accounting years 1985-88-----	A-43
18. Income-and-loss experience of U.S. producers on their operations producing steel rims, accounting years 1985-88-----	A-44
19. Standard steel wheels, custom steel wheels, and aluminum wheels: Value of property, plant, and equipment of U.S. producers, accounting years 1985-88-----	A-45
20. Standard steel wheels, custom steel wheels, and aluminum wheels: Capital expenditures by U.S. producers, accounting years 1985-88-----	A-47
21. Standard steel wheels, custom steel wheels, and aluminum wheels: Research and development expenses of U.S. producers, accounting years 1985-88-----	A-48
22. Standard steel wheels: Production, capacity, capacity utilization, shipments, and yearend inventories of Borlem and Fumagalli, 1986-88 and projected 1989-----	A-51

CONTENTS

Tables--Continued

	<u>Page</u>
23. Custom steel wheels: Production, capacity, capacity utilization, shipments, and yearend inventories of Mangels Minas, 1986-88 and projected 1989-----	A-53
24. Standard steel wheels and custom steel wheels: U.S. imports for consumption, by sources, 1986-88-----	A-55
25. Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. imports for consumption, by sources, 1986-88-----	A-56
26. Standard steel wheels, custom steel wheels, and aluminum wheels: Market penetration of subject imports, by products and by sources, 1986-88-----	A-58
27. Standard steel wheels: Bid information on contracts to Chrysler, submitted by Chrysler, for shipments during 1988-92-----	A-64
28. Steel and aluminum wheels: Price indexes for aftermarket sales of U.S.-produced wheels, by products and by quarters, January 1986-December 1988-----	A-68
29. Steel wheels: Price indexes for aftermarket sales of Brazilian-produced wheels, by products and by quarters, January 1986-December 1988-----	A-68
30. Nominal exchange rates of the Brazilian cruzado in U.S. dollars, real exchange-rate equivalents, and producer price indexes in the United States and Brazil, indexed by quarters, January 1986-December 1988-----	A-71
C-1 Standard steel wheels: Production, capacity, and capacity utilization of Canadian production operations of U.S. wheel manufacturers, by firms, 1986-88-----	B-24
C-2 Standard steel wheels: Shipments to the United States by producers with U.S. and Canadian production operations, by firms, 1986-88-----	B-24
C-3 Income-and-loss experience of Canadian producers on the overall operations of their establishments within which standard steel wheels, steel rims, custom steel wheels, and aluminum wheels are produced, accounting years 1985-88-----	B-24
C-4 Income-and-loss experience of Canadian producers on their operations producing standard steel wheels, accounting years 1985-88--	B-24
E-1 Standard steel wheels: Bid information on contracts to automobile manufacturers submitted by U.S. producers and U.S. importers of Brazilian-produced wheels, for shipments during 1986-89-----	B-28
E-2 Aluminum wheels: Bid information on contracts to automobile manufacturers submitted by U.S. producers and U.S. importers of Brazilian-produced wheels, for shipments during 1986-89-----	B-28
F-1 Standard steel wheels: Shipments reported by producers and importers of wheels to OEMs during 1986-88-----	B-30

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

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 701-TA-296 (Final)

CERTAIN STEEL WHEELS FROM BRAZIL

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission 2/ determines, pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)) (the act), that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of imports from Brazil of certain steel wheels, 3/ that have been found by the Department of Commerce to be subsidized by the Government of Brazil.

Background

The Commission instituted this investigation effective October 28, 1988, following a preliminary determination by the Department of Commerce that imports of certain steel wheels from Brazil were being subsidized within the meaning of section 701 of the act (19 U.S.C. § 1671). Notice of the institution of the Commission's investigation and of a public hearing to be

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

2/ Commissioner Rohr did not participate in this determination.

3/ The term "certain steel wheels" covers steel wheels, assembled or unassembled, consisting of both a rim and a disc, designed to be mounted with tube type or tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches inclusive, and generally designed for use on passenger automobiles, light trucks, and other vehicles, provided for in subheading 8708.70.80 of the Harmonized Tariff Schedule of the United States (HTS); such wheels were formerly reported under item 692.3230 of the Tariff Schedules of the United States Annotated (1987) (TSUSA).

held in connection therewith was given by posting copies of the notices in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notices in the Federal Register of November 30, 1988 (53 F.R. 48320) and February 15, 1989 (54 F.R. 6972). The hearing was held in Washington, DC, on April 20, 1989, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF COMMISSIONERS ECKES, LODWICK, AND NEWQUIST

We determine 1/ that an industry in the United States is not materially injured or threatened with material injury, nor is the establishment of an industry in the United States materially retarded, by reason of subsidized imports from Brazil of certain steel wheels.

I. Like Product and Domestic Industry

In determining in a Title VII investigation whether a U.S. industry is materially injured or is threatened with material injury by reason of the subject imports, the Commission must, as a threshold matter, define the relevant domestic industry. Section 771(4)(A) of the Tariff Act of 1930 defines the domestic industry as the "domestic producers as a whole of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." 2/ Correspondingly, "like product" is defined as "[a] product that is like, or in the absence of like, most similar in characteristics and uses with the articles subject to investigation." 3/

The imported products subject to this investigation are "steel wheels, assembled or unassembled, consisting of both a disc and a rim, designed to be mounted with both tube type or tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and

1/ Commissioner Rohr did not participate in this determination.

2/ 19 U.S.C. § 1677(4)(A).

3/ 19 U.S.C. § 1677(10)

generally for use on passenger automobiles, light trucks and other vehicles." 4/

A. Like Product

Our decision regarding the appropriate like product(s) in an investigation is essentially a factual determination, and we have applied the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis. 5/

In analyzing like product issues, we generally examine such factors as: (1) physical characteristics, (2) end uses, (3) interchangeability of the products, (4) channels of distribution, (5) production processes, (6) customer or producer perceptions, (7) common manufacturing facilities and production employees, and (8) price. 6/ No single factor is dispositive, and we may consider other relevant factors based upon the facts of a given investigation.

We have found minor product variations to be an insufficient basis for finding multiple like products, and instead, have looked for clear dividing lines among products. 7/ As noted by Congress, the like product requirement is not to be "interpreted in such a narrow fashion as to permit

4/ 54 Fed. Reg. 19425 (May 5, 1989).

5/ Asociacion Colombiana de Exportadores de Flores, et. al. v. United States ("ASOCOFLORES") CIT, Slip. Op. 88-91 at 9 (July 14, 1988).

6/ Light-Duty Integrated Hydrostatic Transmissions and Subassemblies Thereof, With or Without Attached Axles, from Japan, Inv. No. 731-TA-425 (preliminary), USITC Pub. No. 2149 (January 1989); Certain Forged Steel Crankshafts from the Federal Republic of Germany and the United Kingdom, Invs. Nos. 731-TA-351 and 353 (Final), USITC Pub. 2014 (September 1987) (hereinafter Crankshafts); ASOCOFLORES at 12, n.8.

7/ See, e.g., Operators for Jalousie and Awning Windows from El Salvador, Invs. Nos. 701-TA-272 and 731-TA-319 (Final), USITC Pub. 1934 (January 1987) at 4, n.4.

minor differences in physical characteristics and uses to lead to the conclusion that the products are not like each other." 8/

1. Standard and Custom Steel Wheels

For purposes of gathering information in this investigation, after consultation with the parties, standard steel wheels are defined as all steel wheels available as original equipment from vehicle manufacturers, and replacement wheels sold in the aftermarket if at one time they were available as original equipment from a vehicle manufacturer. 9/ Custom steel wheels are defined simply as all other steel wheels, regardless of style or price. 10/ Thus, as used in this investigation, the term "custom steel wheel" is, by definition, descriptive of the market into which such wheels are sold, and does not necessarily refer to the appearance or characteristics of the wheel. Although the term "custom steel wheels" has this meaning, we also note that "custom steel wheels" are most often "stylized." Similarly, some standard steel wheels are "stylized." Custom steel wheels account for approximately seven percent of combined standard and custom steel wheel production. 11/

2. The Parties' Arguments

Petitioner Kelsey-Hayes argues that standard steel wheels and custom steel wheels constitute a single like product. 12/ It urges that there is no clear dividing line between standard and custom steel wheels because the commercial distinction between these two types of wheels has blurred

8/ S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

9/ Report at A-7, n.3.

10/ Id.

11/ Report at A-27, Table 6.

12/ Kelsey-Hayes' prehearing brief at 6; Kelsey-Hayes' posthearing brief at 1

substantially in recent years and because a definition of custom steel wheels based upon the market into which the wheel is sold is not generally recognized in the wheel business. 13/ Similarly, NI Industries, Inc. and Motor Wheel Corporation, which both support the petition, argue that custom steel wheels should be part of a single like product. 14/

Respondent Positrade, Inc. ("Positrade") argues that custom steel wheels are a separate and discrete like product from standard steel wheels.

Respondent Rockwell-Fumigalli, although not expressly arguing that the Commission should exclude custom steel wheels from the definition of the like product, suggests that custom steel wheels are much less like standard steel wheels than aluminum wheels are like standard steel wheels. 15/

Indeed, Rockwell-Fumigalli argues that steel and aluminum wheels have the same characteristics and uses and therefore constitute a single like product. 16/ Kelsey-Hayes, in response, argues that aluminum wheels should not be included in the Commission's definition of the like product because aluminum wheels are drastically different from steel wheels under the Commission's traditional analysis of like product issues. 17/

3. Findings

We determine that the appropriate like product in this investigation is domestically produced standard steel and custom steel wheels. We base this determination on the following considerations.

First, standard and custom steel wheels have similar physical characteristics; they are both made from sheet steel. They are produced by

13/ Kelsey-Hayes' prehearing brief at 13; posthearing brief at 1-2.

14/ Motor Wheel's posthearing brief at 4-5.

15/ Rockwell-Fumigalli's prehearing brief at 6, n.2; Tr. at 82-83.

16/ Rockwell-Fumigalli's prehearing brief at 2.

17/ Kelsey-Hayes' prehearing brief at 7.

similar processes, although custom steel wheels require additional finishing; custom steel wheel producers often purchase their rims from standard steel wheel manufacturers. Custom and standard steel wheels are operationally interchangeable and have the same fundamental end use of propelling a vehicle. Finally, stylized standard steel wheels and custom steel wheels often have the same appearance. Moreover, although custom steel wheels by definition are sold in the aftermarket, this is not a unique attribute of custom wheels; replacement standard steel wheels also are sold in the aftermarket.

We note that the case for separate like product treatment for standard steel and custom steel wheels rests primarily upon evidence that: (1) custom steel wheels normally are produced by smaller firms that do not also produce large-volume standard steel wheels; (2) custom steel wheels, by definition, are then sold in the aftermarket as a substitute product for vehicle manufacturers' original equipment wheels; and (3) the average custom steel wheel is more expensive than the ordinary standard steel wheel.

In finding a single like product composed of all steel wheels, we do not consider the price difference between standard and custom steel wheels alone to be sufficient reason to find that the two types of wheels are separate like products. ^{18/} Furthermore, we do not choose to define the like product solely by reference to the market into which the wheel is

^{18/} See e.g. *Low-Fuming Brazing Copper Wire and Rod from New Zealand, Inv. No. 731-TA-246 (Final)*, USITC Pub. 1779 at 5-6 (The Commission found that where products are used for the same purpose, made from similar basic materials and sold through common channels of distribution, the fact that one product was more expensive was not sufficient to find separate like products).

sold, absent support for such a like product determination in terms of the other criteria enumerated above and traditionally used by us to evaluate like product questions. Here, we believe that, on balance, the evidence on the record as a whole favors a single like product consisting of standard and custom steel wheels.

Second, we do not include aluminum wheels within the definition of the like product. We recognize that aluminum and steel wheels generally have the same performance characteristics, 19/ and that the "steel wheel industry has gone to great extent to try to design steel wheels to appear like aluminum." 20/ In addition, aluminum and standard steel wheels share the features of being distributed through the same commercial channels to vehicle manufacturers for end use as original equipment on cars and light trucks, and accordingly are operationally interchangeable.

Nevertheless, we find that aluminum and steel wheels are different in several important respects. Steel wheels and aluminum wheels are produced in different manufacturing facilities, using different production employees, 21/ and involve completely different manufacturing processes. 22/ Steel wheels are manufactured by stamping and cold forming steel sheet whereas most aluminum wheels are manufactured by a casting process in which molten aluminum is poured into a steel mold in the form of a finished wheel. 23/ Consequently, aluminum wheels are significantly more

19/ Tr. at 43-44, 53. Indeed, Kelsey-Hayes argued that aluminum wheels are purchased solely because of their physical appearance. Tr. at 48.

20/ Tr. at 48.

21/ Kelsey-Hayes prehearing brief at 9; Rockwell-Fumigalli prehearing brief at Appendix A, p.7-8; Report at A-12.

22/ See Kelsey-Hayes prehearing brief at 8; Rockwell-Fumigalli prehearing brief at Appendix A, p.7-8.

23/ Id.

expensive than steel wheels. The average unit value of aluminum wheels in 1988 was \$55.94 versus \$13.55 for standard steel wheels. 24/

When purchasing aluminum or steel wheels for a given model, automobile OEMs do so depending upon whether it will assist in selling the vehicle. 25/ Automobile OEMs' increasing use of aluminum wheels on their automobiles suggests that they perceive aluminum wheels as distinct from the less expensive, even highly stylized, steel wheel counterparts. The perception that aluminum and steel wheels are quite distinct is confirmed by consumers' willingness to pay a substantial premium for aluminum wheels, even though steel wheel producers allegedly successfully mimic the "look" of aluminum wheels and aluminum wheels possess no performance advantages over steel wheels. 26/

The conclusion that aluminum wheels are not like steel wheels is further buttressed by separately comparing aluminum wheels to custom steel wheels. Aluminum wheels have different physical characteristics from custom steel wheels, are manufactured in different facilities by different production employees, are produced by different manufacturing processes, generally have a different channel of distribution because aluminum wheels are sold primarily to OEMs, and so have different sets of customers, and are priced differently. The only attributes that aluminum and custom steel wheels

24/ Report at A-13.

25/ Rockwell-Fumigalli's prehearing brief at Appendix A, p. 10.

26/ Compare Agricultural Tillage Tools from Brazil, Inv. No. 701-TA-223 (Final), USITC Pub. 1761 (1985) at 4 (Two like products where they were manufactured by different production processes, by different sets of manufacturers, and the end uses of the products were sufficiently distinct) with Liquid Crystal Display Television Receivers from Japan, Inv. No. 751-TA-14, USITC Pub 2042 (December 1987) at 8-12 ("Different technology or production processes do not necessarily establish different like products").

share is the same end use (i.e. propelling a vehicle) and operational interchangeability.

We again note that the imports subject to investigation include both standard and custom steel wheels. We decline to broaden the definition of the like product beyond the scope of the investigation because we are not convinced that aluminum wheels are appropriately grouped with either custom steel wheels or standard steel wheels individually or collectively.

Finally, we do not include steel rims within the like product. When considering whether "semifinished" or "component" articles are "like" the finished product, we have looked at: (1) the necessity for further processing, (2) the costs of such processing and the value added thereby, (3) whether the article at an earlier stage of production embodies or imparts to the finished product an essential characteristic or function, (4) whether there are independent markets for the finished and unfinished articles, and (5) the degree of interchangeability of articles at the different stages of production. 27/

In this regard we find that there are independent markets for rims and finished wheels (rims are sold primarily to custom wheel producers); rims require substantial processing before they are an integral part of a wheel (i.e. they must be joined with a disc and finished); the rim alone does not impart the essential function of the wheel; and there are substantial costs

27/ See Shock Absorbers from Brazil, Inv. No. 731-TA-421 (Preliminary), USITC Pub. 2128 (September 1988) at 12; Antifriction Bearings, (Other than Tapered Roller Bearings) and Parts Thereof from the Federal Republic of Germany, France, Italy, Romania, Singapore, Sweden, Thailand, and the United Kingdom, Inv. Nos. 731-TA-391-399 (Preliminary), USITC Pub. 2083 (May 1988) at 20-22; Certain Forged Steel Crankshafts from the Federal Republic of Germany and the United Kingdom, Inv. Nos. 731-TA-351 and 353 (Final), USITC Pub. 2014 (September 1987).

in transforming a rim into a custom steel wheel. 28/ Accordingly, we do not include domestically produced steel wheel rims within the like product corresponding to imported steel wheels.

In conclusion, we find that the like product in this investigation is domestically produced custom and standard steel wheels. Accordingly, we find one domestic industry consisting of all producers of custom and standard steel wheels.

B. Domestic Industry

Among the producers of steel wheels, Ford Motor Co. ("Ford") and General Motors ("GM") manufacture steel wheels for internal consumption only and, therefore, are captive producers. 29/ We include within the domestic industry all domestic production of the like product, whether consumed captively or sold on the open market, but we recognize that "alleged unfairly traded imports may not affect open-market producers and integrated producers in the same way." 30/

II. Condition of the Domestic Industry

In assessing the condition of the domestic industry we considered, among other factors, production, shipments, capacity, capacity utilization, inventories, employment, wages, cash flow, profits, return on investments, capital investment, and research and development expenditures. 31/

28/ See Report at A-8-10, 14.

29/ Report at A-17.

30/ Electrolytic Manganese Dioxide from Greece and Japan, Inv. Nos. 731-TA-406 & 408 (Final), USITC Pub. 2177 (April 1989) at 9; Thermostatically Controlled Appliance Plugs and Probe Thermostats Therefor from Canada, Hong Kong, Japan, Malaysia, and Taiwan, Inv. Nos. 731-TA-400-404 (Preliminary), USITC Pub. 2087 (June 1988) at 12-13; Industrial Phosphoric Acid from Belgium and Israel, Inv. No. 731-TA-365 and 366 (Final), USITC Pub. 2000 (1987).

31/ See 19 U.S.C. § 1677(7)(C)(iii).

U.S. production of standard and custom steel wheels (collectively "steel wheels") decreased from 47 million units in 1986 to 44 million units in 1987 to 42 million units in 1988. 32/ Similarly, producer's shipments of steel wheels fell from 44 million units in 1986 to 41 million units in 1987 to 38 million units in 1988. 33/ These shipments were valued at \$625 million, \$575 million, and \$558 million, respectively. 34/ Thus, the average unit value of steel wheel shipments decreased from \$14.07 in 1986 to \$13.88 in 1987, but then increased in 1988 to \$14.43. 35/ As a percentage of total domestic consumption, domestic steel wheel shipments fell from 81.5 percent in 1986 to 79.7 percent in 1987 to 75.8 percent in 1988. 36/

Average-of-period capacity rose from 64 million units in 1986 to 66 million units in 1987 and again to 67 million units in 1988. 37/ Capacity utilization, however, fell from 72.2 percent in 1986 to 66.9 percent in 1987 to 61.5 percent in 1988. 38/

Inventories increased from 1.4 million units in 1986 to 1.8 million units in 1987, but then fell to 1.3 million units in 1988. 39/ As a percentage of U.S. shipments, steel wheel inventories rose from 3.5 percent in 1986 to 4.7 percent in 1987, but then fell back to 3.5 percent in 1988. 40/

32/ Report at A-27, Table 6.

33/ Report at A-25, Table 5.

34/ Id.

35/ Report at A-30, Table 7.

36/ Report at A-25, Table 5.

37/ Report at A-27, Table 6.

38/ Id.

39/ Report at A-32, Table 9.

40/ Report at A-32, Table 9.

The number of production and related workers employed by the steel wheel domestic industry fell from 3,418 in 1986 to 2,997 in 1987 to 2,760 in 1988. 41/ Employee hours worked fell from 7 million hours in 1986 to 6.3 million hours in 1987, and then increased to 6.7 million hours in 1988. 42/ Hourly wages rose from \$14.81 in 1986 to \$15.22 in 1987, but then fell to \$14.32 in 1988, tracking the trend in labor productivity, which rose from 6.9 units per hour in 1986 to 7.3 units per hour in 1987, before falling to 6.5 units per hour in 1988. 43/

Domestic steel wheel capital expenditures declined from \$45.8 million in 1986 to \$40.8 million in 1987 to \$36.6 million in 1988. Similarly, research and development expenditures fell from \$9.1 million in 1986 to \$8.9 million in 1987 to \$ 8.8 million in 1988. 44/

Finally, net sales fell from \$581 million in 1986 to \$557 million in 1987 to \$529 million in 1988. 45/ Cash flow also declined from \$81.5 million in 1986 to \$79.6 million in 1987 to \$58.8 million in 1988. 46/ Similarly, gross profits dropped from \$87.8 million in 1986 to \$86.5 million in 1987 to \$66.2 million in 1988. 47/ Operating income increased from \$62.2 million in 1986 to \$63.7 million in 1987, before falling to \$44.1 million in 1988. 48/

As a share of net sales, gross profits increased from 15.1 percent in 1986 to 15.5 percent in 1987, before falling to 12.5 percent in 1988. 49/

41/ Report at A-35, Table 11.

42/ Id.

43/ Id.

44/ Report at A-47-48, Tables 20-21.

45/ Report at A-40, Table 13.

46/ Id.

47/ Id.

48/ Id.

49/ Id.

Net income before taxes as a share of net sales fell over the period of investigation, from 10.6 percent in 1986 to 10.3 percent in 1987 to 7.1 percent in 1988. 50/ Finally, as a share of net sales, operating income rose from 10.7 percent in 1986 to 11.4 percent in 1987 and then fell to 8.3 percent in 1988. 51/

Viewing all of these statutory factors in the aggregate, we find that on balance, the condition of the domestic steel wheel industry is worsening. 52/

III. Material Injury By Reason of Imports

Under 19 U.S.C. § 1673(d)(b), we must determine whether an industry in the United States is materially injured or is threatened with material injury by reason of the subject imports. 53/ In making this determination, we take into account information demonstrating possible alternative causes of injury to the domestic industry, 54/ but we do not weigh causes. 55/

50/ Id.

51/ Id.

52/ Commissioner Lodwick finds that the U.S. industry is experiencing material injury.

53/ See LMI v. U.S., Slip Op. 89-46 (CIT April 11, 1989) at 30-35; Hercules, Inc. v. United States, Slip. Op. 87-114 (CIT, Oct. 20, 1987) at 52-54, 58. In determining whether there is material injury by reason of the subject imports, we consider:

- (I) the volume of imports of the merchandise which is the subject of the investigation,
- (II) the effect of imports of that merchandise on prices in the United States for like products, and
- (III) the impact of imports of such merchandise on domestic producers of like products, but only in the context of production operations within the United States.

We also consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports. 19 U.S.C. § 1677(7)(B).

54/ See S. Rep. No. 249, 96th Cong., 1st Sess. 58 (1979); 19 C.F.R. § 202.27.
(continued...)

Material injury is "harm which is not inconsequential, immaterial or unimportant." 56/

We find that the subject imports from Brazil are not a cause of material injury to the domestic steel wheel industry. Before examining the statutory factors underlying our determination, we note the conditions of trade and competition prevailing in the domestic market for steel wheels.

The domestic market for passenger car and light truck steel wheels consists primarily of the major original equipment manufacturers ("OEMs") in the automobile and light truck industry, predominantly Chrysler, Ford, and General Motors. 57/ OEMs usually purchase wheels on an as-needed basis pursuant to annual or multi-year contracts, which generally set price and estimate quantities.

Before a wheel producer is permitted to supply steel wheels, the OEM's purchasing and engineering departments first must qualify the prospective supplier's production facilities that are to be used to produce the specified wheels. 58/ Assuming qualification, bids quotations also must allow for tooling and testing leadtimes, so that bids are often submitted a year and one-half to two years in advance of production. 59/

55/(...continued)

55/ "Current law does not...contemplate that the effects from the subsidized (or LTFV) imports be weighed against the effects associated with other factors (e.g., the volume and prices of nonsubsidized imports, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology, and the export performance and productivity of the domestic industry) which may be contributing to overall injury in an industry." S. Rep. No. 249, 96th Cong., 1st Sess. 57-58, 75 (1979).

56/ 19 U.S.C. § 1677(7)(A).

57/ Report at A-61.

58/ Report at A-62.

59/ Id.

Furthermore, when an OEM designs a wheel, whether for a new model vehicle or a redesigned vehicle, it usually selects a wheel producer to assist it in wheel design and testing. Consequently, the wheel manufacturer who aides in design and testing is likely to win the supply contract. 60/ In addition, OEMs are likely to stay with the producer that has traditionally provided a particular model, due in part, to tooling costs. 61/ Given this context, we turn to the question of material injury by reason of the subject imports.

Notwithstanding declining trends in the performance of the domestic industry, the volume of the subject imports from Brazil has been low and relatively stable, both absolutely and relative to domestic production and consumption, over the period of investigation. 62/ The data are consistent with the long-term contracts and long-standing relationships characterizing this industry and do not reflect material injury by reason of the subsidized imports. 63/ Based on the record developed in this investigation, we find that the volume of imports is not significant.

With regard to the pricing of the subject imports, we note that Chrysler is the predominant purchaser of the subject imports. 64/ Confidential evidence on the record establishes that price is not the dispositive factor in determining the winning bid at Chrysler. 65/ Of the numerous bids

60/ Id.

61/ Id.

62/ Report at A-57-58, Table 26.

63/ We also note that after investigating petitioner's lost sales allegations, we did not find a single lost sale by reason of the subsidized subject imports. See Report at A-69-70.

64/ Ford and General Motors purchased relatively few of the subject imports during the period of investigation, even though General Motors is the largest purchaser of steel wheels in the open market. Report at A-65-66.

65/ Report at A-64-65.

submitted to Chrysler for individual steel wheel contracts, in only eight instances did the lowest bid win the contract. 66/ Rockwell-Fumigalli was awarded only one contract where it provided the lowest bid against all other firms. 67/ Further, of the contracts awarded to Brazilian steel wheel producers, in virtually all cases the Brazilian bid was above the lowest bid by the domestic producer. 68/ Accordingly, we find that the subject imports did not significantly undersell the domestic like product.

Moreover, the record does not evince any price suppression or depression. Prices for the domestically produced steel wheels sampled show that their prices increased throughout the period of investigation, and yet still frequently undersold the subject imports from Brazil. 69/ Although we do not find evidence of price suppression, we further note that if prices were suppressed in the domestic industry, on the facts developed in this investigation, we would attribute it to the bargaining power of the OEMs and not to the subject imports. 70/

Finally, we find that the subject imports were not a cause of the decline in domestic steel wheel production and the general worsened condition of the domestic industry. 71/

66/ Id.

67/ Id.

68/ Id.

69/ Report at A-67-68, Table 28.

70/ Report at A-63. Given that the producers of the subject imports are producing near capacity, they would have little incentive to suppress prices in the U.S. in an attempt to gain market share, which they largely could not meet. Instead, their incentive, in direct opposition to the OEMs interest, is to sell the subject imports for as high a price as they can obtain.

71/ While we do not weigh causes, we are required to consider information which indicates that harm is caused by factors other than the subsidized imports. See S. Rep. No. 249, 96th Cong., 1st Sess. 58 (1979). In this regard, we note the falling domestic consumption of steel wheels and the

(continued...)

IV. Threat of Material Injury by Reason of Imports

Section 771(7)(F) directs us to determine whether a U.S. industry is threatened with material injury "on the basis of evidence that the threat of material injury is real and that actual injury is imminent." 72/ In reaching our threat of material injury determination, we consider:

- (1) if a subsidy is involved, information that the Commission has available to it as to the nature of the subsidy;
- (2) the ability and likelihood of the foreign producers to increase the level of exports to the United States due to increased production capacity or unused capacity; 73/
- (3) any rapid increase in penetration of the U.S. market by imports and the likelihood that the penetration will increase to injurious levels;
- (4) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise;
- (5) any substantial increase in inventories of the merchandise in the United States;
- (6) underutilized capacity for producing the merchandise in the exporting country;
- (7) any other demonstrable adverse trends that indicate the probability that importation of the merchandise will be the cause of material injury;
- (8) the potential for product shifting. 74/

71/(...continued)

increased volume of imports not subject to this investigation. See Report at A-26, 54, 58, Table 26.

72/ 19 U.S.C. § 1677(7)(F)(ii).

73/ The Commission's regulations provide that it shall consider, in particular, "the availability of other export markets" in making its determination. 19 C.F.R. § 207.26(d)(3).

74/ 19 U.S.C. § 1677(7)(F); We note that the Omnibus Trade and Competitiveness Act of 1988 ("the 1988 Act") added two new provisions, one addressing agricultural products and the other requiring us to consider the actual and potential negative effects on the existing development and production efforts of the domestic industry. 19 U.S.C. §§ 1677(7)(F)(i)(IX) and 1677(7)(F)(i)(X), as amended, 1988 Act §§ 1326(b) and 1329. Although

(continued...)

With respect to the nature of the subsidy provided, Commerce determined that five programs confer subsidies amounting to 1.82 percent ad valorem for Borlem S.A. and 17.29 percent ad valorem for all other companies. 75/ Of these five programs, the IPI export credit premium program conferred the greatest benefit, amounting to zero percent ad valorem for Borlem and 12.47 percent ad valorem for Rockwell-Fumigalli and all other firms. 76/ This program, however, is scheduled to expire on December 31, 1989, and according to Rockwell-Fumigalli, there is no chance it will be renewed. 77/ Thus, the subsidies involved are more likely to recede as a factor threatening the domestic industry than they are likely to expand.

Furthermore, confidential information on the record suggests that producers of the subject imports lack the ability to increase significantly their relatively low level of exports to the United States. 78/ Although Borlem has unutilized capacity, it is economically infeasible for it to convert its current unused capacity to production acceptable for export to the U.S. 79/

As indicated above, the penetration of the subject imports over the period of investigation has been relatively stable, and given the Brazilian producers' capacity constraints and inability to increase the level of

74/(...continued)

this investigation is not governed by the Act, which was signed into law five days after Commerce initiated these investigations, we considered these provisions and determined that they did not support a finding of a threat of material injury by reason of the subject imports.

75/ 54 Fed. Reg. 15523 (April 18, 1989).

76/ 54 Fed. Reg. 15523 (April 18, 1989).

77/ Rockwell-Fumigalli's posthearing brief at 3; Tr. at 121.

78/ Report at A-51-53, Tables 22-23; Rockwell-Fumigalli's posthearing brief at 3-5, Appendix B.

79/ Report at A-52; Borlem's posthearing brief at 5-7.

exports to the U.S., we find there is no likelihood that the penetration will increase to injurious levels. Moreover, given that steel wheel contract bids must be made approximately two years prior to beginning production, import levels for the next two years are determined by existing contract awards. The contracts already awarded to the producers of the subject imports do not presage an increase in subject import penetration. 80/ Similarly, the prices associated with these contracts for purchase of the subject imports do not establish that the imports will have a depressing or suppressing effect on domestic steel wheel prices. 81/

With regard to U.S. inventories of steel wheels from Brazil, we find that such inventories do not constitute a threat of real and imminent harm to the domestic industry, based upon confidential record data and the fact that each wheel is custom designed for a particular vehicle and cannot be sold on the open market. 82/

Finally, we note that Borlem's heavy-truck wheel exports to the U.S. are presently subject to an outstanding dumping determination. 83/ On the record before us, we find that there is no potential for product shifting because it is economically infeasible for Borlem to do so. 84/

Accordingly, we determine that the domestic industry is not threatened with material injury by reason of the subject imported steel wheels from Brazil.

80/ Report at Table 27.

81/ See Report at Table 27.

82/ Report at A-53.

83/ Tubeless Steel Disc Wheels from Brazil, Inv. No. 731-TA-335 (Final), USITC Pub. 1971 (April 1987).

84/ Report at A-52; Borlem posthearing brief at 5-7.

Conclusion

For the reasons set forth above, we determine that an industry in the United States is not materially injured nor is threatened with material injury, nor is the establishment of an industry in the United States materially retarded, by reason of imports from Brazil of certain steel wheels.

VIEWS OF CHAIRMAN ANNE BRUNSDALE

Certain Steel Wheels from Brazil
Inv. No. 701-TA-296 (Final)

May 24, 1988

Based on the information gathered in this investigation, I join my colleagues in determining that no industry in the United States is materially injured or threatened with material injury by reason of imports of subsidized steel wheels from Brazil.^{1/} I set out these separate views to explain my findings on like product and causation.

Like Product

As a threshold matter, the Commission is required to define the relevant domestic industry that is to be examined for the purpose of assessing whether material injury or threat of material injury by reason of the subsidized imports exists. Section 771(4)(A) of the Tariff Act of 1930, as amended, defines the term industry as "the domestic producers as a whole of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product."^{2/} Like product, in turn, is defined as "a product which is like, or in the absence of like, most similar in

^{1/} 19 U.S.C. 1671d(b). Material retardation is not an issue in this investigation and will not be discussed further.

^{2/} 19 U.S.C. 1677(4)(A).

characteristics and uses with, the article subject to an investigation...."^{3/}

In this investigation, the principal question regarding the definition of like product is whether standard steel wheels, custom steel wheels, and aluminum wheels constitute a single like product or multiple like products.^{4/} In the preliminary determination the Commission was evenly divided on the issue.^{5/} Based on the additional information compiled in this final investigation, I again determine that all three types of wheels constitute a single like product.

The Commission's like-product decision is a factual determination, and the Commission applies the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis. In analyzing like-product issues, the Commission generally considers a number of factors, including the use of common manufacturing facilities and production employees, physical appearance, interchangeability among the articles,

^{3/} 19 U.S.C. 1677(10). "The article subject to an investigation" is defined by the scope of the Department of Commerce's (Commerce) investigation. Commerce, in its amended Final Determination, has defined the scope of its investigation as follows: "...steel wheels...consisting of a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles, light trucks, and other vehicles...." 54 Fed. Reg. 19425 (May 5, 1989).

^{4/} Custom steel wheels are those steel wheels sold exclusively in the automotive aftermarket.

^{5/} Commissioner Liebler and I defined the like product to be all steel and aluminum wheels. Commissioners Eckes and Lodwick excluded aluminum wheels from their like product definition.

channels of distribution, and customer perceptions of the articles.

Production facilities and employees. Standard and custom steel wheels are produced using the same raw material. In addition, their manufacturing processes are similar. Despite this, there is very little overlap between production of standard and custom steel wheels. Only one producer of standard steel wheels is a significant producer of custom steel wheels, and this production occurs in a facility that is geographically remote from plants producing standard steel wheels.^{6/} Another standard steel wheel producer is a major supplier of rims to custom steel wheel manufacturers.^{7/} However, the bulk of the value of custom steel wheels is added in finishing operations that have no counterpart in standard steel wheel production. Also, the shorter production runs common in custom wheel production generally favor the use of more labor intensive methods than are used in producing standard steel wheels.^{8/} Many firms produce both custom steel wheels and aluminum wheels, and three firms produce both standard steel wheels and aluminum wheels.^{9/}

Channels of distribution. The primary distribution channel for both standard steel wheels and aluminum wheels is the direct

^{6/} See Report at A-15-16 (Table 1).

^{7/} Id. at A-18.

^{8/} For example, standard steel wheels are typically produced using high speed transfer presses, while custom steel wheels are typically produced on single stage presses. See Report at A-15.

^{9/} Most aluminum wheels are produced by a casting process rather than a stamping process. However, about 10 percent of aluminum wheels are produced using the stamping processes employed in steel wheel production. See Report at A-18.

sale to the original equipment manufacturer (OEM) -- in this case, the auto manufacturers.^{10/} Custom steel wheels are sold exclusively in the aftermarket.^{11/} In terms of distribution channels, standard steel and aluminum wheels are closer to each other than to custom steel wheels.

Customer perceptions. Consideration of both final consumer and OEM perspectives highlights the difficulty of finding a reasonable basis for subdividing wheels into separate like products. Both custom steel wheels and aluminum wheels are targeted towards consumers who are willing to pay a premium over the price of standard steel wheels in order to improve the appearance of their vehicle.^{12/} While aluminum wheels are standard equipment on some higher-priced vehicles, they are optional equipment on low- and mid-priced cars, allowing the consumer to make the same tradeoff between price and aesthetic value at the dealership as he can make in the aftermarket, where both custom steel wheels and aluminum wheels are available.

The average unit value of aluminum wheels is much higher than that for custom steel wheels, possibly suggesting a basis for market segmentation.^{13/} However, these unit value differentials significantly overstate the price differential at the consumer level between aluminum and custom steel wheels because they fail

^{10/} See Report at A-21.

^{11/} Report at A-21.

^{12/} Report at A-29-30 (Table 7) show that unit values of these wheels are significantly higher than the unit value of standard steel wheels.

^{13/} See Report at A-29-30 (Table 7).

to account for differences in installation cost. The bulk of aluminum wheels are bought as standard or optional delivered equipment on new cars, entailing no additional cost or effort to the consumer beyond the option price. In contrast, custom steel wheels are purchased primarily in the aftermarket, where buyers are responsible for installation expenses and must dispose of their redundant wheels. For similar reasons, unit value comparisons between custom and standard steel wheels understate the true consumer cost differential. Taking ancillary costs into account dramatically changes the magnitude of final consumer cost differences across the wheel spectrum.

Since OEMs are the initial purchasers of 93 percent of all wheels sold, they must also be considered as customers in the wheel market. OEMs buy only aluminum wheels and standard steel wheels. Apparently, the OEM's choice between styled steel wheels (a type of standard steel wheel) and aluminum wheels is a close call in some circumstances. For example, testimony in the preliminary investigation showed that one long-term contract for styled steel wheels was terminated when the buyer decided to go "all aluminum".^{14/}

Physical appearance. Given the plethora of individual wheel lines, there is no way to make meaningful appearance comparisons between the different categories of wheels.

Interchangeability. The arguments of Petitioners and Respondents focused on different aspects of the term

^{14/} Preliminary Tr. at 139-141 (Messrs. Kerr and Stein).

interchangeability. Petitioner argued that steel and aluminum wheels are not interchangeable because the latter are different in appearance and are more highly priced.^{15/} Respondents countered that the gap between aluminum and standard steel wheel prices is becoming less important to consumers as the price of wheels generally declines relative to the price of automobiles and light trucks. In addition, Respondent argued that aluminum and standard steel wheels are interchangeable because they are fitted to vehicles for the same basic purpose.^{16/}

Petitioners favor a like-product definition that includes standard and custom steel wheels as a single aggregate.^{17/} Custom steel wheels are typically sold at prices that fall in the gap between the prices of standard steel wheels and aluminum wheels.^{18/} However, some custom steel wheels are more expensive than aluminum wheels. This positioning of custom steel wheels in the marketplace tends to undercut the argument that pricing provides a clear basis for determining that the aggregate consisting of standard and custom steel wheels is not interchangeable with aluminum wheels.

Summary Evaluation of the Like-Product Question. As we consider each of the factors relevant to our like-product determination, the case presents us with no ordering of the products that is stable. Wheels that appear to be closest in

^{15/} Petitioner's Prehearing Brief at 10.

^{16/} Prehearing Brief of Rockwell-Fumagalli at Appendix A, page 11.

^{17/} See Posthearing Brief of NI Industries at 1-4.

^{18/} Report at A-29-30 (Table 7).

terms of one factor are farthest apart for several of the others. Indeed, within a single factor such as customer perception the grouping of different wheels varies dramatically depending on whether the customers considered are final consumers or OEMs.

The present case may be contrasted to others in which the Commission has faced the issue of whether a continuum of products could be divided into separate like products. In those cases, the ordering of the products along some dimension was not in question. Rather, the issue was if, and where, to cut the line.^{19/}

Here, there is no "line" along which the wheels in question can be naturally distributed. Rather, there appears to be an intricate multidimensional web of relationships among different wheels. In the preliminary record I could find no sensible basis for subdividing the tangled web. If anything, the additional information gathered in the final phase of the investigation weakens the case for adoption of the "all steel" like-product definition favored by petitioners. Notwithstanding similarities in the technical aspects of the production process for both types of steel wheels, there is little if any overlapping production. Indeed, the number of plants producing both custom steel and

^{19/} See, e.g., Granular Polytetrafluoroethylene Resin from Italy and Japan, Inv. Nos. 731-TA-385 & 386 (P), USITC pub. No. 2043 at 7-8 (Dec. 1987); Oil Country Tubular Goods from Brazil, Korea & Spain, Inv. Nos. 701-TA-215-217 (F), USITC Pub. No. 1633 at 5 (January 1985).

aluminum wheels apparently exceeds the number of plants producing both types of steel wheels.^{20/}

The evidence summarized above could support a determination that all three types of wheels are separate like products if a very great weight was placed on the very limited commonality of production operations. In my view only the application of a magnetism or rustability standard would favor a definition of custom and standard steel wheels together as a single like product. However, the statute simply does not contemplate the drawing of like product lines based exclusively on the raw material composition of products.

The balance of the evidence leads me to conclude that the relevant like product in this investigation encompasses all three types of steel wheels, and the domestic industry consists of producers of all three types.

Condition of the Domestic Industry

An assessment of the condition of the domestic industry establishes the context within which the Commission determines whether a particular amount of impact that the subject imports may have had on the domestic industry constitutes material injury. In assessing the condition of the domestic industry, the Commission considers, among other factors, domestic consumption of

^{20/} Report at A-15-16 (Table 1).

the product, U.S. production, shipments, inventories, employment, and profitability.21/

Because the Commission has traditionally considered captive producers to be a part of the domestic industry,22/ I include Ford Motor Corp. and General Motors Corp., manufacturers of wheels for internal consumption only, as part of the domestic industry.23/ Together, Ford and GM accounted for a substantial share of 1987 U.S. production of wheels.24/

The domestic market share of aluminum wheels rose significantly during the period of investigation. By quantity, aluminum wheels held an estimated 19.9 percent of the OEM market for wheels in the 1988 model year, double the 9.9 percent market share held by aluminum wheels only three years earlier.25/ Clearly, aluminum wheels are an increasingly important segment of the U.S. wheel market. Indeed, due to the price disparity between standard steel and aluminum wheels, the value of U.S. producers' aluminum wheel shipments actually exceeded the value of standard steel wheel shipments in 1988.26/

The data in hand reflect a generally favorable industry performance. Although domestic production of wheels declined

21/ 19 U.S.C. 1677(7)(c)(iii).

22/ See 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (F), USITC Pub. No. 1862 at 11, n. 18. See also 64K Dynamic Random Access Memory Components from Japan, Inv. No. 731-TA-270 (P), USITC Pub. No. 1735 at 5; Color Picture Tubes from Canada, Japan, the Republic of Korea and Singapore, Inv. Nos. 731-TA-367-370 (F), USITC Pub. No. 2046 (Dec. 1987).

23/ Report at A-17.

24/ Report at A-29 (Table 2).

25/ See Report at A-23 (Table 4).

26/ See Report at A-29 (Table 7).

from 53.9 million units in 1986 to 52.5 million units in 1988, a decline of 2.6 percent, the value of production rose due to the increasing share of high-value aluminum wheels in total production.^{27/} U.S. producers' capacity increased 10.0 percent from 1986 to 1988.^{28/} With an overall increase in capacity and a steady decline in production, capacity utilization declined from 73 percent in 1986 to 64.2 percent in 1988. Domestic producers' shipments data tracked production trends, falling in quantity while rising in value between 1986 and 1988.^{29/} The ratio of inventories to shipments fluctuated in a narrow range during this period.^{30/}

The number of production and related workers producing wheels increased sharply over the period of investigation despite a decrease in the quantity of wheels produced, due to the shift in the product mix toward more labor-intensive aluminum wheel production.^{31/} Aggregate operating income (before start-up expense) on all wheel operations was stable between 1986 and 1988.^{32/}

It is quite evident from the record that there has been a shift away from standard steel wheels in favor of aluminum wheels. On the whole, the wheel-producing industry and its employees have

^{27/} See Report at A-27 (Table 6).

^{28/} Id.

^{29/} See Report at A-29 (Table 7).

^{30/} Id at A-32 (Table 9).

^{31/} Report at A-35-36 (Table 11). The number of production and related workers rose by 15.4 percent over the period of investigation.

^{32/} See Report at A-60 (Table 14).

benefited from the shift towards higher valued labor-intensive products. While there have undoubtedly been some dislocations resulting from this shifting product mix, the statutory construction gives us no latitude or reason to consider the changes in the relative fortunes of segments within the domestic industry producing the like product in making our determinations. Therefore my consideration of the issue of material injury by reason of subsidized imports in the following section is made in the context of the performance of the entire domestic industry.

Causation Analysis

In making its final determination, the Commission must ascertain whether material injury or threat of material injury "by reason of" the imports under investigation exists.^{33/} To apply the countervailing duty laws properly, one needs to understand the causal link between imports and the state of the domestic industry. As I have discussed in previous cases, a simple recounting of domestic industry and import trends does not provide a sufficient basis for establishing a causal relationship. I therefore take another approach, which is to organize the data on the record in a fashion that allows me to assess the relationship between imports and the condition of the industry according to basic principles of economics.

^{33/} 19 U.S.C. 1671d(b).

The Market for Wheels. Wheels are sold to original equipment manufacturers (OEMs) and in the automotive aftermarket. The OEM market, which accounts for 93 percent of the total wheel market, is characterized by long-term contracts between suppliers and automakers. Because independent wheel producers have few alternatives to the OEM market, they have little bargaining power in dealing with OEM wheel buyers, a factor which the latter can exploit by playing competing suppliers against each other. Some OEMs engage in tapered integration, allowing them to pressure independent wheel suppliers by increasing, or threatening to increase, the share of needs met with internal sourcing. The need to cover high fixed costs, coupled with the relatively small number of discrete contract opportunities, is a final factor that encourages wheel producers to bid with a very sharp pencil when opportunities arise.^{34/}

Notwithstanding the leverage they can exert over independent wheel suppliers in the bidding and negotiating of contracts, the OEMs are tied relatively tightly to their supplier or suppliers once they contract for a particular wheel. The OEMs work closely with individual wheel manufacturers to design, test, and tool new wheel designs. Shifting to a different supplier would necessitate some duplication of otherwise non-recurring costs and would also result in initially lower productivity due the loss of learning-curve benefits in production.^{35/}

^{34/} See Economic Memorandum EC-M-172 (May 15, 1989) at 3-4.

^{35/} See Report at A-63.

I have often found it useful to frame my analysis in Title VII cases in terms of three key elasticities - the elasticity of demand, the elasticity of domestic supply, and the elasticity of substitution between imports and the domestic like product.^{36/} The discussion of markets in elasticity terms has a distinct advantage compared to the use of terms such as "highly responsive" and "somewhat sensitive" that have a different meaning for every individual who speaks or hears them. Admittedly, the nature of the record in many of our cases, including the present one, precludes the calculation of precise point estimates of the relevant elasticities. Recognizing this, ITC staff makes no pretense at spurious precision but, instead, presents elasticity estimates to the Commission in terms of wide ranges.^{37/} In my view, the inevitable imprecision of the record developed in Title VII cases only increases the importance of using a precise language to discuss it. Precise language is necessary to avoid having significant differences over interpretation of the record become hopelessly entangled with differences over the meaning of the terminology used to describe it.

^{36/} The definition of each of the three elasticities and its relevance to my analysis of causation is outlined in several of my opinions. Most recently, see Certain Light-Walled Rectangular Pipes and Tubes From Taiwan, Inv. No. 731-TA-409, USITC Pub. _____ (April 1989).

^{37/} Prior to Commission action in each case, the initial elasticity estimates prepared by the Commission's Office of Economics are made available to parties for review and comment. The parties' comments are considered by staff in preparing the final Office of Economics memorandum for that case.

Demand Elasticity. Demand for wheels is by all accounts highly inelastic. In the primary (OEM) market the demand for wheels is totally dependent on demand for automobiles. Demand for automobiles is widely believed to be slightly elastic; however wheels constitute so small a percentage of total manufacturing cost that even large percentage changes in wheel prices will have only a small effect on new car prices and sales.^{38/} Using standard techniques, staff estimates that total demand for wheels is extremely inelastic, with a one percent increase in wheel prices reducing demand by less than 0.05 percent.^{39/}

Substitution Elasticity. Staff estimated that the elasticity of substitution between the subject imports and domestic steel wheels fell in the moderate range of 3 to 5. Factors usually considered by the Commission seem to suggest a dearth of non-price factors influencing buyers. Differences in the quality of domestic and imported products, both of which are made to the buyer's specification, are apparently insignificant. Reject rates for foreign and domestic wheels were similar. Moreover, the technological sophistication of foreign and domestic plants is comparable, so that there is no natural division in the product line based on technology. Provisions made for delivery to the OEM's production line are apparently identical for both foreign

^{38/} See Economic Memorandum EC-M-172 at 14.

^{39/} Staff calculates a somewhat higher, though still highly inelastic, upper bound elasticity estimate for steel wheels alone. However, given my like product determination, that estimate is not germane to my analysis.

and domestic producers. By themselves, the factors considered above would seem to suggest a high substitution elasticity.

However, I must also consider the direct testimony of buyers regarding the importance of non-price factors in their purchase decisions and especially the bidding record evidence, which shows a somewhat striking insensitivity of contracting decisions to price alone. Moreover, the litany of factors considered in the previous paragraph fails to take account of the unusual structure of the wheels market. The attractiveness of low prices on individual contracts to buyers may be tempered by their interest in maintaining a market climate in which they can exercise monopsony power.

In all, I place the greatest weight on the direct evidence. I also note that no party has criticized staff's evaluation of the record in this matter. Therefore, I agree that the substitution elasticity is likely to fall in the moderate range suggested by the Office of Economics.

Domestic Supply Elasticity. The Office of Economics suggests that the domestic supply elasticity is relatively high, falling in the range of 5 to 10. The primary support for this view is the substantial amount of excess capacity available to standard and custom steel wheel producers and to aluminum wheel producers. However, not all facilities are qualified by all producers. Moreover, some excess capacity simply reflects the open-ended nature of the requirements contracts, under which OEMs insist that

contract holders be prepared to supply more wheels than they are likely to actually buy. Two additional factors, the lack of significant exports that can be diverted to the U.S. market and a qualification system that poses a barrier to new entrants, tend to hold down the response of supply to price developments.

Assessment of Material Injury Factors

With respect to material injury, the statute directs the Commission to consider, among other factors, (1) the volume of imports of the merchandise that is the subject of the investigation, (2) the effect of those imports on prices in the United States for the like products, and (3) the impact of those imports on domestic producers of like products.^{40/}

Volume of Imports. Imports of Brazilian steel wheels [*****] from \$[****] million in 1986 to \$[****] million in 1987 and \$[****] million in 1988.^{41/} But, measured by quantity, Brazilian steel wheel imports [****] from [***] million units in 1986 to [*****].^{42/} The share of the total U.S. market held by the subject imports fluctuated in a narrow range during the period covered by the investigation. Measured by quantity, it was [***] percent in 1986, [***] percent in 1987 and [***] percent in 1988,^{43/} whereas measured by value, it fluctuated

^{40/} 19 U.S.C. 1677(7)-(8).

^{41/} See Report at A-55 (Table 24).

^{42/} Id.

^{43/} See Report at A-59 (Table 26).

from [***] percent in 1986 to [***] percent in 1987 to [***] percent in 1988.^{44/}

The import volume and market share data both indicate a relatively unchanging penetration of subject imports in the U.S. market. As noted above, OEM wheel business is typically awarded to wheel suppliers under multi-year requirements contracts. Actual wheel shipment levels are subsequently determined by the popularity of the car models on which a particular wheel model is used. The small variation in the level of imports and their market shares is more a reflection of vehicle market developments than of any changes in supplier behavior or buyer preferences.

Effect on Prices. The price for steel wheels supplied to U.S. auto manufacturers is determined pursuant to long-term contracts of up to [****] years' duration.^{45/} Data collected in the preliminary investigation showed that import bids were not uniformly lower than domestic bids, and that contracts were routinely awarded to other than the low bidder.^{46/} Since that time, Commission staff worked diligently to assemble information on existing contracts, outstanding bid quotations, and requests for bids.

The present record confirms the indication in the preliminary record that OEM buyers consider factors other than price and

^{44/} See *id.* at A-59 (Table 26).

^{45/} See Report at A-61.

^{46/} See Steel Wheels from Brazil, Inv. No. 7-1-TA-296, (Preliminary) USITC Pub. 2124 at 16-17 (Views of Acting Chairman Brunsdale and Commissioner Liebeler).

nationality in making their sourcing decisions. The criteria cited by one OEM buyer are [*****

*****].47/

The assertion that non-price factors can dominate purchase decisions is supported by specific evidence. [*****

*****]

Only one-third of the low bids resulted in contract awards.48/ While Brazilian producers won [**] contracts for either shared or sole source production of particular wheels, in only one of these cases was the winning bid below those of all domestic competitors.49/ Petitioner advanced the argument that the subject imports suppressed or depressed prices in the U.S. wheel market.50/ However, the bargaining leverage of OEMs as discussed above is sufficiently great that it is difficult to see how domestic producers' bidding strategies and price realizations could have been influenced by subject imports that are so small a factor in the market. The bidding data cited above also belies the contention that the subject imports suppressed or depressed domestic wheel prices.51/

47/ See Report at A-63.

48/ See Report at A-63-64.

49/ Id. at 64.

50/ See Prehearing Brief of Kelsey-Hayes at 21-22 (April 17, 1989).

51/ [*****

*****] See Prehearing Brief of Rockwell at 24.

Impact on the Domestic Industry. By using the elasticity estimates developed from the record of the investigation in conjunction with information on the size of the subsidy margin provided by the Department of Commerce, I can consistently assess the effect that subsidized imports have had on producers of the domestic like product.^{52/} Assuming that the prices of the subject imports would have been higher by the full extent of the subsidy margin in the absence of subsidies, the import volume might have been somewhat lower. However, the demonstrated importance of non-price factors in buying decisions indicates that the Brazilians would have maintained a significant part, if not all, of their [***] percent value share of the total U.S. wheel market in the absence of subsidized imports.^{53/} Moreover, even if the Brazilian suppliers lost some contracts, domestic producers would not necessarily have replaced them. Over the period of investigation the market share of non-subject imports rose significantly while Brazilian producers' market share remained constant and U.S. producers' market share declined slightly.^{54/}

The absence of any significant impact of imports on the volume of domestic production occurs in a setting where the power of OEM

^{52/} In its final determination, Commerce estimated the net subsidy for Borlem, S.A. to be 1.82 percent. For Rockwell-Fumagalli and all other producers the estimated net subsidy rate was 17.29 percent. 54 Fed. Reg. 15534 (April 18, 1989).

^{53/} Indeed, bidding information shows that buyers have awarded contracts to producers who overprice their competitors by percentages that significantly exceed the highest subsidy margin in this case. See Report at A-64 (Table 27).

^{54/} See Report at A-58 (Table 26).

buyers in the market and the insignificance of any incremental business relative to domestic producers' excess capacity indicate that unfair imports could not have adversely affected domestic producers' price realizations. The small possible effect of imports on domestic sales volume alone, even if estimated under conditions most favorable to petitioners' case, simply do not constitute material injury to a domestic industry, especially one that has had a generally favorable overall performance despite weakness in some segments.

My assessment of the role of unfair imports in the domestic market for wheels leads directly to my determination that the domestic wheel industry has not been materially injured by reason of unfairly traded imports from Brazil. I would have reached the same conclusion had I adopted the like-product definition preferred by some of my colleagues.

Threat of Material Injury

My views on the threat issue parallel those expressed in the views of Commissioners Eckes, Lodwick and Newquist, except that my evaluation of the threat factors is made in the context of the broader definition of the domestic industry I have adopted. The narrower industry considered by those Commissioners is more susceptible to threat than is the industry as I define it. To save repetition, I associate myself with their views.

ADDITIONAL VIEWS OF VICE CHAIRMAN CASS

Certain Steel Wheels from Brazil
Investigation No. 701-TA-296 (Final)

I join the Commission in its determination that imports of steel wheels from Brazil have not materially injured an industry in the United States. However, I differ with the Commission's conclusion that aluminum wheels constitute a separate like product category. My analysis of the effects of the Brazilian imports on the relevant industry in the United States also differs in some respects from that of some of my colleagues. These Additional Views explain the basis for my determination so far as it varies from the majority's decision.

I. Domestic Like Product and Domestic Industry

In final investigations under the antidumping laws,^{1/} the Commission must assess the effects of LTFV imports on the industry in the United States comprised of "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."^{2/} The term

^{1/} Tariff Act of 1930, ch. 497, Title VII, § 735, as added by the Trade Agreements Act of 1979, Pub. L. No. 96-39, Title I, § 101, 93 Stat. 150, 169 (codified as amended at 19 U.S.C. § 1673d(b)).

^{2/} 19 U.S.C. § 1677(4).

"like product," in turn, 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."^{3/}

The Commission's definition of the like product is based on its inquiry into the imported products and the arguably "like" domestic products, focusing particularly on (1) product characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer or producer perceptions of the relevant articles; and (5) common manufacturing equipment, facilities, and production employees.^{4/} In addition, although the Commission has not expressly incorporated comparison of prices as one of the factors examined in its like product determination, it often has considered the similarity or dissimilarity of prices for imports and potential like domestic products.^{5/}

The factors traditionally employed by the Commission provide us with information about the market in which imported products and closely related domestic products compete. They also provide information about the degree to which producers of arguably different products are integrated into a single line of production or compete for similar factors of production.^{6/}

Information about the market for end products is obtained by analyzing the

^{3/} 19 U.S.C. § 1677(10).

^{4/} See, e.g., Fabric and Expanded Neoprene Laminate from Taiwan, USITC Pub. 2032, Inv. No. 731-TA-371 (Final) at 4 and n. 5 (Nov. 1987).

^{5/} See, e.g., Asociacion Colombiana de Exportadores de Flores v. United States, No. 88-172, slip op. (Ct. Int'l Trade Dec. 27 1988) ("Asocoflores"), at 1170 n. 8 (citing use of comparative pricing data as a suitable factor in analyzing like product issues).

^{6/} 3.5" Microdisks and Media Therefor from Japan, USITC Pub. 2076, Inv. No. 731-TA-389 (Preliminary) (Hereinafter "Microdisks") at 47 (April 1988) (Additional Views of Commissioner Cass).

characteristics and uses of products, their physical or technological interchangeability, their channels of distribution, and customer perceptions of their similarity or dissimilarity, and the similarity or dissimilarity of their prices. The information furnished from examination of the nature of the manufacturing facilities and employees for products informs us about the degree to which firms are integrated into the production of end products that are like (compete closely with) the imported products and utilize similar inputs to the various products.^{7/}

These factors have not been ordered by the Commission in any definite manner and need not move toward similar like product determinations. In particular, information about end-products may suggest a quite different line that would be drawn by relying on information about production processes. When these factors are in conflict, I believe that the industry definition under Title VII is to be informed mainly by a focus on the nature of the markets for the product of the industry rather than on the nature of the inputs to the industry's production.^{8/} For reasons set forth at greater length recently, I find such emphasis more consistent with the text and history of Title VII and with the purposes apparent in the statute's structure.^{9/}

In the preliminary investigation, as at present, the principal issue respecting the definition of the like product concerned the question whether standard steel wheels, custom steel wheels, and aluminum wheels constitute a

^{7/} Microdisks at 48.

^{18/} For an explanation of this position, see Antifriction Bearings and Parts Thereof, Inv. Nos. 303-TA-19-20 and 731-TA-391-399 (Final), at 95 (Concurring and Dissenting Views of Vice Chairman Ronald A. Cass).

^{9/} See id. at 95-96.

single like product. The question divided the Commission at that time. Two Commissioners^{10/} preliminarily determined that all three types of wheels constitute a single like product; two Commissioners determined at that time that standard steel wheels and custom steel wheels are the same like product, but that aluminum wheels are a separate like product.^{11/} I did not participate in the preliminary determination. In this final investigation, I conclude that standard steel wheels, custom steel wheels, and aluminum wheels constitute a single like product.

Petitioner has argued before the Commission that all steel wheels constitute a single like product, but aluminum wheels should be found to be separate from the like product. Petitioner observes that production processes differ in a variety of ways, largely stemming from the fact that aluminum wheels are fabricated from a different raw material than are steel wheels.^{12/} Petitioner notes that the aluminum wheels require more steps to be taken at the final production facility than are required for steel wheels; aluminum wheel production requires higher cost capital equipment and continuous production runs. Aluminum wheels often are produced in separate plants and by different employees than produce steel wheels. Petitioner also points out that aluminum wheels cost considerably more than steel wheels. Petitioner argues that these differences separate aluminum wheels from both standard steel wheels and custom steel wheels, which, largely because of similar basic production processes, comprise assertedly a single like product.

^{10/} Chairman Liebeler and Vice Chairman Brunsdale.

^{11/} Commissioners Lodwick and Eckes.

^{12/} Kelsey Hayes Prehearing Br. at 3.

By contrast, Respondents urge us to find a single like product including both steel and aluminum wheels. While Petitioner stresses production differences, Respondents emphasize product similarities. They note that in size, in durability, and in virtually all other characteristics and uses, steel and aluminum wheels are nearly identical; steel and aluminum wheels also can be readily interchanged.^{13/} Physical interchangeability alone, however, is not dispositive. Respondents also dispute the degree to which meaningful differences between steel and aluminum wheels can be drawn with respect to styling and appearance. They argue that steel and aluminum wheels can be virtually indistinguishable in appearance and also note that some steel wheels can look very different from other steel wheels. Respondents further argue that while aluminum wheels are priced above steel wheels, that there is similarly great variation among the prices of various steel wheels.

Petitioner appears to be correct in its assertion that the production processes of steel and aluminum wheels are different. Steel and aluminum wheels are made of different raw materials, a fact which requires a somewhat different production process and different processing equipment. There seem to be differences which are no less significant, however, in the production processes of custom and standard steel wheels, a product distinction Petitioner urges us to ignore. Some aluminum wheels are produced in the same plants used to produce steel wheels.^{14/} Custom steel wheels, however, are often produced in plants separate from those which produce standard steel wheels, using completely separate employees, production processes, and

^{13/} Rockwell Prehearing Br. at App. A, 1-2.

^{14/} Preliminary Report at A-4.

capital equipment.^{15/} In addition, standard steel wheels and custom steel wheels are sold through quite different channels of distribution. Whereas both standard steel and aluminum wheels are typically supplied to end customers through original equipment manufacturers, and only rarely replaced by consumers in the aftermarket, custom steel wheels are sold nearly exclusively through the aftermarket to consumers.^{16/} Aluminum wheels appear to be no less close to standard steel wheels than are custom steel wheels in terms of factor markets, and arguably more so.

Since Petitioner's arguments rely heavily on the differences in production processes, it seems difficult to draw the kinds of like-product distinctions Petitioner urges upon us. There is little justification for distinguishing between aluminum and steel wheels, but drawing no similar distinction between standard and custom steel wheels. Yet Petitioner would have us ignore this latter distinction.

Substantial evidence supports the arguments of Respondents that product differences between steel and aluminum wheels are relatively slight. Both steel and aluminum wheels must conform to International Standards Organization standards which set nomenclature, designation, and marking requirements for all wheels sold in the United States; this fact, as Petitioner concedes,^{17/} allows all wheels to be interchangeable regardless of the material with which they are made. Indeed, in the Hearing, Petitioner itself argued that aluminum wheels are indistinguishable to consumers except

^{15/} Report at A-15.

^{16/} Report at A-21.

^{17/} Petitioner's Post Conference Br. at 4.

in terms of appearance.^{18/} However, steel wheel producers have gone to some lengths to mimic the appearance of aluminum wheels, a fact which reduces further the distinction in consumer perceptions between them.^{19/} Steel and aluminum wheels thus generally have the same end uses, are sold through the same channels of distribution, and differ in consumer perception only in terms of appearance. There is thus reason to believe that aluminum and steel wheels compete relatively closely in the product market. For these reasons, I find there to be a single like product including both steel and aluminum wheels.

II. Material Injury by Reason of Imports

Title VII of the Tariff Act of 1930 requires us to determine whether the dumped or subsidized imports materially injured the domestic industry producing the like product. In analyzing the effects of dumped or subsidized imports on the domestic industry, I have followed an approach that has been referred to as "unitary" or "comparative." I have explained at length the nature of this approach, and the basis for finding this approach preferable to other means of applying the statutory command; I also have explained the textual, precedential, and analytical predicates for this approach.^{20/}

^{18/} Tr. at 43-44, 48, 53.

^{19/} Tr. at 48.

^{20/} See, e.g., Digital Readout Systems and Subassemblies Thereof from Japan, USITC Pub. 2150, Inv. No. 731-TA-390 (Final) (Jan. 1989) (Concurring and Dissenting Views of Commissioner Cass), at 95-122; 3.5" Microdisks and Media Therefor from Japan, USITC Pub. 2076, Inv. No. 731-TA-389 (Preliminary) (April 1988) (Additional Views of Commissioner Cass) at 32-38, 59-96; Granular Polytetrafluoroethylene Resin from Italy and Japan, USITC Pub. 2112, Inv. Nos. 731-TA-385-386 (Final) (Aug. 1988) (Additional Views of Commissioner Cass), at 47-71; Certain Internal Combustion, Industrial Forklift Trucks from Japan, USITC Pub. 2082, Inv. No. 731-TA-377 (Final) (May

Briefly, the comparative approach to the Title VII inquiry systematically addresses the three factors to which Title VII commands attention, in determining how the subject imports affected the domestic industry, giving explicit attention to the particular market conditions that determine such effects in any given investigation.^{21/} The approach frames the inquiry in Title VII investigations by asking three separate, but related, questions: First, what are the volumes of subsidized imports, and how have the subsidies affected volumes and prices of imports? Second, to what extent have the subsidized imports affected the prices and, concomitantly, sales of the domestic like product? And, third, what effects have the changes in price and sales of the like product had on factors such as return on investment, employment, and wages in the affected domestic industry? Once this three-part inquiry is completed, the Commission must evaluate the significance of these effects and determine whether the injury caused or threatened by the dumped imports is material.^{22/}

A. Volumes and Prices of Subsidized Imports

1988) (Additional Views of Commissioner Cass), at 109-48.

^{21/} Congress has directed the Commission to consider, in its evaluation of the causation of injury by reason of LTFV imports, among other factors:

- (i) the volume of imports of the merchandise which is the subject of the investigation,
- (ii) the effect of imports of that merchandise on prices in the United States for like products, and
- (iii) the impact of imports of such merchandise on domestic producers of like products

19 U.S.C. § 1677(7)(B).

^{22/} See, e.g., Digital Readout Systems, *supra*, at 95-122 (Concurring and Dissenting Views of Commissioner Cass).

Title VII first directs our attention to the volume of imports under investigation. Brazil has accounted for a small and relatively stable portion of imported wheels.^{23/} Total imports of standard steel wheels and custom steel wheels amounted to 12.3 million units in 1988, an increase of nearly twenty percent over 1986 imports in quantity. The value of such imports increased over 33% during the period under investigation. Imports of these products from Brazil remained relatively constant, [*]. Imports of custom steel wheels from Brazil stood at [*].^{24/}

The absolute volumes of imports provide information useful to analyzing the imports' effects. Further information can be obtained from assessing the manner in which subsidies affected the volume of subject imports' sales. Trends in import volumes do not of themselves indicate the effect of subsidies on imports' volumes. That effect generally is more visible from the related effect of subsidized sales on prices of the subject imports.

Congress has recognized in the statute which governs this investigation that different types of subsidies may have different effects on prices and quantities of imports to this country, and that sensitivity to those differences should enter the Commission's analysis in investigations in which the presence of subsidies is alleged. This awareness is most clearly articulated in the direction that specific effects of particular subsidies should be separately considered when evaluating the threat of material injury,^{25/} an instruction made even more plain by the legislative history.^{26/}

^{23/} Report at A-55-56.

^{24/} Report at A-81.

^{25/} 19 U.S.C. § 1677(7)(E)(i).

^{26/} S. Rep. No. 249, 96th Cong., 1st Sess. 90 (1979).

Congress plainly was aware that different types of subsidies are likely to prompt quite different responses from foreign firms with different implications for those firms' prices in sales to the United States and their volume of sales to the United States. This Congressional awareness of the possible differential effects of different subsidies is equally relevant to the assessment of actual injury.

The effect of various types, as well as various levels, of subsidy differ quite markedly in many different market conditions, and it is important for the Commission carefully to assess those conditions in each investigation. Under some conditions an export subsidy, for example, will reduce the price of the imported goods in the United States by the full amount of the subsidy; under other conditions that simply will not be the case. For foreign firms that, because of capacity constraints, opportunities in other markets, or other reasons, will increase their exports to the United States only as U.S. prices for their products rise, an export subsidy will lower the U.S. price of each firm's product by an amount (less than the subsidy) that depends on the price responsiveness of U.S. demand for that product.^{27/} Although export subsidies will, thus, not have uniform effects, the consequences of such subsidies can differ even more markedly from those of other subsidies, such as subsidies to inputs used in that industry, as for example a wage subsidy. The effect of this form of subsidy depends not on conditions in the U.S. and other markets for the product but on conditions in the foreign markets for the various inputs. The first effect of an input subsidy is to change the relative prices of inputs and the mix of inputs

^{27/} This point has long been recognized by economists. See E. Browning and J. Browning, *Microeconomic Theory and Applications*, at 460-463 (1983).

used, secondarily affecting foreign production and only derivatively affecting volumes and prices in the United States or other export markets.^{28/} Preliminary work has addressed the effects of different types of subsidy,^{29/} but more attention to this issue plainly is needed.

Petitioner in this investigation has alleged that steel wheel producers benefit from an upstream subsidy as defined in section 771A of the Tariff Act by virtue of domestic subsidies provided to producers of the major raw material input in steel wheels, hot rolled sheet and coil.^{30/} Commerce has verified that a Brazilian integrated steel producer supplied all the steel used in the merchandise exported to the United States, and that the steel company benefitted from two domestic subsidies in 1987: government provision of equity financing and import duty and tax reductions provided under another government program. The Department of Commerce determined that the value of these benefits to Brazilian firms which export to the United States is quite small (relative to the cost of the products).^{31/}

The Department of Commerce found the following Brazilian government programs to provide a variety of other countervailable subsidies to the exporters of these products, including preferential working capital financing for exports at preferential rates; income tax exemptions for export earnings; export credits in cash of a percentage of the f.o.b. price of the exported

^{28/} See, e.g., E. Silberberg, *The Structure of Economics: A Mathematical Analysis* (1978), at 209-211.

^{29/} R. Diamond, *Toward an Economic Foundation for Countervailing Duty Law*, Workshop Paper for Georgetown Law Center Law and Economics Program, October 1988.

^{30/} Report at A-4.

^{31/} Report at A-4-5.

merchandise; special financing from the Bank of Brazil; special fiscal benefits; and export financing.^{32/} Of these subsidies, only one was of sufficient magnitude, ad valorem, to affect the assessment of material injury. An agency of the government of Brazil allows exporters, in exchange for export commitments, to take advantage of several types of benefits, such as import duty reductions, an export credit premium, and tax exemptions and credits. Exporters are paid in cash a percentage of the f.o.b. price of the exported merchandise. Commerce determined the benefit from this type of program to be zero for Borlem and 12.47% ad valorem for Fumagalli and all other firms. The total net subsidies as calculated by the Department of Commerce, for the year 1987, are 1.82% ad valorem for Borlem S.A. and 17.29% for all other companies.

The extent to which these subsidies might in fact have been responsible for lowering the price of Brazilian imports in the United States was raised in the hearing in this investigation, but the parties apparently did not appreciate the significance or meaning of this issue. Although Petitioners were asked directly for their assessment of the effect the subsidies had on prices charged in the United States by the Brazilian exporters,^{33/} Petitioner was unable to frame a meaningful answer.^{34/} Rather than offering either

^{32/} Report at A-3-4.

^{33/} Transcript at 68.

^{34/} Posthearing Response to Questions Posed by the Commission and Staff at Hearing on Behalf of Kelsey-Hayes Co., at 12. Indeed, Petitioner generally failed to provide meaningful responses to questions posed at the hearing for treatment in the post-hearing submission. For example, Petitioner asserted that a question respecting changes in its interest expenses, an issue raised by other parties as well as by a commissioner, was "irrelevant," as the Commission should look at operating profits (which do not include adjustments for interest expenses) rather than returns on investment. This assertion flies in the face of the explicit statutory directive that we consider the

evidence or analysis in response to this question, Petitioner offered only unsubstantiated speculation. One Respondent has at least plausibly elaborated a basis for belief that the price reductions attributable to these subsidies must have been relatively small.^{35/} Nevertheless, the evidence on this point is slender at best. Parties in future proceedings involving such subsidies surely should pay more attention to this matter in order to enable the Commission to assess the impact of the subsidies more accurately.

Fortunately, in the instant investigation, the matter does not appear to be a determinative one. Even if we were to assume that each of the subsidies lowered price in the United States by the full amount of the subsidy, this still does not appear to be a case in which import volumes and prices could have been sufficient to cause material injury to the domestic industry.

B. Prices and Sales of Domestic like Product

The second factor the statute directs us to consider is the effect of the subsidized imports on the prices of the domestic like product, especially whether the imports have caused the price of the like product to fall; the law also asks us to consider whether the imports, by selling at lower, subsidized prices, have taken sales from the domestic firms. Several facts in the record shed light on these matters.

effects of the subsidized imports on the domestic industry's returns on investment. 19 U.S.C. § 1677(7)(B)(ii). Other responses by Petitioner were equally evasive.

^{35/} Rockwell argues the subsidy found by the Commerce Department had no effect on price. "Money that goes to the firm can be used in a number of different ways, the most appealing of which to firm management is increased salaries. . . . A company that is already profitable, . . . and is not seeking new business, would be behaving irrationally if it reduced its prices, no matter what level of subsidy it receives." Rockwell Prehearing Br. at 33.

First, the extent to which declines in prices of the imports subject to investigation cause increases in subject imports sales is, in large measure, determined by the degree to which consumers treat the imported goods as suitable substitutes for the domestically produced article. There is reason to believe that the imported wheels from Brazil are reasonably good, although not perfect, substitutes for wheels made in the United States. Both domestic and imported steel wheels conform to International Standards Organization standards which set nomenclature, designation, and marking requirements. The uniformity attained thereby permits wheels with the same configuration from different manufacturers to be used interchangeably, provided the wheels are designed for use on the same vehicle. When domestic and Brazilian wheel producers supply a common wheel to one original equipment manufacturer, the wheels will be produced to a single set of specifications.^{36/} At least five international organizations have established quality and testing standards for wheel manufacturers; in the United States, the International Standards Organization (which represents agreement among some eighty countries), the Society of Automotive Engineers, and the SFI/SEMA Foundation, Inc., define wheels standards. In addition, the U.S. Department of Transportation's National Highway Transportation Safety Administration also issues regulatory requirements applicable to the wheel industry.^{37/} Under such closely regulated conditions, it is highly unlikely that there could be significant variations among the characteristics or quality of imported as compared to domestic wheels.

^{36/} Report at A-8. See also Petitioner's Post Conference Br. at 4.

^{37/} Report at A-11.

However, though Brazilian steel wheels almost surely are highly substitutable for domestically produced wheels, those imports still could not possibly have had any significant effect on the price of domestic firms' wheels or on the volume of those firms' sales. Brazilian steel wheels hold a small portion of the domestic market for wheels. In 1988, imports of standard steel wheels and custom steel wheels from Brazil constituted [*] percent of total steel and aluminum wheel sales in the United States market.^{38/} The evidence here does not suggest that these imports are significantly affecting the prices of the domestically produced wheels. There is greater reason to believe that some significant portion of the sales of the imports replaced sales of domestic wheels. That evidence, however, is only suggestive of a very slight injury. If every dollar of sales of Brazilian steel wheels directly displaced a sale by a domestic producer, the total loss of sales arguably still might not be sufficient for the related effects on the domestic industry to amount to material injury. Further, it does not appear that the imports have had an effect of even this magnitude. The evidence, including growth in Canadian sales in the period when Brazilian subsidies were in effect along with stable or declining Brazilian sales and an apparent shift in demand from steel to aluminum wheels, indicates that no more than a subset of the Brazilian imports can be supplanting sales of the U.S. like product. Finally, although price plays a substantial role in purchases of wheels, it does not appear to be invariably decisive among bidders. In sum, the evidence does not support a conclusion of significant effects on domestic products' price or sales.

C. Investment and Employment in the Domestic Industry

^{38/} Report at A-59.

Though net sales and employment in the production of steel wheels has fallen in recent years, the opposite trends prevail in the wheel industry generally, defined to include the production of aluminum wheels as well as steel wheels. In fact, the reduction in the domestic steel industry can be more than explained by a substitution away from the production of steel wheels in favor of production of aluminum wheels.

For example, while the number of production workers employed in the production of steel wheels fell by some 20% between 1986 and 1988, the number of production workers employed in the production of aluminum wheels has grown by some 47.5% in the same time period.^{39/} Indeed, since substantially more workers were employed in the production of aluminum wheels in 1986 than were employed in the production of steel wheels, the growth in aluminum wheel employment has more than offset the decline in employment in steel wheel production, resulting in a 15% growth in total employment in the industry in that period.^{40/} The same trends obtain with respect to other parameters of employment, such as total hours worked by production and related workers and total compensation paid to such workers.^{41/}

Likewise, indicators of returns to capital indicate that the domestic wheel industry, defined to include aluminum as well as steel wheels, has experienced a period of affluence in the last several years. Returns on total assets in the production of steel wheels have been substantially higher than the return on assets in the production of aluminum wheels over the period.^{42/}

^{39/} Report at A-40.

^{40/} Id.

^{41/} Id.

^{42/} Report at A-46.

Nevertheless, the net return on assets in the production of aluminum wheels has grown substantially over this period, from a rate of return of 2.9% in 1985 to a return of 4.6% in 1988, while net returns on assets in steel wheel production have fallen.^{43/} Not surprisingly, these growing rates of return have directed investors to invest quite substantially in plant and equipment for aluminum wheel production. Capital expenditures on aluminum wheel production have grown by more than [*]% between 1986 and 1988.^{44/} Research and development investments in aluminum wheel production have more than tripled in that period.^{45/} However, the continuing high rates of return in steel wheel production have led investors to invest in steel-wheel plant and equipment as well; investment in such production equipment has grown by 7% over that period,^{46/} while research and development expenditures in that area have slowed somewhat.^{47/}

In short, it appears that the domestic wheel industry has been undergoing a period of reorientation away from steel wheel production and towards aluminum wheel production. Aluminum wheel production is by all indicators proving to be a profitable line of investment. There is no indication whatever that the industry taken as a whole is suffering from detrimental effects as a result of the Brazilian steel wheel imports. On the contrary, the evidence indicates a greater likelihood that the less profitable areas of business are being farmed out to foreign suppliers, while

^{43/} Report at A-46.

^{44/} Report at A-47.

^{45/} Report at A-48.

^{46/} Report at A-47.

^{47/} Report at A-48.

the domestic wheel industry has invested heavily in those areas of the wheel business which are likely to do best in coming years. Furthermore, it is clear that there are few problems of adjustment to competition from Brazilian steel wheels. Domestic wheel makers are successfully and profitably reorienting their production processes to produce aluminum wheels.

For this reason, I must conclude that imports of Brazilian steel wheels did not cause material injury to domestic wheel producers.

IV. Threat of Material Injury by Reason of Imports

Since I have determined that no present material injury to an industry exists by reason of imports of Brazilian steel wheels, I must determine whether a U.S. industry is threatened with material injury. The evidence must show that the threat of material injury is "real and that actual injury is imminent."^{48/} There are a number of reasons to believe that a real threat of imminent injury cannot be found to exist in the present investigation.

First, the subsidy program itself is likely to disappear in the immediate future. The subsidy program which yields the great bulk of the benefit to Brazilian steel wheel exporters is scheduled to expire at the end of 1989.^{49/} There appears to be little chance that program will be renewed; in any case, we cannot base a determination that a "real" threat of "imminent" injury exists on the mere possibility of action by the Brazilian government, particularly when there is plausible reason to question whether that action will be taken.

^{48/} 19 U.S.C. § 1677(7)(F)(ii).

^{49/} Rockwell-Fumagalli Post Hearing Br. at 3; Tr. at 121.

U.S. inventories of steel wheels from Brazil [* * *].^{50/} Furthermore, contractual provisions with the major customer for each separately designed wheel prevent that wheel from being sold on the open market. Thus there is little threat to other manufacturers from existing inventory levels, particularly in light of the fact that an OEM will generally buy wheels of a given design from a single manufacturer. Production of U.S. output is thus not at all likely to be displaced by existing inventories of wheels designed for particular applications.^{51/}

Most important, contract bids in the wheel industry involve extremely long lead times, and generally set the level of a customer's purchases from a given supplier for a substantial period of time. [* * *].^{52/} Bid quotations are made at least a year, and often as much as two years, in advance of production, due to tooling and testing leadtimes.^{53/} Furthermore, OEM's typically continue to buy given models of wheels from the producer that has traditionally provided that particular model because tooling costs are so substantial,^{54/} and most of the major wheel purchasers only rarely change the wheel designs.^{55/} For that reason, import penetration is unlikely to change dramatically in the near future, and indeed imports' market share in the United States has been quite stable.^{56/} Similarly, the prices associated with

^{50/} Report at A-53.

^{51/} Report at A-80.

^{52/} Report at A-61.

^{53/} Report at A-62.

^{54/} Report at A-62.

^{55/} Report at A-61.

^{56/} Report at A-57.

these contracts for purchase of the subject imports do not establish that the imports will have a depressing or suppressing effect on domestic steel wheel prices.

For these reasons, I determine that there is no threat of material injury to an industry in the United States by reason of imports of steel wheels from Brazil.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

Following a preliminary determination by the U.S. Department of Commerce that imports of certain steel wheels 1/ from Brazil are being subsidized by the Government of Brazil, the U.S. International Trade Commission, effective October 28, 1988, instituted investigation No. 701-TA-296 (Final) under section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such merchandise. Notice of the institution of the Commission's final 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 on November 30, 1988 (53 F.R. 48320). 2/ Notice of the public hearing to be held in connection therewith was also given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register on February 15, 1989 (54 F.R. 6972). 3/ The hearing was held in Washington, DC, on April 20, 1989. 4/

Commerce made a final affirmative countervailing duty determination for the investigation concerning certain steel wheels from Brazil on April 7, 1989 (54 F.R. 15523, April 18, 1989). 5/ 6/ Custom steel wheels and steel rims or discs, imported separately, were excluded from the scope of the investigation. 7/

1/ The term "certain steel wheels" covers steel wheels, assembled or unassembled, consisting of both a rim and a disc, designed to be mounted with tube type or tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches inclusive, and generally designed for use on passenger automobiles, light trucks, and other vehicles, provided for in subheading 8708.70.80 of the Harmonized Tariff Schedule of the United States (HTS); such wheels were formerly reported under item 692.3230 of the Tariff Schedules of the United States Annotated (1987) (TSUSA).

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

3/ A copy of this notice is presented in app. A.

4/ A list of witnesses who appeared at the hearing is presented in app. B.

5/ A copy of Commerce's notice of final countervailing duty determination is presented in app. A.

6/ Commerce's final countervailing duty determination was extended, pursuant to section 703(h) of the Tariff Act of 1930, as amended, because of an upstream subsidy investigation on the input product, hot-rolled sheet and coil.

7/ In a submission dated Sept. 28, 1988, Borlem S.A., a respondent company, argued that rims imported separately are not within the scope of the investigation. In submissions dated Oct. 7, 1988, and Oct. 12, 1988, the petitioner argued that rims imported separately and sold as "distinct articles of commerce" are not within the scope of the investigation, but that rims imported separately as a means of circumvention are within the scope of the investigation. In a submission dated Oct. 21, 1988, the petitioner, as well as NI Industries, a domestic interested party, argued that all rims, whether imported separately as a distinct article of commerce or not, are within the scope of the investigation. Commerce concluded that "petitioner's primary concern is circumvention," noting that "(t)he rims that are now imported are

On April 19, 1989, Kelsey-Hayes Co. and NI Industries Inc., filed a letter with Commerce alleging material errors of fact and requesting that the scope determination be amended to include steel rims and custom steel wheels. On April 28, 1989, Commerce notified the Commission that it had corrected certain ministerial errors and accordingly amended the scope of the final determination on steel wheels from Brazil to include custom steel wheels. No change was made with respect to steel rims. 1/ The Commission's deadline to notify Commerce of its final injury determination is May 24, 1989.

Background

This investigation results from a petition filed by Kelsey-Hayes Co., Romulus, Michigan, on July 29, 1988, alleging that an industry in the United States is materially injured or threatened with material injury by reason of imports of certain steel wheels from Brazil that are allegedly being sold in the United States at less than fair value (LTFV) and that are allegedly being subsidized by the Government of Brazil. In response to that petition the Commission instituted investigation No. 701-TA-296 (Preliminary) under section 703 of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)) and investigation No. 731-TA-420 (Preliminary) under section 733 of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)). On September 12, 1988, the Commission determined that there was such a reasonable indication of material injury (53 F.R. 36660, September 21, 1988). Effective March 2, 1989, Commerce made a preliminary determination that steel wheels from Brazil are neither being, nor are likely to be, sold in the United States at LTFV (54 F.R. 8780). On May 10, 1989, Commerce made a negative final LTFV determination.

The Commission has conducted no previous investigations on certain steel wheels as defined for the purpose of this investigation. However, a final antidumping investigation on tubeless steel disc wheels from Brazil 2/ was concluded in April 1987 with an affirmative determination by the Commission (investigation No. 731-TA-335 (Final), USITC Publication No. 1971, April 1987). 3/

Nature and Extent of Subsidies

On April 18, 1989, Commerce published in the Federal Register (54 F.R. 15523) its final determination that benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended, are being provided to manufacturers, producers, or exporters of certain steel wheels in

not of concern to the petitioner" and that it is not "likely that imports of these rims would undermine the effectiveness of a countervailing duty or antidumping order on steel wheels." (54 F.R. 15523, Apr. 18, 1989). Rims and discs are included if imported as an unassembled pair. It is believed that there are no such imports from Brazil.

1/ A copy of Commerce's notice of amendment is presented in app. A.

2/ Tubeless steel disc wheels were defined as wheels designed to be mounted with pneumatic tires, having a rim diameter of 22.5 inches or greater, and suitable for use on class 6, 7, and 8 trucks, including tractors, and on semi-trailers and buses.

3/ Chairman Liebelier made a negative determination.

Brazil. For the final determination, the period for which Commerce measured subsidization (i.e., the review period) was calendar year 1987. Commerce received information showing that two companies, Rockwell-Fumagalli and Borlem S.A., accounted for substantially all exports of steel wheels to the United States during the period of review. The estimated net subsidy is 1.82 percent ad valorem for Borlem S.A. and 17.29 percent ad valorem for all other companies.

Commerce directed the U.S. Customs Service to suspend liquidation of all entries of the subject merchandise from all companies, except Borlem, which are entered, or withdrawn from warehouse for consumption, on or after October 28, 1988, the date of publication of the preliminary determination in the Federal Register. ^{1/} Effective February 26, 1989, suspension of liquidation was terminated; liquidation can be suspended for a maximum of 120 days without a countervailing duty order in place. Commerce will reinstate suspension of liquidation and require duty deposits on all entries of the subject merchandise if the Commission issues a final affirmative injury determination.

Programs determined to confer subsidies

The following programs were determined to confer subsidies:

- (1) Department of Foreign Commerce (CACEX) Preferential Working Capital Financing for Exports;
- (2) Income Tax Exemptions for Export Earnings;
- (3) CIC-OPCRE 6-2-6 (CREGE 14-11) Financing;
- (4) Commission for the Granting of Fiscal Benefits to Special Export Programs (BEFIEEX); and
- (5) Fundo de Financiamento a Exportacao (FINEX) Export Financing.

The CACEX preferential working capital financing for exports program of the Banco do Brasil provides short-term working capital financing to exporters at preferential rates. Under the program, the Banco do Brasil is authorized to pay lending institutions an "equilization fee" or rebate of up to 15 percentage points over the commercial interest rates, which the lending institution can pass on to the borrowers. The loans have a term of one year or less. During the period of review, Fumagalli made interest payments on CACEX loans; Borlem did not. Commerce determined the benefit from this program to be zero for Borlem and 1.10 percent ad valorem for Fumagalli and all other firms.

Under the income tax exemption for export earnings program, exporters of steel wheels are eligible for an exemption from income tax on the portion of their profits attributable to exports. Fumagalli used this program in 1987; Borlem did not. Commerce determined the benefit from this program to be zero for Borlem and 0.39 percent ad valorem for Fumagalli and all other firms.

Under its Circular CIC-CREGE 14-11, later modified by Circular CIC-OPCRE 6-2-6, the Banco do Brasil provides preferential financing to exporters on the condition that they maintain on deposit a minimum level of foreign exchange. Fumagalli made payments on a loan under this program during the period of review. Borlem did not participate. Commerce determined the benefit from this

^{1/} Borlem was excluded from the suspension-of-liquidation order because it was not found to benefit from subsidies until Commerce made its final determination on Apr. 18, 1989.

program to be zero for Borlem and 0.14 percent ad valorem for Fumagalli and all other firms. Because Commerce verified that, effective September 20, 1988, the interest rate in all CIC-OPCRE 6-2-6 loans was equal to the commercial benchmark rate, it was further determined that these loans are no longer preferential. For purposes of the cash deposit of estimated countervailing duties, Commerce found the benefit from this program to be zero for all firms.

BEFIEEX allows Brazilian exporters, in exchange for export commitments, to take advantage of several types of benefits, such as import duty reductions, an IPI export credit premium, and tax exemptions or tax credits. Under the IPI export credit premium program, the Brazilian Government pays exporters in cash a percentage of the f.o.b. price of the exported merchandise. The payment is made through the bank involved in the export transaction. Fumagalli was eligible for the maximum IPI export credit premium, which was 15 percent during the period of review. Borlem was not eligible to receive this benefit during the review period. Commerce determined the benefit from this program to be zero for Borlem and 12.47 percent ad valorem for Fumagalli and all other firms. ^{1/} In addition, Fumagalli received reductions of customs duties and the IPI tax on imported capital equipment used in the manufacture of the subject merchandise during the review period. Borlem did not. Commerce determined this benefit to be zero for Borlem and 0.43 percent ad valorem for Fumagalli and all other firms.

Resolutions 68 and 509 of the Conselho Nacional do Comercio Exterior provide that CACEX may draw upon the resources of the Fundo de Financiamento a Exportacao or FINEX to subsidize short- and long-term loans for both Brazilian exporters (Resolution 68) and foreign importers (Resolution 509) of Brazilian goods. CACEX pays the lending banks an "equalization fee" that makes up the difference between the subsidized interest rate and the prevailing commercial rate. CACEX also provides the lending bank with a "handling fee" equal to 2 percent of the loan principal in order to encourage foreign bank participation in the program. One of Fumagalli's importers made interest payments on Resolution 509 FINEX loans in 1987. Neither Borlem nor its importers used this program during the period of review. Commerce determined the benefit to be zero for Borlem and 1.04 percent ad valorem for Fumagalli and all other firms.

Commerce's Federal Register notice also lists a number of programs determined not to confer a subsidy.

Upstream subsidy investigation

The petitioner alleged that steel wheel producers benefit from an upstream subsidy, as defined in section 771A of the Tariff Act of 1930, as amended, by virtue of domestic subsidies provided to producers of the major raw material input in steel wheels, hot-rolled sheet and coil. ^{2/} Commerce verified that Usinas Siderurgicas de Minas Gerais (USIMINAS), a Brazilian integrated steel producer, supplied all of the steel used in the merchandise exported to the United States. Commerce further determined that USIMINAS benefited from two

^{1/} Rockwell-Fumagalli's benefits under this program will be terminated by contract on Dec. 31, 1989, the date on which the program itself ceases.

^{2/} Certain Carbon Steel Products From Brazil (49 F.R. 17988, Apr. 26, 1984).

domestic subsidies in 1987: (1) government provision of equity and import duty and (2) IPI tax reductions under the Industrial Development Council (CDI).

Siderurgia Brasileira S.A. (SIDERBRAS), a government-controlled holding company, made equity infusions in USIMINAS from 1977 through 1987. Commerce found that USIMINAS was not a reasonable investment between 1980 and 1987 1/ (i.e., did not show the ability to generate a reasonable rate of return within a reasonable period of time), and determined that the actions of the Government of Brazil in taking an equity position in USIMINAS between 1980 and 1987 were inconsistent with commercial considerations and provided a countervailable benefit of 5.82 percent ad valorem.

Under Decree Law 1428, CDI provides for the exemption of up to 100 percent of the customs duties and up to 10 percent of the IPI tax, a value-added tax on domestic sales for certain imported machinery for specific projects in 14 industries approved by the Brazilian Government. (The recipient must demonstrate that this machinery or equipment is not available from a Brazilian manufacturer.) USIMINAS received benefits under this program in 1987. Commerce determined the subsidy to USIMINAS to be 0.79 percent ad valorem.

Section 771A(a)(2) of the Tariff Act of 1930, as amended, provides that the domestic subsidies described above must bestow a competitive benefit on the merchandise. Because the other producers in Brazil of hot-rolled sheet and coil also received equity infusions from SIDERBRAS which may be countervailable, Commerce examined the world market prices of the Republic of Korea, one of the lowest cost producers of steel, to determine the price that steel wheel producers would have paid in an arm's length transaction. It found that the Korean prices were on average over 50 percent higher than domestic Brazilian prices in 1987 and therefore concluded that there is a competitive benefit.

To determine whether the competitive benefit has a significant effect on the cost of producing the merchandise, Commerce multiplied the ad valorem subsidy rate on the steel input by the proportion of the total production costs of steel wheels accounted for by the steel input. Multiplying those proportions by the total domestic subsidy for USIMINAS yielded a rate of 2.66 percent for Fumagalli and 2.31 percent for Borlem.

Commerce next examined the effect of the input subsidy on the competitiveness of the merchandise and, finding that price is the single most important factor in determining which supplier is awarded a contract by U.S. original equipment manufacturers, concluded that subsidies to the input supplier have a significant effect on the competitiveness of Brazilian steel wheels.

From the above findings, Commerce made a determination that producers of steel wheels in Brazil benefit from an upstream subsidy that was found to be 1.82 percent ad valorem for Borlem and 1.72 percent ad valorem for all other firms.

1/ Commerce did not investigate equity infusions from 1977 through 1979 because it had previously determined that USIMINAS was a reasonable investment during that period.

The Product

Background on wheel design

During the twentieth century, motor-vehicle wheels underwent numerous changes in design, style, and material. These changes are reflected in the U.S. wheel industry's development of the first wooden spoke wheels of the Model T in 1909-26, followed by steel wire wheels, steel spoke wheels and, in the 1930s, drop-center-rim wheels (i.e., standard steel wheels), the industry standard. During the 1960s, wheel makers started rechroming original equipment steel wheels to create a more aesthetically pleasing appearance. Composite wheels that combine a lighter aluminum disc center with a less costly chrome-plated steel rim and one-piece aluminum cast wheels were also developed during this period. During the 1970s, two-piece and three-piece aluminum wheels were introduced in the U.S. market. In the 1980s aftermarket custom wheels have played an increasing role. Also during the 1980s, some manufacturers began experimenting with a composite carbon-fiber and plastic wheel (for race cars), indicating that plastics may be a future source of alternative material. Motor Wheel has developed the first mass-produced composite resin-dipped fiberglass wheel; it is available on a 1989 car model. 1/ Other recent product designs incorporate such highly efficient materials as hydroformed 5052 aluminum alloy and elektron alloy (a special magnesium alloy).

Like product issues

In the preliminary investigation, the principal question regarding the definition of the like product was whether standard steel wheels, custom steel wheels, and aluminum wheels constitute a single like product or multiple like products. Two Commissioners preliminarily determined that all three types of wheels constitute a single like product; two Commissioners determined that standard steel wheels and custom steel wheels constitute the same like product, and aluminum wheels are not within the definition of the like product.

In the final investigation, Kelsey-Hayes' position is that the like product should include standard steel wheels and custom steel wheels, but exclude wheels of aluminum. 2/ Rockwell International maintains that steel and aluminum wheels constitute one like product. 3/ Custom steel wheels are, according to Rockwell International, much less like standard steel wheels than are aluminum wheels. 4/ Positrade contends that custom steel wheels are quite different from standard steel wheels. 5/ Each type of wheel is discussed below, and separate statistical data are presented on each type, when available, throughout this report.

1/ Chilton's Automotive Industries, April 1989.

2/ Petitioner's prehearing brief, p. 3.

3/ Rockwell International's prehearing brief, p. 2.

4/ Rockwell International's prehearing brief, p. 6.

5/ Positrade's prehearing brief, p. 1.

Description and uses

The steel wheels and parts thereof subject to this investigation are wheels made of steel in wheel diameter sizes ranging between 13 inches and 16.5 inches, inclusive. These wheels consist of a steel disc (also referred to as a "center" or "spider") and a steel rim that are welded, or in some cases riveted, together to form a single unit. The steel disc component centers the rim about the axle. Neither the rim nor the disc can be replaced separately. The subject products are for use with both tube-type and tubeless-type tires, and are used on passenger automobiles, light- to heavy-duty pickup trucks, vans, step vans, and similar vehicles collectively referred to in the industry as "light trucks" (GVW classification Nos. 1, 2, and 3) 1/ and are capable of use on other vehicles such as mobile homes, trailers, and farm equipment.

Subject steel wheels include both standard steel wheels used as original equipment on vehicles, and custom steel wheels. Standard steel wheels can be basic in design, painted black (these wheels are referred to as "black wheels" or "plain jane wheels"), or they can be styled and/or top-coat painted with colors other than black. Styled steel wheels include the "full-faced" wheel which is constructed to give a three-dimensional appearance like that of a cast aluminum wheel. 2/ Polyurethane foam is also applied to the face of steel wheels to provide "depth" and contours that can be styled. These wheels, called "polycast" wheels, are also sold to original equipment manufacturers (OEMs). Additionally, vehicle manufacturers or dealers sometimes add a trim ring or cover for the bolt holes to a top-coated wheel to create a "semi-styled" effect. Plastic wheel covers, which fit inside the rim of the wheel and cover the disc, are often placed on standard steel wheels to add style.

The industry generally considers custom steel wheels to be wheels that have been polished and plated, usually with chrome, or painted with "special paints," which may be further finished with spokes, cutout patterns, different designs, or offsets. 3/ Custom wheels are purchased primarily for their

1/ The Motor Vehicle Manufacturers Association of the United States, Inc., classifies trucks by gross vehicle weight as follows:

Class 1.....	6,000 pounds and less,
Class 2.....	6,001 to 10,000 pounds,
Class 3.....	10,001 to 14,000 pounds.

2/ Because of the greater depth achieved by casting (in contrast to the limit imposed by the thickness of the steel sheet from which steel wheel discs are stamped), aluminum cast wheels provide additional design possibilities.

3/ In the Commission's questionnaire, standard steel wheels were defined as subject steel wheels which are available as original equipment from vehicle manufacturers. Replacement wheels sold in the aftermarket were also classified as "standard steel wheels" if they were at one time available as original equipment from a vehicle manufacturer. Because steel wheels for trailers and other towed vehicles are original equipment from a "vehicle" manufacturer, they were also labelled a standard steel wheel. Custom steel wheels are all other subject steel wheels, regardless of style or price. A definition based on the market for the wheel and not on the wheel description was used because of difficulty in creating a definition of a "custom steel wheel" that would not include some wheels that are produced in volume by major domestic manufacturers for use as original equipment on vehicles. Specifically, wheels that are top-

aesthetic appeal, by customers who wish to improve the general appearance of their automobile or light truck. Styles of custom steel wheels change often. 1/ Their design influences the design of wheels offered as original equipment on automobiles and light trucks. 2/ 3/

Both domestic and imported steel wheels conform to International Standards Organization (ISO) 3911, which contains nomenclature, designation, and marking requirements. The uniformity obtained through widespread use of ISO 3911, and other ISO standards, permits wheels with the same configuration (e.g., size and placement of bolt holes) from different manufacturers to be used interchangeably, provided the wheels are designed for use on the same vehicle. In those instances where Brazilian and domestic wheel producers supply a common wheel to one OEM, the wheels will be produced to a single set of specifications. 4/

Manufacturing considerations

Manufacturing process.--Steel wheel production occurs in three stages: (1) disc or center production; (2) rim production; and (3) assembly and finishing.

The disc or center is produced from a hot-rolled steel sheet or strip, usually grade SAE 5/ 1010 to 1015 low-carbon, high-strength low alloy, or a

coat painted increasingly are purchased by vehicle manufacturers: the top-coat paint could, in a definition, be confused with the "special paints" used on custom wheels. Many wheels, even black wheels or plain jane wheels, have decorative cuts. A limited number of chrome-plated wheels are also purchased by domestic manufacturers for use as original equipment on vehicles. Industry sources generally indicated that they "knew a custom steel wheel when they saw one."

1/ In its response to the Commission's questionnaire, Positrade, an importer of Brazilian custom wheels, commented that: * * *.

2/ The petitioner commented that "today's custom wheel may become tomorrow's standard steel wheel." (Prehearing brief, p. 14.)

3/ Kelsey-Hayes maintains that a custom wheel is not determined by whether it is sold to an OEM or to the aftermarket, but rather whether the wheel is advanced beyond the stage of basic painting. (Petitioner's prehearing brief, p. 13). Rockwell International accepts the definitions of standard steel and custom steel wheels used in the Commission's questionnaire. (Transcript of the hearing, p. 138). Positrade also accepts the definitions used in the Commission's questionnaire and has stated that it is willing to certify for each importation that its custom steel wheels are not for OEMs should duties be assessed on standard steel wheels but not on custom steel wheels from Brazil. (Positrade's prehearing brief, p. 2). Motor Wheel states that "(c)ustom, or styled wheels are those with unique design or form that oftentimes have premium paint, and/or chrome to give a sense of style and nice appearance. It is obvious that custom wheels can and have been offered as options on new vehicles." (Motor Wheel's posthearing brief, p. 5).

4/ Petitioner's postconference brief, p. 4.

5/ Society of Automotive Engineers.

similar grade. Discs are stamped, which involves the cold forming of a round or nearly round blank to shape the basic contour of the wheel disc. The discs then undergo stamping processes that produce the final configuration and are punched to form the vent, stud, and disc holes, as appropriate. 1/ The discs are stamped with the manufacturer's identification code, part identification number (optional), and date of manufacture. Finally, the discs are washed, inspected, and stored.

Rim production begins on a separate production line with coiled low-carbon, hot-rolled steel in the form of either in-house slit-to-width coils or master coils that have been slit to width and recoiled prior to delivery. The coil is processed through a series of rollers where it is flattened and cut to length, and the edges are conditioned. The strip is then stamped for identification and welded into a hoop. The hoop is subjected to a series of intermediate steps: weld trim, edge trim, and planishing (smoothing). The rim is then finished by passing it through a series of press-roll formers, which flare and contour the rim and impart final configuration. The rims are then washed before final assembly. 2/

Assembly and finishing are performed on a third separate line. The disc and wheel are pressure fitted together, the valve-stem hole is punched, and the two pieces are permanently joined to form a wheel either by welding or riveting. Welding is the predominant method of joining the wheel. The wheels are then inspected and washed. Finally, the wheel is dipped into an electrolytically charged paint, spray painted (or "top-coat" painted) on the front face if requested by the customer, and cured. If intended for the original equipment manufacturer, the wheels are packed on returnable metal racks for shipment. If shipped to distributors, the wheels are stacked horizontally and spun-wrapped on wooden pallets.

Custom steel wheels are produced using essentially the same production process, although additional finishing is usually required. Epoxy-coated wheels are coated with epoxy powder and baked at 180 degrees centigrade. Chrome-plated wheels undergo the following finishing steps:

- (1) hand polishing of disc to prepare for chrome plating
- (2) chroming operation that involves a series of chemical baths
 - acid to clean wheels
 - water to remove acid
 - nickel to give wheel a shiny appearance
 - chrome (a yellow finish that protects the nickel against corrosion)
- (3) hand polishing of rim.

1/ Styled steel wheels undergo approximately 7 to 8 press operations. Black wheels, in contrast, require 3 to 4 press operations.

2/ NI Industries states that "(t)he rim is the most important part of a wheel. It is the most complex and sophisticated component. Its manufacture requires expensive, specialized equipment and broad technological know-how. Once the rim is manufactured, the remaining steps in the manufacture of the wheel are relatively simple and straightforward." (Postconference brief for NI Industries, Exhibit 2).

The epoxy-coated wheels are coated after the rim and the disc are assembled; the rim and the disc of the chrome-plated wheels are finished prior to assembly.

Machinery and equipment.--Following is a list of key equipment used in the U.S. production of the subject steel wheels:

Disc production--presses (stamps into form, punches holes)
--washing (washes)

Rim production --decoiler (flattens and cuts)
--coiler (coils hoops)
--butt welder (connects hoop seams)
--presses (flares edges and punches valve holes)
--rim rollers (contours rims)
--expander (edges)
--washing (washes)

Wheel assembly --presses (pushes rim over disc, punches valve stem holes)
--welder (connects rim with disc)
--riveting machine (attaches discs to rims)
--paint system (dips and/or sprays)
--washing (washes)
--curing oven (cures).

Both high-speed transfer presses that handle high-volume wheels and single-stage presses, suitable for short production runs and quick changeovers, are used to produce standard steel wheels. Specific tooling is developed for each model of wheel. Custom steel wheel production is more likely to be done on single-stage presses.

In their postconference brief, the petitioner stated that the manufacturing processes used to produce domestic and imported steel wheels are virtually identical. The same basic equipment, raw materials, and technology are used in both settings. The petitioner indicated that both the subject imported steel wheels and domestic steel wheels conform to identical specifications with regard to size, shape, configuration, durability, etc., depending upon the particular vehicle they are designed to accompany. 1/ However, respondents stated in the conference that Kelsey-Hayes and Motor Wheel are suited for long, high-volume production runs in contrast to Rockwell-Fumagalli which is able to efficiently bid on smaller production runs that require a high proportion of tooling changes. 2/ 3/

Quality standards.--Product testing is a major part of quality control programs. First, every shipment of raw materials is sampled in the metallurgical lab to verify that all specifications have been met. During the production process, constant monitoring takes place at critical points to ensure the proper margin of safety. After the wheel is removed from the assembly line, a number of key tests are performed, including rotary fatigue

1/ Petitioner's postconference brief, p. 6.

2/ Conference transcript, pp. 133-134.

3/ In its questionnaire, Rockwell International states: * * *.

(otherwise known as the cornering test), radial fatigue (vehicle load), drop impact (road stress simulator), and dimensional analysis. Following is a list of the five major international organizations that have established quality and testing standards for wheel manufacturers:

- (1) TUV--for European metric countries
- (2) JASO--for Japan
- (3) ISO (International Standards Organization)--represents 80 countries
- (4) SAE (Society of Automotive Engineers)--for United States
- (5) SFI/SEMA Foundation, Inc.--for the aftermarket in United States.

The U.S. Department of Transportation's National Highway Transportation Safety Administration (NHTSA) also issues regulatory requirements applicable to the steel wheel industry.

Mexican maquiladora industry.--The Mexican maquiladora industry is composed of Mexican firms that have established production-sharing agreements with foreign companies, many of which are located in southern California. The foreign companies send to the Mexican companies, duty free and in bond, the machinery, equipment, and raw materials needed for generally labor-intensive processing or assembling of components manufactured outside Mexico. When the finished product is returned to the United States, duty is charged only on the value added by the Mexican processing (if the raw materials are of U.S. origin). The Mexican maquiladora industry was originally designed to mirror the labor-intensive assembly operations established in East Asia by U.S. corporations. There are three categories of production-sharing operations: subsidiaries, shelters, and contract operations. U.S. wheel manufacturers (mainly custom wheel manufacturers, whose operations require labor-intensive polishing and other handwork) generally use contract operations, which are private arrangements wherein Mexican maquiladoras agree to provide finishing and assembly operations for a certain quantity of wheels over a specified duration. Data are not available regarding the quantity and value of wheels involved in these contracts; however, U.S. imports of motor-vehicle parts (including wheels) and miscellaneous vehicles from Mexico amounted to \$227.6 million in 1987, of which \$173.6 million was duty free.

Substitute products

Aluminum wheels are also used on automobiles and light trucks as original equipment and are sold in the aftermarket. There are four major types of aluminum wheels currently in production: (1) one-piece cast aluminum wheels; (2) composite wheels; (3) two-piece aluminum wheels; and (4) three-piece aluminum wheels. The latter two wheel types are also called modular wheels.

One-piece aluminum cast wheels (which account for 90 percent of total aluminum wheel production in the United States) are produced in a foundry using a casting process that involves pouring molten aluminum into a steel mold in the hollow shape of a wheel. After the molten aluminum is solidified, the mold is opened and a complete wheel, fully cast, is removed. The rough casting is then finished by machining to produce a smooth surface. Casting methods include: sandcasting (the traditional method), gravity-feed casting, low-pressure casting, and diecasting.

Composite wheels are formed by welding a diecast aluminum disc onto a steel rim. This combines the advantages of aluminum (lighter weight, rust resistance, greater design possibilities) with the lower cost of the steel rim. The steel rims used on composite wheels are, for specified sizes and configurations, identical to those used on steel wheels.

Two-piece aluminum wheels are usually produced by welding a gravity-cast aluminum disc into an aluminum rim, thus allowing for the highlighting or contrasting of the rim and cast disc. This provides greater styling flexibility and more design alternatives than one-piece cast units. A small number of aluminum two-piece wheels (about 2 percent of total aluminum wheel production) have stamped discs and are produced from an aluminum sheet or strip in much the same production process that is used for steel wheels. The equipment used in the production of steel rims must be modified to produce aluminum stamped rims. 1/ In contrast, aluminum discs can be, although in practice they are not, produced on a line used to manufacture steel discs. 2/ Production of aluminum stamped wheels is insignificant because of low demand for a relatively high-priced product that is not as attractive as a cast aluminum wheel. Stamped aluminum wheels are often used as an undersized light-weight spare wheel for a few car models to reduce the total weight of the vehicle in order to improve fuel economy. 3/

Three-piece aluminum wheels are produced by bolting a gravity-cast aluminum disc into two aluminum rim halves (sections). They are high-performance wheels.

Aluminum wheels are chosen primarily for their appearance, although their light weight has made them even more appealing in recent years as manufacturers continue their attempts to decrease the weight of the car to improve fuel consumption. 4/ Aluminum wheels are not commercially interchangeable with steel wheels except in sets of four, primarily because of appearance and styling, as well as cost. Technically, however, steel wheels and aluminum wheels may be interchangeable, and may use the same mounting with different wheel nuts.

The facilities in which steel wheels are produced are not equipped to make cast aluminum wheels. 5/ Firms that sell both steel wheels and cast aluminum wheels generally manufacture them in different plants.

1/ The petitioner stated at the conference that steel rim equipment must be "extensively and expensively modified to enable it to make aluminum rims." Conference transcript (p. 84). * * *

2/ Transcript of the staff conference, p. 84.

3/ Transcript of the staff conference, pp. 23-24.

4/ The aluminum content of a typical U.S. car has increased from 112 to 149 pounds during the last 10 years, whereas an average car's plain carbon steel content decreased from 1,915 to 1,440 pounds.

5/ An exception is Progressive Wheel, which manufactures two-piece custom steel wheels and cast aluminum wheels in its Riverside, CA, plant. The custom steel wheel product and aluminum wheel product are manufactured on separate production lines.

Aluminum wheels are more expensive than steel wheels. The average unit value of U.S. shipments of aluminum wheels reported in response to the Commission's producer questionnaire was \$55.94 in 1988, compared with an average unit value of \$25.35 for custom steel wheels and an average unit value of \$13.55 for standard steel wheels. Aluminum wheels are comparatively more expensive because of the higher cost of aluminum relative to steel and the higher labor costs associated with a slower manufacturing process. 1/

Other types of wheels include wheels made of magnesium alloy and composite materials such as a combination of carbon-fiber and plastic. U.S. production of these wheels is negligible.

U.S. tariff treatment

Imports of steel wheels covered by this investigation are classified in HTS subheading 8708.70.80; they were previously classified in item 692.3230 of the TSUSA, which included all wheels designed to be mounted with pneumatic tires. The current column 1 general rate of duty of 3.1 percent ad valorem is the final staged duty reduction negotiated in the Tokyo Round of the Multilateral Trade Negotiations (MTN). The column 2 rate of duty is 25 percent ad valorem, and is applicable to imports from those Communist countries and areas specified in general note 3(b) of the HTS.

Imports under subheading 8708.70.80 are designated as being eligible for duty-free entry under the Generalized System of Preferences (GSP); imports under this subheading from Brazil, however, are not eligible for such preferential treatment. 2/ Imports under this subheading are eligible for duty-free entry if deemed to be the product of Israel or of designated beneficiary countries under the Caribbean Basin Economic Recovery Act. During the period of investigation, imports of certain steel wheels from Canada were eligible for duty-free entry, if original motor-vehicle equipment, under the U.S.-Canada Automotive Products Trade Agreement of 1965 (Auto Pact). 3/

1/ A standard steel wheel is produced on an assembly line (except for painting) in approximately 21 minutes. The single-piece cast aluminum wheel is produced (except for painting) in approximately 2 days. (Petitioner's prehearing brief, p. 8).

2/ Brazil was removed from eligibility status for TSUS item 692.32 under Executive Order 12204, effective Mar. 30, 1980, because it exceeded competitive-need limits for this tariff item. Imports from Mexico are likewise non-GSP eligible.

3/ The Auto Pact provides for duty-free trade of original-equipment parts and most new vehicles between Canada and the United States. On Jan. 1, 1989, the U.S.-Canada Free Trade Agreement (FTA) entered into effect; the FTA provides additional reduced-duty and duty-free treatment of goods originating in the territory of Canada but did not terminate the Auto Pact.

The U.S. Market

U.S. producers

Standard steel wheels are made primarily by large producers that manufacture the rims and discs from steel sheet and coil and then assemble and finish the wheels. They sell to original equipment automotive, trailer, mobile home, and agricultural equipment manufacturers. Twelve firms account for the great majority of the domestic production of standard steel wheels. 1/ All the companies have provided data in response to the Commission's final questionnaire.

The producers of custom steel wheels typically purchase the steel rim and, sometimes, the disc, 2/ and further finish them for resale to distributors. The majority of the custom wheel manufacturers are located in California, partly because of the geographical proximity to finishing operations in Mexico. They produce in smaller volumes for the aftermarket (such as auto supply stores and department stores that sell automobile supplies). Many custom wheel manufacturers also produce aluminum wheels, both for the aftermarket and for sale to the automotive industry as original equipment on vehicles.

Questionnaires were sent to 13 of the largest known manufacturers of custom steel and aluminum wheels. 3/ Ten of the firms provided at least partial data to the Commission. Industry sources informed the Commission that a relatively small number of firms produce the majority of the custom and aluminum wheels manufactured in the United States. Numerous other distributors buy wheels from domestic manufacturers and importers and market them under their own label. There are also a large number of small custom wheel manufacturers; many of these firms are in business for only a short time, often forming companies under different firm names.

There are six known domestic noncaptive-use manufacturers of rims; one firm, NI Industries, accounts for * * * of U.S. open-market shipments. 4/ 5/ Two firms produce the majority of discs sold on the open market in the United States; several additional manufacturers sell small numbers as a sideline. Custom steel wheel producers also contract with small tooling firms for the manufacture of steel discs.

The firms, plant locations, types of wheels produced within each plant, and position taken on the petition are shown in table 1.

1/ The petitioner provided the names of nine manufacturers; three additional firms were identified as producing wheels for original equipment trailer manufacturers and were thus, according to the Commission's definition, classified as standard steel wheel manufacturers.

2/ A major exception is * * *.

3/ Names of manufacturers were obtained from the Specialty Equipment Market Association/Auto International Association 1988 official show directory, the September 1988 Tire Review (Babcox), the Motor & Equipment Manufacturers Association, and the petitioner.

4/ In a telephone conversation with staff, NI Industries estimated its share of the noncaptive U.S. market of rims for automobile and light truck wheels to be * * *. * * *. These estimates do not include the rims sold by Philips Industries (Dexter Axle Division); its rims are sold primarily for trailers and mobile homes.

5/ Another significant U.S. manufacturer, Techrim, went out of business in September 1987.

Table 1

Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers, plant locations, type of wheel production within plant, and position on the petition, by firms

Firm	Plant location	Types of wheels produced within plant	Position on the petition
Firms that produce standard steel wheels:			
Accuride Corp-----	Henderson, KY	Standard steel	* * *
Can-Am Industries 1/-----	Quincy, IL	Standard steel	* * *
Central Manufacturing Co-----	Paris, KY	Standard steel	* * *
Dexter Axle Division-----	Elkhart, IN	2-piece aluminum Standard steel	* * *
	McKinney, TX	Steel rims	
	Gardena, CA	Cast aluminum	
Ford Motor Co-----	Monroe, MI	Cast aluminum	
General Motors Corp-----	Warren, MI	Standard steel	* * *
Kelsey-Hayes Co. 2/-----	Romulus, MI	Standard steel	* * *
	Sedalia, MO	Standard steel 3/	Supports
	LaMirada, CA	Standard steel	
	Huntington, IN	Cast aluminum	
	Howell, MI 5/	Cast aluminum 4/	
	Santa Fe Springs, CA	Cast aluminum	
Motor Wheel Corp-----	Lansing, MI	Custom steel	
	Mendota, IL	Standard steel	Supports
	Luckey, OH	Standard steel	
NI Industries, Inc-----	Brea, CA	Standard steel 6/	
		Standard steel	Supports
		Steel rims	
Saber Manufacturing Co., Inc-----	Little Rock, AR	Standard steel	* * *
Topy Corp-----	Frankfort, KY	Standard steel	* * *
Unique Stamping and Coating--	Santa Fe Springs, CA	Steel discs	* * *
	Buena Park, CA	Standard steel	
Firms that do not produce standard steel wheels:			
American Racing Equipment Inc-----	Gardena, CA	Custom steel 7/	* * *
	Rancho Dominguez, CA	Cast aluminum 7/	
Center Line Tool Corp-----	Santa Fe Springs, CA	Forged aluminum 8/	* * *
Dynamark, Ltd-----	Ontario, CA 9/	Custom steel	* * *
		Cast aluminum	
Enkei America, Inc-----	Columbus, IN	Cast aluminum	* * *
Mr. Gasket Company-----	Compton, CA	Custom steel	* * *
		Steel rim/aluminum disc	
		3-piece aluminum	
Progressive Wheel-----	Riverside, CA	Custom steel	* * *
		Cast aluminum	

Table continued.

Table 1--Continued

Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers, plant locations, type of wheel production within plant, and position on the petition, by firms

<u>Firm</u>	<u>Plant location</u>	<u>Types of wheels produced within plant</u>	<u>Position on the petition</u>
Firms that do not produce standard steel wheels--con.			
Rocket Industries-----	Pico Rivera, CA Los Angeles, CA	Cast aluminum Custom steel	* * *
Superior Industries International, Inc-----	Van Nuys, CA (No. 1) Van Nuys, CA (No. 2) Fayetteville, AR	Cast aluminum Custom steel Cast aluminum	* * *

1/ Can-Am Industries also produces * * * rims at its French and Hecht Co. division (Walcott, IA).

2/ The LaMirada, CA; Huntington, IN; Howell, MI; and Santa Fe Springs, CA, plants are part of Western Wheel Corp., a subsidiary of Kelsey-Hayes Co.

3/ The Romulus, MI, plant also produces * * * stamped aluminum wheels.

4/ The Huntington, IN, plant has recently begun production of 2-piece aluminum wheels.

5/ * * *

6/ The Luckey, OH, plant produces polycast wheels.

7/ American Racing Equipment also produces 2-piece aluminum wheels using spun aluminum rims from its Gardena, CA, plant and cast aluminum discs supplied by its Rancho Dominguez, CA, plant.

8/ Center Line Tool Corp. produces 2-piece forged aluminum wheels and 3-piece aluminum wheels with a forged aluminum rim and a cast center. They also sell * * * stamped steel discs.

9/ Information on the number of plants and type of wheel produced by plant was not provided.

Source: Information submitted in response to questionnaires of the U.S. International Trade Commission.

A discussion of individual U.S. producers of standard steel wheels follows:

Accuride Corp., Henderson, KY.--Accuride produces standard steel wheels at its plants in Henderson, KY, and London, Ontario, Canada. Prior to December 1986, Accuride was known as Firestone Steel Products Division, * * * subsidiary of Firestone Tire and Rubber Co., Akron, OH. Accuride was independently owned until March 1988, when it was sold to the Phelps Dodge Corp. It is an approved source for * * *.

Central Manufacturing Co. (CMC), Paris, KY.--CMC is a joint venture between Kelsey-Hayes Co. (* * *-percent ownership), Chuō Seiki Co. of Japan (* * *-percent ownership), and Toyota Tsusho America, Inc. (* * *-percent ownership). CMC's plant opened in November 1987; production began January 1, 1988, on a limited basis. It is an approved source of standard steel wheels for * * *.

Dexter Axle Division, Elkhart, IN.--Dexter is part of the Transportation Products Group of Philips Industries, Inc. The principal use for standard steel wheels manufactured by Dexter is on trailers and other towed vehicle running gear. Dexter does not sell standard steel wheels to the automotive original equipment market or to the aftermarket. It is an approved source of aluminum wheels for * * *.

Ford Motor Co., Monroe, MI.--Ford Motor Co. manufactures standard steel wheels for use in its own automotive manufacturing facilities.

General Motors Corp., Warren, MI.--General Motors, like Ford, uses all of its production of standard steel wheels in the production of automobiles and light trucks.

Kelsey-Hayes Co., Romulus, MI.--Kelsey-Hayes, the petitioner in this investigation, is alleged to be the world's largest manufacturer of wheels for cars and light trucks. 1/ In addition to standard steel wheels, Kelsey-Hayes produces custom steel and aluminum wheels domestically; in 1988, these wheels accounted for * * * and * * * percent, respectively, of its total sales value (for reported wheels). Other products manufactured include disc and drum brake systems and electromechanical sensors and actuators. Kelsey-Hayes imports steel wheels from * * * and aluminum wheels from * * *. It is an approved source for * * *. In December 1986, Kelsey-Hayes was acquired by Freuhauf Holdings, Inc., now Freuhauf Corp., of Michigan. 2/

Motor Wheel Corp., Lansing, MI.--Motor Wheel produces standard steel wheels at its three domestic plants and in Chatham, Ontario, Canada. * * * of its wheels are top-coat painted. It has been the leading supplier of highly-styled painted and chrome wheels to the original equipment (OE) market for the past 25 years. 3/ Motor Wheel is an approved source for * * *. In February 1987, its senior management bought Motor Wheel from Goodyear Tire and Rubber Co. of Akron, OH.

NI Industries, Brea, CA.--NI Industries is a * * * subsidiary of Masco Industries. NI Industries has steel wheel plants in Brea, CA, and Cambridge, Ontario, Canada. The Ontario plant started production of heavy-duty truck wheels and rims 22.5 inches and 24.5 inches in diameter in September 1988. NI

1/ Kelsey-Hayes is affiliated with the following wheel manufacturing operations outside the United States: Kelsey-Hayes Canada (Canada, steel wheels, * * *-percent ownership); Kelsey-Hayes de Mexico (Mexico, steel and aluminum wheels, * * *-percent ownership); Rudeveca (Venezuela, steel and cast aluminum wheels, * * *-percent ownership); F.P.S. Italy (Italy, cast aluminum wheels, * * *-percent ownership); F.P.S. Brasil (Brazil, cast aluminum wheels, * * *-percent ownership by F.P.S. Italy); K-H de Espana (Spain, cast aluminum wheels, * * *-percent ownership); F.A.S.S. (France, cast aluminum wheels, * * *-percent ownership). * * *.

2/ A May 9, 1989, article in the Washington Post stated that Freuhauf sold Kelsey-Hayes to Varsity Corp. of Toronto, Canada on May 8. Varsity is a leading manufacturer of agricultural tractors. The sale, which involves exchanges of stock between Freuhauf and Varsity, is subject to approval from stock and bond holders and the Securities and Exchange Commission.

3/ Transcript of the hearing, p. 32.

Industries is * * * of steel rims for the custom wheel industry. In 1988, rims accounted for * * * percent of its total sales value (of reported products). It is an approved supplier of standard steel wheels for * * *.

Topy Corp., Frankfort, KY.--Topy is a joint venture between Topy Industries, Ltd., headquartered in Japan (* * * percent), and Topy International, Elk Grove, IL (* * * percent). Topy began producing standard steel wheels in its Frankfort plant in 1986. * * *. Topy is an approved source for * * *.

Other producers.--Can-Am Industries (Quincy, IL) and Unique Stamping and Coating (Santa Fe Springs, CA) sell "customized" wheels that are used as original equipment on trailers. Unique Stamping and Coating also supplies approximately * * * to * * * percent of the steel discs sold in the United States. Saber Manufacturing Co., Inc. (Little Rock, AR) primarily sells basic standard steel wheels to trailer manufacturers and to the aftermarket. There are believed to be additional manufacturers of wheels for trailers, mobile homes, and agricultural equipment.

The majority of the manufacturers that produce only custom steel or aluminum wheels are located in California. * * * are approved to sell aluminum wheels to the automotive industry. * * *.

Information on 1988 production and shares of production of standard steel wheels, custom steel wheels, and aluminum wheels is shown in table 2.

Table 2

Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers, production, and shares of production, by firms, 1988

(Production in 1,000 units; shares in percent)

Firm	Standard steel		Custom steel		Aluminum	
	Production	Share	Production	Share	Production	Share
Firms that produce standard steel wheels:						
Accuride Corp.....	***	***	-	-	-	-
Can-Am Industries.....	***	***	-	-	-	-
Central Manufacturing Co.....	***	***	-	-	***	***
Dexter Axle Division.....	***	***	-	-	***	***
Ford Motor Co.....	***	***	-	-	-	-
General Motors Corp.....	***	***	-	-	-	-
Kelsey-Hayes Co.....	***	***	***	***	***	***
Motor Wheel Corp.....	***	***	-	-	-	-
N.I. Industries, Inc.....	***	***	-	-	-	-
Saber Manufacturing Co.....	***	***	***	***	-	-
Topy Corp.....	***	***	-	-	-	-
Unique Stamping and Coating..	*** 2/	***	-	-	-	-
Firms that do not produce standard steel wheels: 4/						
American Eagle Wheel Corp....	3/	3/	3/	3/	3/	3/
American Racing Equipment....	-	-	***	***	***	***
Center Line Tool Corp.....	-	-	-	-	***	***
Dynamark Ltd.....	-	-	***	***	***	***
Enkei America.....	-	-	-	-	***	***
K.M.C. Wheel Co.....	3/	3/	3/	3/	3/	3/
Mr. Gasket Co.....	-	-	***	***	***	***
Progressive Industries.....	-	-	***	***	***	***
Rocket Industries.....	-	-	***	***	***	***
Superior Industries.....	-	-	5/	5/	***	***
Ultra Wheel Co.....	3/	3/	3/	3/	3/	2/
Total.....	39,257	100.0	2,957	100.0	10,299	100.0

1/ Less than 0.05 percent.

2/ In its response to the Commission's questionnaire, Unique Stamping and Coating reported its production as "custom" steel wheels for trailer manufacturers; the data were reclassified as "standard" according to the Commission's definition.

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

4/ Two additional manufacturers of custom steel wheels, California Wheels Co. (Gardena, CA) and Dayton Wheel Products (Dayton, OH) reported * * *. Honda of America Mfg., Inc. (Marysville, OH) began producing aluminum wheels for its domestic manufacturing operation in 1987. Honda reported production of approximately * * * units in 1987 and * * * units in 1988; it did not receive a questionnaire. Alcoa Aluminum and Wheel Tech also did not receive questionnaires. Alcoa produces * * * cast aluminum wheels and is the only U.S. producer of forged aluminum wheels in the 13- to 16.5-inch size range. Wheel Tech produced approximately * * * cast aluminum wheels for OEM customers in 1988.

5/ Superior Industries could not provide data on custom steel wheels; shipments were * * * units in 1988.

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

U.S. importers

According to the U.S. Customs Service net importer file, approximately 70 firms imported significant quantities of the products that were entered under the tariff provision that includes standard steel wheels, steel rims, custom steel wheels, and aluminum wheels. Questionnaires were sent to each of these importers. The Commission received questionnaire responses from 37 firms reporting imports of wheels and rims; the majority of the remaining firms indicated that they did not import the products covered by this investigation. Each of the importers of wheels and rims from Brazil responded; it is believed that they account for virtually all imports of steel wheels and rims from Brazil.

Most of the importers are either U.S. divisions of foreign automobile manufacturers that import steel and aluminum wheels as replacement wheels for their automobiles sold in the United States or domestic vehicle manufacturers that import directly or through purchasing agents. Wheel manufacturers are also significant importers, bringing wheels into the United States from their foreign facilities--particularly Canada. Rims are imported for sale to manufacturers of custom steel wheels. Each of the U.S. importers of the subject products from Brazil is discussed below.

Rockwell International.--Rockwell International in Troy, MI, is the largest importer of standard steel wheels from Brazil, accounting for * * * percent of the quantity of standard steel wheels imported from that country in 1988. Rockwell owns * * * percent of Rockwell-Fumagalli, one of the Brazilian producers of the subject wheels. Rockwell imports wheels * * *. * * *. In addition, Rockwell imported * * * custom steel wheels in * * *. It is an approved source of steel wheels for * * *.

GAMMA Enterprises.--GAMMA Enterprises in Camarillo, CA, is * * *. It accounted for * * * percent (by quantity) of the imports of standard steel wheels from Brazil in 1988.

Rim and Wheel of America.--Rim and Wheel of America in Vernon, CA, is * * * that sells steel wheels * * * and steel rims to custom wheel producers. Rim and Wheel accounted for * * * percent (by quantity) of imports of standard steel wheels from Brazil in 1988, and for * * * percent (by quantity) of imports of Brazilian steel rims.

Positrade.--Positrade Corp. in Edison, NJ, is * * *-percent owned by Megatrade of Panama City, Panama, which, in turn, is * * *-percent owned by Mangels Industrial of Sao Paulo, Brazil. Mangels Industrial is also * * *-percent owner of Mangels Minas, a producer of custom wheels in Brazil. Positrade imports custom steel wheels into the United States for sale to the aftermarket for, primarily, automobiles and light trucks. No sales are made to OEMs, including trailer manufacturers. In 1988, Positrade accounted for * * * percent (by quantity) of custom steel wheel imports from Brazil.

Ford Motor Co. (Dearborn, MI) and General Motors Corp. (Detroit, MI) also import * * *. In 1988, direct imports by Ford accounted for * * * percent and direct imports by General Motors accounted for * * * percent of total standard steel wheels imported from Brazil. Chrysler Corp. (Highland Park, MI) purchased * * *. * * *.

Channels of distribution

The U.S. market for standard steel wheels is divided between the OE market and the aftermarket. The OE market, which consists primarily of automotive and light truck manufacturers, consumed 93 percent of U.S. production of standard steel wheels in 1988. 1/ The remaining 7 percent of U.S. production is for the aftermarket; these wheels are intended for use as replacement wheels on vehicles and are sold through auto manufacturers' service dealers, auto repair shops, auto parts stores, or department stores that carry automotive supplies. Approximately 89 percent of standard steel wheels imported from Brazil in 1988 were sold to OEMs. Custom steel wheels, by definition, are sold to the aftermarket trade. Automobile dealers often stock a full line of custom wheels and routinely offer their customers the option of purchasing custom wheels instead of the standard wheels. 2/ Questionnaire data showed that approximately 80 percent of U.S.-produced aluminum wheels are sold to OEMs; the remainder are custom or aftermarket sales.

Market factors

Trends in demand.--The demand for standard steel wheels is derived from the requirements of the automotive industry. As shown in table 3, U.S. production of passenger cars and light trucks declined 6.4 percent from 11.4 million vehicles in 1985 to 10.6 million vehicles in 1987, then increased 2.7 percent to 10.9 million units in 1988. One method for estimating U.S. consumption of all wheels is to multiply the figures for U.S. production of cars and light trucks by 5 (thus assuming that all such vehicles have four wheels and a spare). This method of calculation (1) includes aluminum wheels (thus overstating U.S. consumption of steel wheels), (2) excludes sales to the aftermarket (thus understating U.S. consumption), and (3) excludes wheels placed on trailers and agricultural equipment (again understating U.S. consumption). Using this method, annual consumption of wheels used in the production of cars and light trucks declined by 6 percent from 57 million units to 53 million units during 1985-87, before increasing by 3 percent to 55 million units in 1988.

Other factors affecting demand.--The demand for U.S.-produced vehicles is in turn affected by changes in domestic sales of imported vehicles which do not as a general rule (with the exception of Canadian-produced vehicles) contain U.S.-produced wheels. 3/ U.S. retail sales of vehicles produced in

1/ The Commission defined wheels for mobile homes, trailers, and/or agricultural equipment as OEM or standard steel wheels. Some of the wheels sold to such manufacturers are basic in design, and others are "customized." The size of this market is not known; of the data on standard steel wheels reported in response to the Commission questionnaires, approximately 4 percent were sold to mobile home, trailer, or agricultural equipment manufacturers.

2/ Posthearing brief submitted by NI Industries, Exhibit 1.

3/ Rockwell International comments that "(t)his is business that is simply not available to domestic producers." (Rockwell International's prehearing brief, p. 51).

Table 3

U.S. production of passenger cars and light trucks and estimated U.S. consumption of wheels used in the production of passenger cars and light trucks, 1985-88

(In 1,000 units)				
Item	1985	1986	1987	1988
U.S. production:				
Passenger cars.....	8,185	7,829	7,099	7,111
Light trucks.....	3,173	3,236	3,528	3,800
Total.....	11,358	11,065	10,627	10,911
U.S. consumption of wheels used in the production of-- 1/ 2/				
Passenger cars.....	40,925	39,145	35,495	35,555
Light trucks.....	15,865	16,180	17,640	19,000
Total.....	56,790	55,325	53,135	54,555

1/ The calculation of U.S. consumption of wheels is based on the annual production of cars and light trucks multiplied by 5.

2/ In its prehearing brief, Rockwell International used the data presented in this table and in table 4 to estimate U.S. consumption of steel wheels alone. Their estimate of U.S. consumption of steel wheels is (in thousands of units): 51,730 in 1985; 48,354 in 1986; 45,579 in 1987; and 44,784 in 1988. (Rockwell International's prehearing brief, table C-1).

Source: Economic Indicators, The Motor Vehicle's Role in the U.S. Economy, 4th quarter 1988, Motor Vehicle Manufacturers Association (MVMA) of the United States.

North America and imported vehicles are presented in the following tabulation (in thousands of units): 1/

Year	Domestic 1/	Imported	Total
1980.....	8,316	2,885	11,201
1981.....	10,796	2,778	13,574
1982.....	7,727	2,635	10,362
1983.....	9,270	2,857	12,127
1984.....	11,160	3,057	14,217
1985.....	11,833	3,618	15,451
1986.....	11,891	4,186	16,077
1987.....	10,872	4,055	14,927
1988.....	11,726	3,740	15,466

1/ Domestic sales are sales of U.S.-produced and Canadian-produced vehicles in the United States.

1/ Economic Indicators, The Motor Vehicle's Role in the U.S. Economy, 4th quarter, 1988, Policy Analysis Department, Public Affairs Division, MVMA.

The ratio of imported vehicles sold in the United States to total U.S. retail sales ranged from a low of 20.5 percent of total U.S. retail sales in 1981 to 27.2 percent in 1987. In 1988, 24.2 percent of U.S. retail sales were of imported vehicles. ^{1/}

The increasing use of aluminum wheels is another factor that affects the demand for steel wheels. Placement of aluminum wheels as original equipment on U.S.-produced and Canadian-made cars and light trucks increased from 10 percent in 1985 to 20 percent in 1988 (table 4). Industry sources have indicated that the use of aluminum wheels will most likely continue to increase in the future, depending on the overall state of the economy. During a recession, for example, the use of aluminum wheels tends to decline relative to the use of steel wheels, due to the higher price.

Table 4

U.S. and Canadian production of passenger cars and light trucks, U.S.-produced and Canadian-made cars and light trucks produced with aluminum wheels as original equipment, and shares of U.S.-produced and Canadian-made cars and light trucks produced with aluminum wheels as original equipment, 1985-88

Year	U.S. and Canadian production of passenger cars and light trucks	U.S.-produced and Canadian-made cars and light trucks produced with aluminum wheels as original equipment	Shares of U.S.- produced and Canadian-made cars and light trucks produced with aluminum wheels as original equipment
			-----1,000 units----- Percent
1985.....	12,209	1,212	9.9
1986.....	12,243	1,715	14.0
1987.....	11,325	1,784	15.8
1988.....	12,006	2,392	19.9

Source: Ward's Automotive Yearbook, 1986-89.

Demand for a specific standard steel wheel (or aluminum wheel sold to an OEM) is largely dependent on sales of the automobile or light truck for which it is designed.

^{1/} Additionally, Rockwell International notes that "(a) growing proportion of U.S. production is accounted for by foreign transplants--production facilities owned by foreign companies or joint ventures. These companies prefer to import wheels, or to utilize transplant production." (Rockwell International's pre-hearing brief, p. 51).

Apparent U.S. consumption

The data on apparent U.S. consumption of standard steel, custom steel, and aluminum wheels presented in table 5 are composed of the sum of U.S. producers' reported domestic shipments of U.S.-produced specified wheels and shipments of imports of specified wheels (except standard steel wheels from Canada) as reported in response to the Commission's questionnaires. (Data on imports of steel wheels from Canada are an aggregate of export shipments to the United States from the Canadian plants of Accuride, Kelsey-Hayes, Motor Wheel 1/ and import shipments from Canada reported by Volkswagen.)

Data are understated to the extent that all producers and importers did not respond to (or, in the case of aluminum wheels, receive) the Commission's questionnaires. Information was received from all known U.S. producers of standard steel wheels and from all the major custom steel wheel manufacturers identified by industry sources. 2/ Responses have been received from all firms believed to import the subject product from Brazil and from the largest firms that import the products entered under the tariff provision that includes the wheels covered in this report. 3/ 4/

The following tabulation compares U.S. consumption of standard steel wheels and aluminum wheels (excluding custom steel wheels) calculated from questionnaire data (table 5) (in thousands of units) to estimated U.S. consumption of wheels used in the production of vehicles calculated from MVMA statistics (table 3) (in thousands of units):

<u>Item</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Apparent U.S. consumption from table 5.....	60,818	60,562	62,177
Apparent U.S. consumption from table 3.....	55,325	53,135	54,555

1/ Quantity data on such export shipments were collected in the Commission's questionnaire; data on value were requested separately from firms.

2/ See footnote 4 of table 2 for data on noncoverage of custom steel and aluminum wheel manufacturers. Additional analysis of underreporting of custom steel wheels is presented in the section on steel rim operations.

3/ U.S. imports of steel wheels (and parts thereof) covered by this investigation are provided for in a tariff provision that includes all wheels (and parts thereof) designed to be mounted with pneumatic tires.

4/ Importer questionnaires were not returned by * * *. These firms import wheels for the replacement aftermarket; the amount imported is not believed to be large. * * * also did not respond. Import data are also understated to the extent that automotive original equipment manufacturers did not fully report their imports of aluminum wheels. * * * was not able to report data on imports of aluminum wheels by * * * in * * *. (* * *) Data based on exports of standard steel wheels from Canada were used in place of imports reported by U.S. importers because of such underreporting. Imports of standard steel wheels from Canada reported by U.S. importers were 67 percent of the shipments reported to the United States from Canada during 1986-88.

Table 5
Standard steel wheels, custom steel wheels, and aluminum wheels: Apparent U.S. consumption, 1986-88

Item and year	Producers' shipments	Shipments of imports	Consumption	Ratio to consumption	
				Domestic	Imports
<u>Quantity</u>					
			-----1,000 units-----	-----Percent-----	
Standard steel wheels:					
1986.....	41,866	9,723	51,589	81.2	18.8
1987.....	38,497	10,110	48,607	79.2	20.8
1988.....	35,804	11,888	47,692	75.1	24.9
Standard steel wheels and custom steel wheels:					
1986.....	44,487	10,122	54,609	81.5	18.5
1987.....	41,468	10,556	52,024	79.7	20.3
1988.....	38,707	12,329	51,036	75.8	24.2
Standard steel wheels, custom steel wheels, and aluminum wheels:					
1986.....	51,166	12,672	63,838	80.1	19.9
1987.....	49,744	14,235	63,979	77.8	22.2
1988.....	48,590	16,931	65,521	74.2	25.8
<u>Value</u>					
			-----1,000 dollars-----	-----Percent-----	
Standard steel wheels:					
1986.....	568,619	124,149	692,768	82.1	17.9
1987.....	508,341	138,725	647,066	78.6	21.4
1988.....	485,106	168,361	653,467	74.2	25.8
Standard steel wheels and custom steel wheels:					
1986.....	625,758	132,188	757,946	82.6	17.4
1987.....	575,604	147,424	723,028	79.6	20.4
1988.....	558,710	178,085	736,795	75.8	24.2
Standard steel wheels, custom steel wheels, and aluminum wheels:					
1986.....	939,062	261,282	1,200,344	78.2	21.8
1987.....	971,837	339,992	1,311,829	74.1	25.9
1988.....	1,111,524	440,232	1,551,756	71.6	28.4

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

U.S. consumption as calculated from questionnaire data includes (1) standard steel wheels sold in the aftermarket, (2) standard steel wheels sold to OEMs other than the automotive industry, and (3) aluminum custom and replacement wheels. MVMA data do not include such wheels and are therefore understated for the purposes of this investigation. In 1988, apparent U.S. consumption as calculated from questionnaire data exceeded MVMA data by 12 percent.

Apparent U.S. consumption of standard steel wheels, on the basis of quantity, declined steadily throughout the period, falling 7.6 percent from 51.6 million units in 1986 to 47.7 million units in 1988 (table 5). Apparent U.S. consumption, on the basis of value, decreased 6.6 percent, from \$693 million in 1986 to \$647 million in 1987, then rose by 1.0 percent to \$653 million in 1988. ^{1/} Apparent U.S. consumption of the subject products (standard steel wheels and custom steel wheels combined) followed similar trends, falling 6.5 percent (based on quantity) during 1986-88 and, in value, decreasing by 4.6 percent from 1986 to 1987, then increasing by almost 2 percent in 1988. In contrast to steady decreases in producers' U.S. shipments of standard steel wheels and custom steel wheels, importers' U.S. shipments rose steadily throughout the period, increasing their market share from (in terms of quantity) 18.5 percent in 1986 to 24.2 percent in 1988. Including aluminum wheels, aggregate apparent U.S. consumption increased 2.6 percent on the basis of quantity (from 63.8 million units to 65.5 million units) and 29.3 percent on the basis of value (from \$1.2 billion to \$1.6 billion) during the period.

The following tabulation shows the percent of quantity of total apparent U.S. consumption, by types of wheel (in percent).

<u>Year</u>	<u>Standard steel wheels</u>	<u>Custom steel wheels</u>	<u>Aluminum wheels</u>
1986.....	80.8	4.7	14.5
1987.....	76.0	5.3	18.7
1988.....	72.8	5.1	22.1

The market share of standard steel wheels decreased by 8 percentage points from 1986 to 1988; the market share of aluminum wheels increased by almost 8 percentage points. The market share of custom steel wheels has remained relatively constant throughout the period.

^{1/} Apparent U.S. consumption of custom steel wheels increased from 3.0 million units in 1986 to 3.4 million units in 1987, then decreased slightly to 3.3 million units in 1988. The value of reported apparent consumption was \$65.2 million in 1986, \$76.0 million in 1987, and \$83.3 million in 1988.

Consideration of Material Injury to an Industry
in the United States

Three of the U.S. producers of standard steel wheels have manufacturing facilities located in Canada. Information on the capacity, production, shipments to the United States, and financial experience of these facilities is presented in appendix C.

U.S. production, capacity, and capacity utilization

Data for reporting producers' production and capacity are summarized in table 6.

Table 6
Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. capacity, production, and capacity utilization, by products, 1986-88

Item	1986	1987	1988
<u>Average-of-period capacity (1,000 units)</u>			
Standard steel wheels.....	61,486	63,352	64,206
Custom steel wheels.....	3,189	3,189	3,189
Subtotal.....	64,675	66,541	67,395
Aluminum wheels.....	7,817	9,342	12,330
Total.....	72,492	75,883	79,725
<u>Production (1,000 units)</u>			
Standard steel wheels.....	44,493	41,974	39,257
Custom steel wheels <u>1</u> /.....	2,626	2,993	2,957
Subtotal.....	47,119	44,967	42,214
Aluminum wheels.....	6,783	8,542	10,299
Total.....	53,902	53,509	52,513
<u>Capacity utilization <u>2</u>/ (percent)</u>			
Standard steel wheels.....	72.4	66.3	61.1
Custom steel wheels <u>1</u> /.....	69.9	80.0	69.3
Average.....	72.2	66.9	61.5
Aluminum wheels.....	78.8	84.1	78.5
Average.....	73.0	69.0	64.2

1/ Production trends and capacity utilization are slightly inaccurate due to inclusion of some January 1988 production in the data for 1987 by * * *.

2/ Capacity utilization ratios are based on data for those firms that provided figures for both capacity and production; therefore, ratios based on capacity and production figures as presented may not reconcile.

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

Production of standard steel wheels declined steadily throughout the period from 44.5 million units in 1986 to 39.3 million units in 1988, a decrease of 11.8 percent. In contrast, production of aluminum wheels increased 51.8 percent during the same period. Average-for-period capacity to produce standard steel wheels increased 4.4 percent from 1986 to 1988; the increase is largely because of greater capacity to produce reported by * * * and * * *. ^{1/} Capacity for firms other than * * * and * * * increased from * * * million units in 1986 to * * * million units in 1987, then declined the following year to * * * million units. The production decline in standard steel wheels paired with the increase in capacity led capacity utilization to fall from 72.4 percent to 61.1 percent during the period. Capacity utilization rates for individual firms varied widely.

Capacity to produce aluminum wheels increased 57.7 percent during 1986-88. Capacity to produce custom steel wheels remained constant.

U.S. producers' domestic shipments, intracompany transfers, and exports

The quantity of U.S. shipments of standard steel wheels declined 14.5 percent during 1986-88, decreasing from 41.9 million units to 35.8 million units (table 7). U.S. shipments of custom steel wheels rose from 2.6 million units in 1986 to 3.0 million units in 1987, then declined slightly to 2.9 million units in 1988. U.S. shipments of aluminum wheels increased 48.0 percent from 1986 to 1988. The value of U.S. shipments of standard steel wheels followed a similar trend as the quantity of U.S. shipments. The value of U.S. shipments of custom steel wheels increased 28.8 percent; the value of U.S. aluminum wheel shipments increased 76.4 percent during the period.

Unit values for the three types of wheels vary sharply: in 1988 the average value of U.S. shipments of standard steel wheels was \$13.55, in contrast with an average unit value of \$25.35 for custom steel wheels and \$55.94 for aluminum wheels. The average unit value of standard steel wheels actually decreased from \$13.58 per wheel in 1986 to \$13.20 in 1987, then increased slightly to \$13.55 per wheel in 1988. The average unit value of U.S. shipments of custom steel wheels and aluminum wheels increased by 16.3 percent and 19.2 percent, respectively, during the period under investigation.

Intracompany transfers of standard steel wheels are significant: the great majority of reported intracompany transfers are for Ford and General Motors, which use the majority of their production in the manufacture of automobiles and light trucks. The quantity of intracompany transfers * * *. The reported average unit value of transfer shipments was \$* * * in 1988, in contrast with \$* * * for standard steel wheels sold domestically. ^{2/} Intracompany transfers of standard steel wheels accounted for over * * * percent of the quantity of total standard steel wheel shipments during the period under investigation. All intracompany transfers of aluminum wheels (and

^{1/} * * *.

^{2/} Ford and General Motors * * *. The differences in the reported unit values of standard steel wheels for the 2 firms varied between * * * and * * * during 1986-88.

Table 7
Standard steel wheels, custom steel wheels, and aluminum wheels: Shipments
of U.S. producers, by types and by products, 1986-88

Item	1986	1987	1988
	Quantity (1,000 units)		
Domestic shipments:			
Standard steel wheels.....	***	***	***
Custom steel wheels 1/.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	***	***	***
Company transfers:			
Standard steel wheels.....	***	***	***
Custom steel wheels.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	***	***	***
U.S. shipments: 2/			
Standard steel wheels.....	41,866	38,497	35,804
Custom steel wheels 1/.....	2,621	2,971	2,903
Subtotal.....	44,487	41,468	38,707
Aluminum wheels.....	6,679	8,276	9,883
Total.....	51,166	49,744	48,590
	Value (1,000 dollars)		
Domestic shipments:			
Standard steel wheels.....	***	***	***
Custom steel wheels 1/.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	***	***	***
Company transfers:			
Standard steel wheels.....	***	***	***
Custom steel wheels.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	***	***	***
U.S. shipments: 2/			
Standard steel wheels.....	568,619	508,341	485,106
Custom steel wheels 1/.....	57,139	67,263	73,604
Subtotal.....	625,758	575,604	558,710
Aluminum wheels.....	313,304	396,233	552,814
Total.....	939,062	971,837	1,111,524

Table continued.

Table 7--Continued

Standard steel wheels, custom steel wheels, and aluminum wheels: Shipments of U.S. producers, by types and by products, 1986-88

Item	1986	1987	1988
	Unit value (per unit) 3/		
Domestic shipments:			
Standard steel wheels.....	\$***	\$***	\$***
Custom steel wheels 1/.....	***	***	***
Average.....	***	***	***
Aluminum wheels.....	***	***	***
Average.....	***	***	***
Company transfers:			
Standard steel wheels.....	***	***	***
Custom steel wheels 1/.....	***	***	***
Average.....	***	***	***
Aluminum wheels.....	***	***	***
Average.....	***	***	***
U.S. shipments: 2/			
Standard steel wheels.....	13.58	13.20	13.55
Custom steel wheels 1/.....	21.80	22.64	25.35
Average.....	14.07	13.88	14.43
Aluminum wheels.....	46.91	47.88	55.94
Average.....	18.35	19.54	22.88

1/ Domestic shipment and U.S. shipment trends are slightly inaccurate due to inclusion of some January 1988 shipments in the data for 1987 by * * *.

2/ U.S. shipments consist of company transfers added to domestic shipments.

3/ Computed from data supplied by firms providing figures for both quantity and value.

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

a small portion of the standard steel wheel transfers) were reported by * * *. Neither Ford nor General Motors produce aluminum wheels.

Export shipments of standard steel wheels accounted for between * * * percent (in 1986) and * * * percent (in 1988) of total shipments by U.S. producers. Canada is the principal export market. The major companies that produce standard steel wheels for export are Kelsey-Hayes (to Canada), 1/ Motor Wheel (to * * *), General Motors (to * * *), and Ford (to * * *). No data on exports of custom steel wheels were reported. (There are, however, some export shipments of custom steel wheels to Norway, Sweden, Canada, and

1/ Kelsey-Hayes testified at the hearing that they currently are not exporting steel wheels to any country other than Canada. High transportation costs make Kelsey-Hayes' product less competitive than locally produced wheels. Also, local content laws, especially in Central America, lock U.S.-produced products out of markets. (Transcript of the hearing, p. 55).

Japan.) Reported exports of aluminum wheels accounted for * * * percent of total shipments in 1988. Data on export shipments for all types of wheels are presented in table 8.

Table 8

Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. producers' export shipments, by products, 1986-88

Item	1986	1987	1988
	Quantity (1,000 units)		
Standard steel wheels.....	***	***	***
Custom steel wheels.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	2,645	3,222	4,433
	Value (1,000 dollars)		
Standard steel wheels.....	***	***	***
Custom steel wheels.....	***	***	***
Subtotal.....	***	***	***
Aluminum wheels.....	***	***	***
Total.....	38,016	47,074	74,551
	Unit value (per unit) 1/		
Standard steel wheels.....	\$ ***	\$ ***	\$ ***
Custom steel wheels.....	***	***	***
Average.....	***	***	***
Aluminum wheels.....	***	***	***
Average.....	14.37	14.61	16.82

1/ Computed from data supplied by firms providing figures for both quantity and value.

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

U.S. producers' inventories

Yearend inventories are presented in table 9. The quantity of inventories of standard steel wheels increased from 1.3 million units in 1986 to 1.7 million units in 1987, then declined by yearend 1988 to 1.0 million units. The fluctuation is largely because of inventories held by * * *. 1/ Large producers of standard steel wheels maintain a just-in-time (JIT) inventory control method, providing wheels to the automotive assembly lines in the

1/ * * *.

Table 9
Standard steel wheels, custom steel wheels, and aluminum wheels: U.S.
producers' inventories, by products, as of Dec. 31 of 1986-88

Item	1986	1987	1988
<u>End-of-period inventories (1,000 units)</u>			
Standard steel wheels.....	1,320	1,691	1,048
Custom steel wheels.....	178	200	277
Subtotal.....	1,498	1,891	1,325
Aluminum wheels.....	382	496	549
Total.....	1,880	2,387	1,874
<u>Ratio of inventories to U.S. shipments (percent) 1/</u>			
Standard steel wheels.....	3.2	4.4	2.9
Custom steel wheels.....	13.1	14.0	10.0
Average.....	3.5	4.7	3.5
Aluminum wheels.....	5.8	6.0	5.6
Average.....	3.8	5.0	3.9

1/ Ratios are based on data supplied by firms that reported both inventory and shipments information.

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

quantities required and at the times specified. 1/ The ratios of inventories to U.S. shipments varied by type of wheel: inventories of custom wheel producers, who must maintain a wide variety of wheel styles, were, relative to U.S. shipments, four times higher than the average for standard steel wheels.

1/ Although the vehicle manufacturers and certain large parts suppliers are enthusiastic about JIT, most suppliers are only following the new methods in an ad hoc way. Automobile manufacturers are receiving an estimated 70 percent of their high value-added parts just-in-time to the assembly line. However, industry sources state that an overwhelming percentage of those suppliers claiming to use JIT are merely delivering to the schedules of their customers, and not actually following a similar production pattern. Arthur Andersen & Co.'s Delphi Survey found that 60 percent of vehicle manufacturers believe that automotive suppliers viewed JIT as a way of transferring costly inventories to them. See U.S. Global Competitiveness: The U.S. Automotive Parts Industry (USITC Publication No. 2037, Dec. 1987).

Steel rim operations 1/

Data on U.S.-manufactured steel rims that are sold separately by firms and on imported steel rims are presented in table 10. Not included are steel rims

Table 10
Steel rims: U.S. production, capacity, capacity utilization, and U.S. shipments of domestically-produced and imported rims, 1986-88

Item	1986	1987	1988
Production (1,000 units).....	***	***	***
Capacity (1,000 units).....	***	***	***
Capacity utilization (percent) <u>1/</u>	***	***	***
U.S. shipments of domestically- produced rims:			
Quantity (1,000 units).....	***	***	***
Value (1,000 dollars).....	***	***	***
Unit value (per unit) <u>2/</u>	\$ ***	\$ ***	\$ ***
U.S. shipments of imported rims:			
Quantity (1,000 units).....	***	***	***
Value (1,000 dollars).....	***	***	***
Unit value (per unit) <u>2/</u>	\$ ***	\$ ***	\$ ***

1/ Capacity utilization rates are based on data for those firms that provided figures for both capacity and production; therefore, ratios based on capacity and production figures as presented may not reconcile.

2/ Computed from data supplied by firms providing figures for both quantity and value.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission in 1988.

that are produced and used internally by firms in their manufacture of steel wheels. Because rims are used in the manufacture of custom steel wheels (either for automotive vehicles, mobile homes, trailers, or agricultural equipment), data on rims sold in the United States provide a measure of the size of custom steel wheel production. Reported production of custom steel wheels in response to the Commission's questionnaire was almost * * * percent

1/ Separate data on the manufacture and sale of discs are not presented in this report. U.S. production of discs sold on the open market is believed to be minimal. Two companies reported selling discs separately: Unique Stamping and Coating (which estimated that it has a * * *-percent market share) and Center Line Tool Corp. (which sells * * *). The remainder of U.S. production is believed to be accounted for by Global Manufacturing in Paramount, CA; discs are also manufactured in Mexico. Reported sales of discs were * * * units in 1986, * * * units in 1987, and * * * units in 1988. The average unit value of sales in 1988 was \$* * *.

of reported U.S. shipments of steel rims during 1986-88. ^{1/} Data on custom steel wheels, as reported in response to the Commission's questionnaires, are understated in that they do not include wheels manufactured by numerous, small manufacturers. Many rims are also used to manufacture wheels for mobile homes, trailers, and agricultural equipment, which may or may not be labelled custom wheels.

In 1988, the value of U.S. shipments of steel rims was * * * percent of the value of U.S. shipments of domestically-produced steel wheels (including custom steel wheels) and steel rims. The reported unit value of a steel rim (\$* * * in 1988) is slightly over * * * percent of the reported unit value of a custom steel wheel (\$25.35 in 1988). Importers' U.S. shipments accounted for almost * * * percent of total U.S. shipments. The great majority of the reported imported rims were from Brazil. Steel rims are also imported from Mexico.

Reporting domestic manufacturers are NI Industries, * * * supplier of rims to custom steel wheel manufacturers, and Dexter Axle Division (Philips Industries), which sells primarily to mobile home manufacturers. Because these firms also consume rims internally, capacity data for rims sold separately had to be allocated and thus should be viewed with caution. Rims sold separately are produced on the same production lines in the same manufacturing plants as those that are internally consumed. Capacity to produce steel rims * * * from * * * million units in 1986 to * * * million units in 1987 and 1988, a * * *. * * *. Domestic production and U.S. shipments * * * throughout the period. These data do not, however, include Techrim, a domestic manufacturer that went out of business in September 1987. * * *. The removal of Techrim led to a temporary shortage of rims for several months while new suppliers developed tooling.

Employment and productivity 2/

The number of workers, hours worked, and total compensation paid to workers producing standard steel wheels and steel rims decreased from 1986 to 1988 by 20.5 percent, 4.9 percent, and 12.2 percent, respectively (table 11). In contrast, the number of workers, hours worked, and total compensation paid to workers producing aluminum wheels increased during the same period by 47.5 percent, 73.7 percent, and 78.9 percent, respectively. Increases were shown by all companies producing aluminum wheels. Hourly wages paid to workers producing standard steel wheels and rims decreased irregularly from \$15.13 per hour in 1986 to \$14.66 per hour in 1988. Hourly wage rates reported by firms in 1988 varied * * *. Aluminum wheel workers were paid significantly less on

^{1/} As a measure of U.S. consumption of custom steel wheels, the following should be noted: (1) U.S. shipments of steel rims are also understated, (2) steel rims manufactured by a firm and used in its production of custom wheels are excluded, and (3) some steel rims are used in the manufacture of wheels for trailers which were not classified as custom wheels.

^{2/} Aggregate data are presented for standard steel wheels and steel rims because the rims used internally by a firm in its production of standard steel wheels and those produced for separate sale are manufactured on the same production line. Data on custom steel wheels are presented in Table 11, but should be viewed with caution because of both underreporting and the influence of Mexican maquiladora operations.

Table 11

Standard steel wheels and steel rims, custom steel wheels, and aluminum wheels:
 Number of production and related workers, hours worked by such workers, 1/
 total compensation paid to such workers, 2/ hourly wages paid, productivity,
 and unit labor costs, 1986-88 3/

Item	1986	1987	1988
<u>Number of production and related workers</u>			
Steel wheels and steel rims..	3,261	2,831	2,592
Custom steel wheels.....	157	166	168
Subtotal.....	3,418	2,997	2,760
Aluminum wheels.....	3,689	4,602	5,442
Total.....	7,107	7,599	8,202
<u>Hours worked (thousands)</u>			
Steel wheels and steel rims..	6,725	5,968	6,395
Custom steel wheels <u>4/ 5/</u>	315	371	354
Subtotal.....	7,040	6,339	6,749
Aluminum wheels.....	5,030	7,372	8,738
Total.....	12,070	13,711	15,487
<u>Total compensation (thousands of dollars)</u>			
Steel wheels and steel rims..	141,637	126,583	124,355
Custom steel wheels <u>4/ 5/</u>	3,055	3,631	3,608
Subtotal.....	144,692	130,214	127,963
Aluminum wheels.....	56,792	83,446	101,596
Total.....	201,484	213,660	229,559
<u>Hourly wages <u>6/</u></u>			
Steel wheels and steel rims..	\$15.13	\$15.66	\$14.66
Custom steel wheels.....	7.99	8.13	8.33
Average.....	14.81	15.22	14.32
Aluminum wheels.....	7.54	7.76	7.98
Average.....	11.78	11.21	10.75
<u>Productivity (units per hour) <u>6/</u></u>			
Steel wheels and steel rims..	6.9	7.5	6.6
Custom steel wheels.....	5.2	5.3	4.7
Average.....	6.9	7.3	6.5
Aluminum wheels.....	0.8	0.8	0.8
Average.....	4.3	3.8	3.3

Table continued.

Table 11--Continued

Standard steel wheels and steel rims, custom steel wheels, and aluminum wheels: Number of production and related workers, hours worked by such workers, 1/ total compensation paid to such workers, 2/ hourly wages paid, productivity, and unit labor costs; 1986-88 3/

Item	1986	1987	1988
	Unit labor costs (per unit) <u>6/ 7/</u>		
Steel wheels and steel rims..	\$3.04	\$2.84	\$2.95
Custom steel wheels.....	1.86	1.86	2.16
Average.....	3.00	2.80	2.92
Aluminum wheels.....	9.24	10.67	10.61
Average.....	3.70	3.94	4.29

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ In 1988, firms providing employment data accounted for 99.7 percent of reported total shipments of standard steel wheels and steel rims, for 56.4 percent of reported total shipments of custom steel wheels, and for 69.5 percent of reported total shipments of aluminum wheels.

4/ Employment trends are slightly inaccurate due to inclusion of some January 1988 employment data in 1987 by * * *.

5/ Superior Industries was not able to provide information on the hours worked by its production and related workers.

6/ Ratios calculated using data from firms that provided information on both the numerator and denominator.

7/ On the basis of total compensation paid.

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

an hourly basis than workers producing standard steel wheels and rims: \$7.98 per hour in 1988 compared to \$14.66 per hour for workers producing standard steel wheels. This salary differential is tied to the differences in manufacturing methods used to produce standard steel and aluminum wheels: an industry official for Kelsey-Hayes commented that comparable wage rates for aluminum and standard steel wheel workers were not feasible because of the differences in the nature of the work being performed. Specifically, production of aluminum wheels is more labor intensive than production of standard steel wheels. In 1988, 0.8 aluminum wheels were produced per labor hour, whereas 6.6 standard steel wheels and rims were produced each hour. Even with lower wage rates, the unit labor cost to produce aluminum wheels was higher than for standard steel wheels and rims (\$10.61 per unit for aluminum wheels compared with \$2.95 per unit for standard steel wheels and steel rims in 1988). 1/

1/ The standard steel wheel and rim productivity and unit labor cost data include data on steel rims; in 1988 rims accounted for * * * percent of steel wheel and steel rim production in terms of units. Inclusion of rims increases the productivity and lowers the unit labor cost compared with what would be reported for standard steel wheels alone.

In response to a question in the Commission's questionnaire, five U.S. producers reported that they reduced the number of production and related workers producing standard steel wheels by at least 50 workers or 5 percent during any part of the period January 1986-December 1988. Decreases in sales volume was the primary reason cited. (* * *) * * * reported reductions in the number of production and related workers producing custom steel or aluminum wheels. 1/

Seven firms reported that their workers producing standard steel wheels belong to a union. With the exceptions of * * * and * * *, none of the firms that produce custom steel or aluminum wheels are known to have production workers that are unionized. * * *.

Financial experience of U.S. producers

Fifteen U.S. producers, 2/ accounting for * * * percent of reported production of all wheels in 1988, provided income-and-loss data on their overall establishment operations and on their operations involving standard steel wheels, steel rims, 3/ custom steel wheels, and/or aluminum wheels. 4/ General Motors, which accounted for * * * percent of reported production of standard steel wheels in 1988, also furnished financial data, but reported that * * *. Thus, its data are not included in the aggregate industry data but are presented in a separate tabulation. Central Manufacturing Co. opened its plant in November 1987 and started production of steel wheels in January 1988 on a limited basis. Can-Am Industries commenced production of standard steel wheels in 1986. Enkei America, Inc., started producing aluminum wheels in its fiscal year 1987. Philips Industries commenced production of aluminum wheels in October 1986. Topy Corp. and Unique Stamping started production of steel wheels in March and January of 1986, respectively. Accuride, Kelsey-Hayes, and Motor Wheel Corp. produce steel wheels in Canada; income-and-loss data on their overall establishment and steel wheel operations in Canada are presented in appendix C.

Overall establishment operations.--Income-and-loss data for U.S. producers' establishments within which standard steel wheels, steel rims, custom steel wheels, and aluminum wheels are produced are shown in table 12. Overall establishment net sales increased by 40 percent from \$1.3 billion in 1985 to \$1.9 billion in 1988. During the same period, operating income rose by 81 percent from \$92.4 million to \$166.8 million. However, operating income margins increased from 6.9 percent in 1985 to 9.3 percent in 1987 and then declined to 8.9 percent in 1988.

1/ * * * also reported reductions for seasonal changes in demand.

2/ These firms are * * *.

3/ Data on steel rim operations represent rims sold on the open market by reporting U.S. producers. Rims which are used internally by a firm to produce wheels are included in standard and/or custom steel wheel operations.

4/ The Commission requested financial data in its questionnaire for the fiscal year that included Dec. 31 of 1985, 1986, and 1987 and the interim periods ending Dec. 31, 1987, and Dec. 31, 1988. All reporting firms except * * * provided 12 months of data for both interim periods. Hence, 4 full years of data are presented in the report rather than two interim periods; the * * * were annualized.

Table 12

Income-and-loss experience of U.S. producers on the overall operations of their establishments within which standard steel wheels, steel rims, custom steel wheels, and/or aluminum wheels are produced, accounting years 1985-88 1/

Item	1985	1986	1987	1988 <u>2/</u>
	Value (1,000 dollars)			
Net sales.....	1,329,931	1,412,817	1,588,947	1,864,048
Cost of goods sold.....	1,179,062	1,235,295	1,367,712	1,611,198
Gross profit.....	150,869	177,522	221,235	252,850
General, selling, and administrative expenses...	58,496	64,464	73,680	86,080
Operating income.....	92,373	113,058	147,555	166,770
Startup or shutdown expense.....	***	***	***	***
Interest expense.....	6,098	7,004	23,128	22,617
Other income or (expense), net.....	***	***	***	***
Net income before income taxes.....	87,947	93,593	128,150	135,874
Depreciation and amorti- zation included above.....	36,077	40,320	48,968	50,352
Cash flow <u>3/</u>	124,024	133,913	177,118	186,226
	Share of net sales (percent)			
Cost of goods sold.....	88.7	87.4	86.1	86.4
Gross profit.....	11.3	12.6	13.9	13.6
General, selling, and administrative expenses...	4.4	4.6	4.6	4.6
Operating income.....	6.9	8.0	9.3	8.9
Net income before income taxes.....	6.6	6.6	8.1	7.3
	Number of firms reporting			
Operating losses.....	0	3	3	1
Net losses.....	1	4	5	4
Data.....	11	13	15	15

1/ These firms are * * *.

2/ * * *.

3/ Cash flow is defined as net income or (loss) plus depreciation and amortization.

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

Standard and custom steel wheel operations.--The income-and-loss data on combined standard and custom steel wheel operations are presented in table 13. Total net sales of standard and custom steel wheels dropped by 12 percent from \$601.5 million in 1985 to \$529.9 million in 1988. Company transfers accounted for about * * * percent of sales during 1985-87 and * * * percent in 1988. * * *.

Total operating income increased from \$48.8 million, or 8.1 percent of net sales, in 1985 to \$63.7 million, or 11.4 percent of net sales, in 1987 and then declined to \$44.2 million, or 8.3 percent of net sales, in 1988. Topy Corp. and Central Manufacturing Co., which entered the steel wheel industry in 1986 and 1988, respectively, reported startup expenses. The large increase in interest expense in 1987 reflects * * *. ^{1/} * * *. Pre-tax income margins followed a similar trend to that of operating income margins during the period covered by the investigation.

* * * * *

Hydra-Matic Division of General Motors transfers all of its steel wheel production to other divisions for captive use in the manufacturing of General Motors cars and light trucks. * * *. Hence, the data of Hydra-Matic Division of General Motors are not included in the aggregate industry data but are presented in the following tabulation:

* * * * *

Standard, custom, and aluminum wheel operations.--The income-and-loss data on combined standard and custom steel wheel and aluminum wheel operations are shown in table 14. Total net sales of such wheels rose by 26 percent from \$865.5 million in 1985 to \$1.1 billion in 1988. Aggregate operating income increased by 31 percent from \$57.0 million in 1985 to \$74.4 million in 1987 but then declined by 2 percent to \$73.3 million in 1988. However, operating income margins increased from 6.6 percent in 1985 to 8.1 percent in 1986 and then declined to 6.7 percent in 1988. Pre-tax income margins showed a trend similar to that of operating income margins during 1985-88.

Standard steel wheel operations.--The income-and-loss data on standard steel wheel operations are shown in table 15. Standard steel wheel sales accounted for over * * * percent of total combined sales of standard and custom steel wheels. The trends for standard steel wheel net sales and operating income are similar to those for combined standard and custom steel wheel operations during 1985-88. Total net sales of standard steel wheels declined by * * * percent during 1985-88. Operating income rose by * * * percent from 1985 to 1987 and then dropped by * * * percent from 1987 to 1988. The operating income margin on standard steel wheel operations increased from * * * percent in 1985 to * * * percent in 1987 and then declined to * * * percent in 1988. Pre-tax income margins showed a trend similar to that of operating income margins during 1985-88.

Table 13

Income-and-loss experience of U.S. producers on their operations producing standard steel wheels and custom steel wheels, accounting years 1985-88 1/

Item	1985	1986	1987	1988 <u>2/</u>
Value (1,000 dollars)				
Net sales.....	601,542	581,195	557,233	529,926
Cost of goods sold.....	532,480	493,389	470,662	463,627
Gross profit.....	69,062	87,806	86,571	66,299
General, selling, and administrative expenses...	20,284	25,515	22,823	22,110
Operating income.....	48,778	62,291	63,748	44,189
Startup or shutdown expense.....	***	***	***	***
Interest expense.....	***	***	***	***
Other income, net.....	***	***	***	***
Net income before income taxes.....	48,719	61,763	57,614	37,490
Depreciation and amorti- zation included above.....	17,912	19,714	22,028	21,403
Cash flow <u>3/</u>	66,631	81,477	79,642	58,893
Share of net sales (percent)				
Cost of goods sold.....	88.5	84.9	84.5	87.5
Gross profit.....	11.5	15.1	15.5	12.5
General, selling, and administrative expenses...	3.4	4.4	4.1	4.2
Operating income.....	8.1	10.7	11.4	8.3
Net income before income taxes.....	8.1	10.6	10.3	7.1
Number of firms reporting				
Operating losses.....	2	4	2	3
Net losses.....	2	4	3	3
Data.....	8	11	12	12

1/ These firms are * * *.

2/ * * *.

3/ Cash flow is defined as net income or (loss) plus depreciation and amortization.

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

Table 14

Income-and-loss experience of U.S. producers on their operations producing standard steel wheels, custom steel wheels, and aluminum wheels, accounting years 1985-88 ^{1/}

Item	1985	1986	1987	1988 ^{2/}
Value (1,000 dollars)				
Net sales.....	865,497	906,136	945,191	1,088,937
Cost of goods sold.....	769,235	784,842	818,837	952,202
Gross profit.....	96,262	121,294	126,354	136,735
General, selling, and administrative expenses...	39,270	48,130	51,938	63,467
Operating income.....	56,992	73,164	74,416	73,268
Startup or shutdown expense.....	***	***	***	***
Interest expense.....	***	***	***	***
Other income, net.....	***	***	***	***
Net income before income taxes.....	53,450	66,285	61,466	53,935
Depreciation and amorti- zation included above.....	25,379	28,407	34,309	35,951
Cash flow ^{3/}	78,829	94,692	95,775	89,886
Share of net sales (percent)				
Cost of goods sold.....	88.9	86.6	86.6	87.4
Gross profit.....	11.1	13.4	13.4	12.6
General, selling, and administrative expenses...	4.5	5.3	5.5	5.8
Operating income.....	6.6	8.1	7.9	6.7
Net income before income taxes.....	6.2	7.3	6.5	5.0
Number of firms reporting				
Operating losses.....	1	4	3	3
Net losses.....	2	5	5	5
Data.....	10	13	15	15

^{1/} These firms are * * *.

^{2/} * * *.

^{3/} Cash flow is defined as net income or (loss) plus depreciation and amortization.

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

Table 15

Income-and-loss experience of U.S. producers on their operations producing standard steel wheels, accounting years 1985-88

* * * * *

Custom steel wheel operations.--The income-and-loss data on custom steel wheel operations are presented in table 16. Net sales of custom steel wheels accounted for * * * percent of total net sales of standard and custom steel wheels combined. Three firms--* * *, * * *, and * * *--supplied data. Their total net sales declined by * * * percent from \$* * * million in 1985 to \$* * * million in 1986, increased by * * * percent to \$* * * million in 1987, and then dropped by * * * percent to \$* * * million in 1988. Total operating income declined from \$* * * million, or * * * percent of net sales, in 1985 to \$* * * or * * * percent of net sales, in 1986. Such income rose to \$* * * million, or * * * percent of net sales, in 1987 but then turned into an operating loss of \$* * *, or * * * percent of net sales, in 1988. Pre-tax income margins followed a similar trend to that of the operating income margins during 1985-88.

Table 16

Income-and-loss experience of U.S. producers on their operations producing custom steel wheels, accounting years 1985-88

* * * * *

Aluminum wheel operations.--The income-and-loss data on aluminum wheel operations are shown in table 17. Seven firms provided such data. Their total net sales of aluminum wheels more than doubled from \$264.0 million in 1985 to \$559.0 million in 1988. Total operating income increased from \$8.2 million, or 3.1 percent of net sales, in 1985 to \$10.9 million, or 3.3 percent of net sales, in 1986. Such income declined to \$10.7 million, or 2.7 percent of net sales, in 1987 before rising to \$29.1 million, or 5.2 percent of net sales, in 1988. Because of high and increasing interest expenses and startup expenses, pre-tax income margins dropped from 1.8 percent in 1985 to 1.0 percent in 1987 and then rose to 2.9 percent in 1988.

Steel rim operations.--The income-and-loss data on steel rim operations (i.e., steel rims sold as separate items of trade) are presented in table 18. Two firms--* * * and * * *--supplied such data. Total net sales of steel rims rose by * * * percent from \$* * * million in 1985 to \$* * * million in 1988. However, aggregate operating income declined from \$* * * million in 1985 to \$* * * million in 1987 and then increased to \$* * * million in 1988. Operating income margins dropped from * * * percent in 1985 to * * * percent in 1987 and then climbed to * * * percent in 1988. Pre-tax net income margins followed a trend similar to that of operating income margins during the period covered by the investigation.

Table 17

Income-and-loss experience of U.S. producers on their operations producing aluminum wheels, accounting years 1985-88 ^{1/}

Item	1985	1986	1987	1988 ^{2/}
Value (1,000 dollars)				
Net sales.....	263,955	324,941	387,958	559,011
Cost of goods sold.....	236,755	291,453	348,175	488,575
Gross profit.....	27,200	33,488	39,783	70,436
General, selling, and administrative expenses...	18,986	22,615	29,115	41,357
Operating income.....	8,214	10,873	10,668	29,079
Startup or shutdown expense.....	***	***	***	***
Interest expense.....	***	***	***	***
Other income, net.....	***	***	***	***
Net income before income taxes.....	4,731	4,522	3,852	16,445
Depreciation and amorti- zation included above.....	7,467	8,693	12,281	14,548
Cash flow ^{3/}	12,198	13,215	16,133	30,993
Share of net sales (percent)				
Cost of goods sold.....	89.7	89.7	89.7	87.4
Gross profit.....	10.3	10.3	10.3	12.6
General, selling, and administrative expenses...	7.2	7.0	7.5	7.4
Operating income.....	3.1	3.3	2.7	5.2
Net income before income taxes.....	1.8	1.4	1.0	2.9
Number of firms reporting				
Operating losses.....	0	1	3	2
Net losses.....	1	3	2	3
Data.....	4	5	6	7

^{1/} These firms are * * *.

^{2/} * * *.

^{3/} Cash flow is defined as net income or (loss) plus depreciation and amortization.

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

Table 18

Income-and-loss experience of U.S. producers on their operations producing steel rims, accounting years 1985-88

* * * * *

Investment in productive facilities and return on assets.--U.S. producers furnished data in connection with the valuation of property, plant, and equipment used in the manufacturing of all products in their establishments and that used only in the production of standard steel wheels, custom steel wheels, and/or aluminum wheels. These data are presented in table 19. Further, to provide an additional measure of profitability, the ratios of operating and pre-tax net income or (loss) to the book value of property, plant, and equipment (i.e., return on fixed assets) and to total assets employed in the production of all establishment products and in the production of specified wheels are also shown in table 19.

Capital expenditures.--U.S. firms provided data relating to their capital expenditures in connection with all products produced in their establishments and provided data, separately, for specified wheels. These data are shown in table 20.

Research and development expenses.--U.S. producers supplied data concerning their research and development expenses incurred for all products of their establishments and for specified wheels. These data are presented in table 21.

Impact of imports on capital and investment.--Information on the effects of imports of steel wheels from Brazil on the industry's growth, investment, ability to raise capital, or development or production efforts is presented in appendix D.

Table 19
Standard steel wheels, custom steel wheels, and aluminum wheels: Value of property, plant, and equipment of U.S. producers, accounting years 1985-88

Item	1985	1986	1987	1988
	Value (1,000 dollars)			
All products of establishments: <u>1/</u>				
Fixed assets:				
Original cost.....	933,805	1,009,436	1,037,748	1,125,630
Book value.....	509,645	549,557	557,258	595,655
Total assets <u>2/</u>	945,088	1,131,515	1,166,382	1,423,428
Standard steel wheels:				
Fixed assets:				
Original cost.....	***	***	***	***
Book value.....	***	***	***	***
Total assets <u>3/</u>	***	***	***	***
Custom steel wheels:				
Fixed assets:				
Original cost.....	***	***	***	***
Book value.....	***	***	***	***
Total assets <u>3/</u>	***	***	***	***
Standard steel wheels and custom steel wheels:				
Fixed assets:				
Original cost.....	274,565	328,520	336,926	362,748
Book value.....	133,637	176,255	196,464	210,952
Total assets <u>3/</u>	194,597	244,140	258,419	295,201
Aluminum wheels:				
Fixed assets:				
Original cost.....	96,388	126,229	136,652	170,802
Book value.....	65,177	88,849	94,617	124,709
Total assets <u>3/</u>	163,575	236,165	255,943	361,004
Standard steel wheels, custom steel wheels, and aluminum wheels:				
Fixed assets:				
Original cost.....	370,953	454,749	473,578	533,550
Book value.....	198,814	265,104	291,081	335,661
Total assets <u>3/</u>	358,173	480,306	514,363	656,206
	Return on book value of fixed assets (percent) <u>4/</u> --Continued			
All products of establishments: <u>1/</u>				
Operating return <u>5/</u>	34.0	33.5	39.3	38.4
Net return <u>6/</u>	32.3	27.8	34.1	31.3
Standard steel wheels:				
Operating return <u>5/</u>	***	***	***	***
Net return <u>6/</u>	***	***	***	***
Custom steel wheels:				
Operating return <u>5/</u>	***	***	***	***
Net return <u>6/</u>	***	***	***	***

See footnotes at end of table.

Table 19--Continued

Standard steel wheels, custom steel wheels, and aluminum wheels: Value of property, plant, and equipment of U.S. producers, accounting years 1985-88

Item	1985	1986	1987	1988
	Return on book value of fixed assets (percent) 4/			
Standard steel wheels and custom steel wheels:				
Operating return 5/.....	39.6	42.9	38.0	23.4
Net return 6/.....	39.6	42.6	34.3	19.8
Aluminum wheels:				
Operating return 5/.....	12.6	12.7	11.7	23.3
Net return 6/.....	7.3	5.4	4.2	13.2
Standard steel wheels, custom steel wheels, and aluminum wheels:				
Operating return 5/.....	30.3	31.7	28.7	23.4
Net return 6/.....	28.4	28.8	23.7	17.2
	Return on total assets (percent) 4/			
All products of establish- ments: 1/				
Operating return 5/.....	19.2	17.6	21.2	17.4
Net return 6/.....	18.3	14.6	18.4	14.2
Standard steel wheels:				
Operating return 5/.....	***	***	***	***
Net return 6/.....	***	***	***	***
Custom steel wheels:				
Operating return 5/.....	***	***	***	***
Net return 6/.....	***	***	***	***
Standard steel wheels and custom steel wheels:				
Operating return 5/.....	25.1	25.5	24.5	14.7
Net return 6/.....	25.0	25.3	22.1	12.4
Aluminum wheels:				
Operating return 5/.....	5.0	4.6	4.2	8.1
Net return 6/.....	2.9	2.0	1.5	4.6
Standard steel wheels, custom steel wheels, and aluminum wheels:				
Operating return 5/.....	15.9	15.2	14.4	11.0
Net return 6/.....	14.9	13.8	11.9	8.1

1/ These firms are * * *.

2/ Defined as book value of fixed assets plus current and noncurrent assets.

3/ Total establishment assets are apportioned, by firm, to product groups on the basis of the ratio of the respective book values of fixed assets.

4/ Computed using data from only those firms supplying both asset and profit-and-loss information, and as such, may not be derivable from data presented.

5/ Defined as operating income or loss divided by asset value.

6/ Defined as net income or loss divided by asset value.

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

Table 20
 Standard steel wheels, custom steel wheels, and aluminum wheels: Capital expenditures by U.S. producers, accounting years 1985-88

(In thousands of dollars)

Item	1985	1986	1987	1988
All products of establishments: 1/				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	58,207	98,533	86,463	84,765
Total.....	61,086	116,630	94,778	90,290
Standard steel wheels:				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***
Total.....	***	***	***	***
Custom steel wheels:				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***
Total.....	***	***	***	***
Standard steel wheels and custom steel wheels:				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***
Total.....	34,126	45,826	40,851	36,662
Aluminum wheels:				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***
Total.....	***	***	***	***

See footnotes at end of table.

Table 20--Continued

Standard steel wheels, custom steel wheels, and aluminum wheels: Capital expenditures by U.S. producers, accounting years 1985-88

(In thousands of dollars)

Item	1985	1986	1987	1988
Standard steel wheels, custom steel wheels, and aluminum wheels:				
Land and land improvements.....	***	***	***	***
Building and leasehold improvements.....	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***
Total.....	***	***	***	***

1/ These firms are * * *.

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

Table 21

Standard steel wheels, custom steel wheels, and aluminum wheels: Research and development expenses of U.S. producers, accounting years 1985-88

(In thousands of dollars)

Item	1985	1986	1987	1988
All products of establishments 1/.....	13,139	13,353	13,856	15,457
Standard steel wheels.....	***	***	***	***
Custom steel wheels.....	***	***	***	***
Standard steel wheels and custom steel wheels.....	9,563	9,195	8,955	8,814
Aluminum wheels.....	***	***	***	***
Standard steel wheels, custom steel wheels, and aluminum wheels.....	***	***	***	***

1/ These firms are * * *.

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

Consideration of the Question of
Threat of Material Injury

Section 771(7)(F)(i) of the Tariff Act of 1930 (19 U.S.C. § 1677(7)(F)(i)) provides that--

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of any merchandise, the Commission shall consider, among other relevant factors 1/ 2/--

(I) If a subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement),

(II) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,

(III) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,

(IV) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,

(V) any substantial increase in inventories of the merchandise in the United States,

(VI) the presence of underutilized capacity for producing the merchandise in the exporting country,

(VII) any other demonstrable adverse trends that indicate the probability that the importation (or sale for importation) of the merchandise (whether or not it is actually being imported at the time) will be the cause of actual injury,

1/ Section 771(7)(F)(ii) of the act (19 U.S.C. § 1677(7)(F)(ii)) provides that "Any determination by the Commission under this title that an industry in the United States is threatened with material injury shall be made on the basis of evidence that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition."

2/ The Omnibus Trade and Competitiveness Act of 1988 amended section 771(7)(F) of the Tariff Act of 1930 by adding two items to section 771(7)(F)(i) (19 U.S.C. §§ 1677(7)(F)(i)(IX) and (X)), and by adding section 771(7)(F)(iii) (19 U.S.C. § 1677(7)(F)(iii)) in its entirety. While this investigation was initiated prior to the effective date of the amendments, they are presented here for information.

(VIII) the potential for product-shifting if production facilities owned or controlled by the foreign manufacturers, which can be used to produce products subject to investigation(s) under section 701 or 731 or to final orders under section 736, are also used to produce the merchandise under investigation,

(IX) in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both), and

(X) the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the like product. 1/

The available information on the volume, U.S. market penetration, and pricing of imports of the subject merchandise (items (III) and (IV) above) is presented in the section of the report entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged material injury." Subsidies (item I above) are discussed in the section entitled "Nature and extent of subsidies." Available information on U.S. inventories of the subject products (item (V) above); foreign producers' operations (items (II) and (VI) above); "product-shifting" (item VIII above); and any other threat indicators, if applicable (item (VII) above), follows. The agricultural product provision (item (IX) above) is not at issue in this investigation, and no evidence of dumping in third-country markets has been revealed. 2/

The steel wheel industry in Brazil and its ability to generate exports

The Commission requested counsel for the respondents in the subject investigation to provide information on the industry producing steel wheels in Brazil. The information requested consisted of the practical capacity,

1/ Section 771(7)(F)(iii) of the act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other GATT member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

2/ A dumping finding by Canada was in effect against custom steel wheels from Brazil from July 10, 1981, until July 5, 1985, when the Canadian Import Tribunal, upon review, determined that the finding should be rescinded. (Custom steel wheels produced in the United States were also found to be dumped by the Canadian Government in 1980; that finding was rescinded on July 5, 1985.)

production, home-market shipments, shipments to the United States, other export shipments, and yearend inventories for 1986-88 and projected for 1989. Similar data were requested by the Commission from the U.S. Embassy in Brazil.

Information was received from counsel for the two producers of steel wheels in Brazil listed in the petition: Rockwell-Fumagalli (Fumagalli) and Borlem S.A. Empreendimentos Industriais (Borlem), 1/ 2/ and from a third producer of custom steel wheels, Mangels Minas.

Standard steel wheels.--Fumagalli, headquartered in Sao Paulo, Brazil, is a wholly-owned subsidiary of Rockwell International Corp. of Troy, MI. Fumagalli is the * * * Brazilian producer of steel wheels subject to investigation. Nearly all of the steel wheels produced by Fumagalli and exported to the United States are purchased by * * * for the original equipment market. Borlem, located in Guarulhos, just outside Sao Paulo, Brazil, is another large Brazilian wheel producer. Borlem's product lines include (1) tube type steel wheels for passenger cars, light trucks, heavy trucks, and agricultural equipment; (2) aluminum wheels; and (3) tubeless steel disc wheels and demountable rims. Borlem exports both basic steel wheels and stylized, full-faced steel wheels to the United States.

Information on production, capacity, capacity utilization, and shipments of standard steel wheels is presented in table 22. Capacity utilization for Fumagalli * * * from * * * percent in 1986 to * * * percent in 1988; it is projected at * * * percent in 1989. Approximately one-half of its total shipments were sold to the home market in Brazil. Borlem reported a capacity utilization rate of * * * percent in 1988, * * *. Fumagalli accounts for * * * of shipments of standard steel Brazilian wheels to the United States: in 1988 it supplied * * * percent of the total quantity shipped to the United States. * * *. Borlem shipped * * * to third-country markets during the period of investigation; over * * * percent of the third-country shipments reported by Fumagalli were to * * *, the remainder were to * * *.

Table 22

Standard steel wheels: Production, capacity, capacity utilization, shipments and yearend inventories of Borlem and Fumagalli, 1986-88 and projected 1989

* * * * *

1/ The petition listed another producer, FNV-Veiculos E Equipamentos S.A. (FNV), as a "prospective" producer of the subject product in Brazil. Counsel on behalf of FNV stated in a postconference brief in the preliminary investigation that "FNV has never produced wheels for passenger cars and light trucks and has no intention of doing so." In response to an inquiry made by the U.S. Embassy in Brazil in the preliminary investigation, Engesa Group, the parent company for FNV, indicated that FNV has no capacity or tooling to produce wheels with a diameter between 13 and 16.5 inches.

2/ Counsel for Borlem also provided information on steel rims on behalf of Borlem do Nordeste S.A. Empreendimentos Industriais (BNE), a subsidiary of Borlem. BNE is a * * * source of the steel rims used by U.S. manufacturers of custom steel wheels. Between 1986 and 1988, BNE's shipments of rims to the United States * * *.

Counsel for Rockwell-Fumagalli stated in a letter provided to the Commission that: * * *. Fumagalli also produces wheels for the Brazilian agricultural tractor industry. Rockwell testified, however, that it is impossible to shift from the production of those types of wheels to the wheels under investigation: "(t)he plant, machines and equipment designed to produce wheels for the agricultural tractor cannot produce wheels for passenger travel vehicles." 1/

Borlem has, by its own assessment, unutilized capacity. It claims, however, that this capacity must remain available to supply the Brazilian OEMs with whom it has long-term contracts. 2/ Borlem also reportedly uses a slightly different technology for the basic steel wheels it produces for the Brazilian market than for those it produces for export to the United States. 3/ The additional machinery and processing time required by the spinning process limits Borlem's production of basic U.S. export wheels. Additionally, Borlem has limited capacity to produce full-faced wheels, the other type of wheel it exports to the United States. Borlem estimates it would require approximately one year to expand capacity by installing the additional equipment that is unique to the assembly of a full-faced wheel. A more limited expansion could increase Borlem's capability to produce full-faced wheels but would create "bottleneck" constraints that would not increase its overall capacity to produce the wheels subject to investigation. 4/ Borlem also reported that after a final affirmative LTFV determination in Tubeless Steel Disc Wheels From Brazil 5/ it considered converting its production lines from the heavy-truck wheels involved in that investigation to production lines for light-truck wheels but determined that it is "simply too costly and inefficient to convert production lines for one product into a line capable of producing a significantly different product." 6/ Borlem further stated that * * *. 7/ 8/

Custom steel wheels.--In addition to the two Brazilian standard steel wheel producers listed in the petition, 9/ there is another company in Brazil, Mangels Minas, 10/ that produces custom steel wheels for export to the United States. Its production process is somewhat different than those of the

1/ Transcript of the conference, p. 136.

2/ Postconference brief submitted on behalf of Borlem, pp. 12-13.

3/ Wheels for the Brazilian market use "stamped discs" where the wheel disc is stamped out of a piece of steel. Wheels for the export market, in contrast, use "spun discs" where a slightly smaller disc is stamped out of a piece of steel and then stretched to the proper size and dimensions. Spun discs provide greater strength and resiliency with a lower weight.

4/ Mar. 24, 1989, letter submitted by counsel for Borlem.

5/ Tubeless Steel Disc Wheels from Brazil, USITC Publication No. 1971, April 1987.

6/ Postconference brief submitted on behalf of Borlem, pp. 12-13.

7/ * * *.

8/ Posthearing brief submitted by counsel for Borlem, pp. 5-7.

9/ Rockwell-Fumagalli also produced * * * custom steel wheels in 1988.

10/ Commerce did not examine the operations of Mangels Minas in its subsidy investigation.

other Brazilian producers because of the low volume of its production runs and the additional steps required to chrome plate, polish, and otherwise finish its wheels. Custom wheels constitute approximately * * * percent of Mangel's product lines. The company is primarily in the business of cold-rolling carbon steel strips, as well as producing stainless steel, high-resistance steel, and tool steel. It also produces liquified petroleum gas cylinders and bottles, and high-technology equipment for storage, haulage, and utilization of liquid gases.

Data on Mangels Minas are presented in table 23. In 1988, the quantity of custom steel wheels sold by Mangels Minas accounted for * * * percent of total steel wheel sales to the United States.

Table 23
 Custom steel wheels: Production, capacity, capacity utilization, shipments, and yearend inventories of Mangels Minas, 1986-88 and projected 1989

* * * * *

U.S. inventories of steel wheels from Brazil

U.S. importers of the subject products reported that the following end-of-period inventories of Brazilian standard steel wheels and custom steel wheels were being held in the United States (in thousands of units):

<u>Year</u>	<u>Standard steel wheels</u>	<u>Custom steel wheels</u>
1986.....	***	***
1987.....	***	***
1988.....	***	***

U.S. importers' inventories of standard steel wheels were * * * percent * * * at the end of 1987 than they were at the end of 1986; they were * * * percent * * * at the end of 1988 compared with those at yearend 1987. The ratio of end-of-period inventories of standard steel wheels to imports of such wheels * * * from * * * percent in 1986 to * * * percent in 1987, then * * * to * * * percent in 1988. Fumagalli accounted for between * * * and * * * percent of the inventories during the period of investigation. Reportedly, Fumagalli's inventories consist of wheels that have been produced for specific OEM customers and are being held until needed on the customers' assembly lines. The respondent testified at the hearing that contractual provisions with its major customer prevent wheels produced for one vehicle from being sold for use on another vehicle. Excess inventories can only be sold for scrap. 1/

U.S. importers' inventories of custom steel wheels were * * *. The ratio of end-of-period inventories of custom steel wheels to imports * * * from * * * percent in 1986 to * * * percent in 1987, then * * * to * * * percent in 1988.

1/ Transcript of the hearing, pp. 105-6.

World wheel market

The petitioner states that "(t)he number of steel wheel manufacturers world wide is stable, although there are continual shifts in the productive capacity of individual producers. However, there is a growing number of aluminum wheel producers--either steel wheel producers adding aluminum wheels to their line or aluminum product manufacturers adding wheels to their line. * * *. 1/ 2/ A number of new aluminum wheel plants have been built or are planned in Canada, including plants owned by Hyundai Motor Co. (South Korea), a joint venture between Lemmerze Werke KGaA (West Germany) and Magna International, Ronal AG (West Germany), and Canadian Auto Parts Toyota, Inc. (Japan). Also, existing plants are being expanded. The Canadian plants are able to ship directly to OEM customers, meeting their JIT inventory requirements. 3/

Consideration of the Causal Relationship Between Imports of the Subject
Merchandise and the Alleged Material Injury

U.S. imports

Total imports of standard steel wheels and custom steel wheels increased from 10.4 million units in 1986 to 12.3 million units in 1988, or by 18.2 percent (table 24). The value of such imports increased over 33 percent during the period under investigation. Imports of these products from Brazil * * *. Imports of custom steel wheels from Brazil * * * (table 25). In 1988, standard steel wheels accounted for * * * percent of the quantity of imports of all subject products from Brazil and * * * percent of the value of such imports.

During 1986-88, imports from Brazil and Canada accounted for almost * * * percent of total imports of the subject products (table 24). The bulk of the imports from Canada are shipments from the production facilities of U.S. steel wheel producers to their OEM customers in the United States. Imports from Canada increased steadily throughout the period of investigation, rising from * * * million units in 1986 to * * * million units in 1987 to * * * million units in 1988. Imports of subject products from all other sources increased * * * percent (in quantity) and * * * percent (in value) from 1986 to 1988. Imports of standard steel wheels were reported from the United Kingdom, West Germany, France, Italy, Japan, South Korea, Mexico, and Venezuela. Custom steel wheels were also imported from Taiwan. The quantity of imports of aluminum wheels from all sources increased over 80 percent during 1986-88 (table 25). Aluminum wheels were imported from the United Kingdom, West Germany, France, Italy, Norway, Japan, South Korea, Brazil, Argentina, and Canada.

1/ Posthearing response by Kelsey-Hayes to questions posed by the Commissioners and staff at the hearing, p. 14.

2/ * * *.

3/ Metalworking News, June 6, 1988.

Table 24
Standard steel wheels and custom steel wheels: U.S. imports for consumption,
by sources, 1986-88

Source	1986	1987	1988
<u>Quantity (1,000 units)</u>			
Brazil 1/.....	***	***	***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Total.....	10,396	11,240	12,283
<u>Value (1,000 dollars) 3/</u>			
Brazil 1/.....	***	***	***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Total.....	127,779	148,449	170,299
<u>Unit value (per unit) 4/</u>			
Brazil 1/.....	\$ ***	\$ ***	\$ ***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Average.....	12.29	13.21	13.86

1/ * * *.

2/ Data on imports from Canada consist of export shipments to the United States from the Canadian plants of Accuride, Kelsey-Hayes, and Motor Wheel plus imports reported by Volkswagen.

3/ Landed, duty-paid value.

4/ Computed from data supplied by firms providing figures for both quantity and value.

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

Table 25

Standard steel wheels, custom steel wheels, and aluminum wheels: U.S. imports for consumption, by sources, 1986-88

Item and source	1986	1987	1988
<u>Quantity (1,000 units)</u>			
Standard steel wheels:			
Brazil 1/.....	***	***	***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Total.....	10,014	10,768	11,859
Custom steel wheels:			
Brazil.....	***	***	***
All other sources.....	***	***	***
Total.....	382	472	424
Aluminum wheels.....	2,621	3,735	4,773
Grand total.....	13,017	14,975	17,056
<u>Value (1,000 dollars) 3/</u>			
Standard steel wheels:			
Brazil 1/.....	***	***	***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Total.....	121,286	140,493	163,264
Custom steel wheels:			
Brazil.....	***	***	***
All other sources.....	***	***	***
Total.....	6,493	7,956	7,035
Aluminum wheels.....	129,185	192,653	264,146
Grand total.....	256,964	341,102	434,445
<u>Unit value (per unit) 4/</u>			
Standard steel wheels:			
Brazil 1/.....	\$ ***	\$ ***	\$ ***
Canada 2/.....	***	***	***
All other sources.....	***	***	***
Average.....	12.11	13.05	13.77
Custom steel wheels:			
Brazil.....	***	***	***
All other sources.....	***	***	***
Average.....	17.00	16.86	16.59
Aluminum wheels.....	49.29	51.58	55.34
Average, all wheels.....	19.74	22.78	25.47

1/ * * *.

2/ Data on imports from Canada consist of export shipments to the United States from the Canadian plants of Accuride, Kelsey-Hayes, and Motor Wheel plus imports reported by Volkswagen.

3/ Landed, duty-paid value.

4/ Computed from data supplied by firms providing figures for both quantity and value

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

The average unit value of standard steel wheels from Brazil * * * from \$* * * per unit to \$* * * per unit during the period of investigation (table 25). Reported unit values varied sharply by firm: in 1988, the average unit value for Rockwell-International was \$* * *; the average unit value for GAMMA Enterprises (* * *) was \$* * *; the average unit value reported by Rim and Wheel of America (for imports produced by * * *) was \$* * *; and the average unit value reported by Chrysler (of imports direct from * * *) was \$* * *. The unit values reported for direct imports from Brazil by Ford and General Motors were * * *: \$* * * and \$* * *, respectively. The average value per wheel for imports of Canadian standard steel wheels, which rose from \$* * * per unit to \$* * * per unit during 1986-88, is largely determined by the value of shipments reported from the Canadian manufacturing operations of Accuride, Kelsey-Hayes, and Motor Wheel to their U.S. customers. In 1988, Accuride reported shipments valued at \$* * * per wheel, Kelsey-Hayes' shipments were valued at \$* * * per wheel, and Motor Wheel's at \$* * * per wheel. Reported annual average unit values for standard steel wheels imported from all other countries ranged between \$* * * and \$* * *; these included high-valued imports from * * *. 1/ 2/ The unit value of custom steel wheels from Brazil * * * from \$* * * in 1986 to \$* * * in 1988, * * *. Reported unit values for aluminum wheels ranged from \$* * * to \$* * * during the period under investigation (table 25). Reported unit values ranged widely for aluminum wheels from, in 1988, a low of \$* * * (* * * wheels imported by * * *) to \$* * * (imported by * * *).

U.S. market penetration by imports

Data on the penetration of subject imports from Brazil (including standard steel wheels and custom steel wheels) into the U.S. steel wheel market is presented in table 26. Market penetration of subject imports * * * from * * * percent of consumption in 1986 to * * * percent in 1987, then * * * to * * * percent in 1988. On the basis of value, subject imports * * * from * * * percent in 1986 to * * * percent in 1987 and * * * to * * * percent in 1988. Data on the penetration of subject imports from Brazil (including standard steel wheels and custom steel wheels) into the U.S. steel wheel and aluminum wheel market are also presented in table 26. On the basis of quantity, market penetration of subject imports from Brazil * * * from * * * percent in 1986 to * * * percent in 1987, before * * * to * * * percent in 1988. The share of apparent consumption in terms of value followed a comparable trend.

1/ The majority of the imports of "standard steel wheels" reported by * * * are chrome-plated wheels that are placed (as original equipment) on "maximum value package" light trucks manufactured in * * *'s U.S. plants. In 1988, the average unit value of these wheels was \$* * *. (* * * originally reported them to the Commission as "custom wheels" because the firm does not consider them to be a "production-line wheel model;" the Commission, according to its definition, reclassified them as a "standard steel wheel.")

2/ Data were also reclassified for two other firms reporting imports of custom steel wheels. In 1988, GAMMA Enterprises reported * * * percent of its imports from Brazil as "standard steel wheels" and * * * percent as "custom steel wheels." All of the reported wheels are sold to the same type of customer (primarily, aftermarket trailer and agricultural equipment manufacturers who purchase and assemble vehicle components). These customers were not considered to be original equipment manufacturers by GAMMA Enterprises. The wheels reported as "custom" were spoke wheels, usually painted white with stripes; the "standard wheels" were basic in design. Mitsubishi reported * * * production wheels for its Starion model as custom.

Table 26

Standard steel wheels, custom steel wheels, and aluminum wheels: Market penetration of subject imports, by products and by sources, 1986-88

Item	1986	1987	1988
	Quantity (1,000 units)		
Standard steel wheels and custom steel wheels:			
Apparent U.S. consumption..	54,609	52,024	51,036
Producers' U.S. shipments..	44,487	41,468	38,707
U.S. shipments of imports:			
Brazil.....	***	***	***
Canada <u>1</u> /.....	***	***	***
All other sources.....	***	***	***
Total <u>1</u> /.....	10,122	10,556	12,329
Standard steel wheels, custom steel wheels, and aluminum wheels:			
Apparent U.S. consumption.....	63,838	63,979	65,521
Producers' U.S. shipments..	51,166	49,744	48,590
U.S. shipments of subject imports <u>2</u> /.....	***	***	***
U.S. shipments of non-subject imports <u>1</u> / <u>3</u> /....	***	***	***
Total.....	12,672	14,235	16,931
	Value (1,000 dollars) <u>4</u> /		
Standard steel wheels and custom steel wheels:			
Apparent U.S. consumption..	757,946	723,028	736,795
Producers' U.S. shipments..	625,758	575,604	558,710
U.S. shipments of imports:			
Brazil.....	***	***	***
Canada <u>1</u> /.....	***	***	***
All other sources.....	***	***	***
Total <u>1</u> /.....	132,188	147,424	178,085
Standard steel wheels, custom steel wheels, and aluminum wheels:			
Apparent U.S. consumption.....	1,200,344	1,311,829	1,551,756
Producers' U.S. shipments..	939,062	971,837	1,111,524
U.S. shipments of subject imports <u>2</u> /.....	***	***	***
U.S. shipments of non-subject imports <u>1</u> / <u>3</u> /....	***	***	***
Total.....	261,282	339,992	440,232

Table continued.

Table 26--Continued

Standard steel wheels, custom steel wheels, and aluminum wheels: Market penetration of subject imports, by products and by sources, 1986-88

Item	1986	1987	1988
	As a ratio to the quantity of apparent U.S. consumption (percent)		
Standard steel wheels and custom steel wheels:			
Producers' U.S. shipments..	81.5	79.7	75.8
U.S. shipments of imports:			
Brazil.....	***	***	***
Canada <u>1</u> /.....	***	***	***
All other sources.....	***	***	***
Total <u>1</u> /.....	18.5	20.3	24.2
Standard steel wheels, custom steel wheels, and alum- inum wheels:			
Producers' U.S. shipments..	80.1	77.8	74.2
U.S. shipments of subject imports <u>2</u> /.....	***	***	***
U.S. shipments of non- subject imports <u>1</u> / <u>3</u> /....	***	***	***
Total.....	19.9	22.2	25.8
	As a ratio to the value of apparent U.S. consumption (percent)		
Standard steel wheels and custom steel wheels:			
Producers' U.S. shipments..	82.6	79.6	75.8
U.S. shipments of imports:			
Brazil.....	***	***	***
Canada <u>1</u> /.....	***	***	***
All other sources.....	***	***	***
Total <u>1</u> /.....	17.4	20.4	24.2
Standard steel wheels, custom steel wheels, and alum- inum wheels:			
Producers' U.S. shipments..	78.2	74.1	71.6
U.S. shipments of subject imports <u>2</u> /.....	***	***	***
U.S. shipments of non- subject imports <u>1</u> / <u>3</u> /....	***	***	***
Total.....	21.8	25.9	28.4

1/ Data on U.S. shipments of imports from Canada consist of export shipments to the United States from the Canadian plants of Accuride, Kelsey-Hayes, and Motor Wheel plus U.S. importer shipments reported by Volkswagen.

2/ Subject imports are importers' shipments of standard steel wheels and custom steel wheels from Brazil.

3/ Non-subject imports are importers' shipments of standard steel wheels and custom steel wheels from countries other than Brazil and importers' shipments of aluminum wheels from all countries.

4/ F.o.b. U.S. plant or warehouse.

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

The market shares (based on units) of standard steel wheels from Brazil to the U.S. standard steel wheel market and the market shares (based on units) of custom steel wheels from Brazil to the U.S. custom steel wheel market are shown in the following tabulation (in percent):

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Standard steel wheels.....	***	***	***
Custom steel wheels <u>1/</u>	***	***	***

1/ Reported market shares are greatly overstated: the data include all known U.S. shipments of imports from Brazil of custom steel wheels but U.S. shipments of imports from other countries and U.S. producers' shipments are understated.

Intracompany transfers of standard steel wheels accounted for over * * * percent of the quantity of total standard steel wheel shipments during the period under investigation. The market shares (based on units) of subject imports from Brazil to the noncaptive U.S. wheel market are shown in the following tabulation (in percent): 1/

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Standard and custom steel wheels:.....	***	***	***
Standard steel wheels, custom steel wheels, and aluminum wheels.....	***	***	***

The shares of standard and custom steel wheels from Brazil * * * in both the noncaptive steel wheel market and the steel and aluminum wheel market.

1/ The noncaptive U.S. wheel market is defined as U.S. shipments other than the intracompany transfers of standard steel wheels produced by Ford and General Motors. (Transfers by Kelsey-Hayes to KPD, its aftermarket distribution arm, were included in the noncaptive market.)

Prices

More than 93 percent of the demand for steel wheels is derived from the demand for new automobiles. 1/ 2/ The remaining demand, referred to in the industry as the aftermarket, is directly related to the need to replace damaged wheels and to the desire to replace standard wheels with custom wheels. Wheel prices generally vary with the diameter, width, style, and the volumes required.

The primary substitutes for steel wheels are aluminum wheels. According to the petitioner, the "demand for steel wheels has been affected by the increasing popularity of styled aluminum wheels which an increasing number of consumers are requiring on their cars and light trucks." 3/ These styled aluminum wheels can be included as an option in the original car purchase or obtained in the aftermarket.

Although each producer has its own standard for what constitutes a large-volume, medium-volume, or small-volume sale, questionnaire responses indicate that small volumes are generally less than 100,000 per year, medium volumes are generally between 100,000 and 500,000 per year, and large volumes are generally greater than 500,000 per year.

The market for passenger car and light-truck wheels consists primarily of the major OEMs in the automobile and light-truck industry, including Chrysler, Ford, and General Motors. 4/ OEMs usually purchase wheels on an as-needed basis pursuant to annual or multiyear contracts. Contracts are not the same with all OEMs. * * *. 5/ Contracts are based on a set price and on estimated quantities. 6/ According to * * *, during 1986-88 there have been relatively few new wheel projects by the OEMs; * * *. 7/ On the other hand, Chrysler stated that * * *. 8/

After an OEM has determined the design for a wheel, usually for a new model vehicle, or when structural or style changes are made in a current model vehicle, the OEM solicits bids from a number of wheel producers. 9/ The wheel producers develop the likely costs of production of the wheel and submit a bid,

1/ However, some of the wheels shipped to a vehicle manufacturer are used in the aftermarket.

2/ According to the petitioner, the base model cars are the core market for steel wheels.

3/ Mr. Douglas MacIntyre, manager of production for Kelsey-Hayes, in his conference testimony stated that Kelsey-Hayes is the world's largest producer of cast aluminum wheels. Conference testimony, p. 27.

4/ Robert Dushaw, vice president of marketing for Kelsey-Hayes, stated in his conference testimony that his company estimates that Chrysler, Ford, and General Motors consume more than 90 percent of the steel wheels produced annually in the United States. Conference testimony, p. 30.

5/ * * *.

6/ Actual quantities supplied can vary significantly from initial estimated quantities.

7/ * * * preliminary questionnaire response.

8/ Telephone conversation with * * *.

9/ * * *.

offering a quantity and price commitment to obtain all or a portion of the contract. Bid quotations are made a year and a half to 2 years in advance of production because of tooling and testing leadtimes. 1/

To be chosen to supply steel wheels, a wheel producer must first be an approved supplier qualified by the OEM's purchasing and engineering departments. Each OEM determines if a supplier's wheel-producing facility is qualified; this qualification process is required for each wheel manufacturer's site. Once a supplier has an approved facility, it can actively compete with all other approved suppliers. Each OEM, upon selecting a steel wheel supplier, specifies that only the chosen supplier's qualified production facilities are to be used. 2/ 3/

The preparation of a wheel producer's bid is a complex and costly undertaking requiring engineering and design capabilities, and skill in estimating the present value of future production and in projecting likely future rates of inflation. An OEM's request for a quotation usually includes a set of specifications and criteria for the wheels, and may also include some reimbursable costs for tooling. Typically, a bid takes 1 to 2 months to prepare.

When an OEM designs a wheel, whether for a new model vehicle or a redesigned vehicle, it usually selects a wheel producer to help the OEM's engineers design and test prototypes. The petitioner and the respondents agree that the wheel manufacturer who aids the OEM in the design and testing is likely to win the supply contract. 4/ 5/

After reviewing the bids, the OEM may choose two or three wheel producers for further negotiation on nonprice aspects of the bid, such as design changes, before making a final selection. Generally, the OEM does not reveal the names of the competing firms to each other, but may discuss price differentials between the final competitors in an attempt to get the lowest bid possible. However, the bidder with the lowest price may not receive the contract if the OEM believes that this producer is unlikely to meet the delivery deadlines. OEMs are also likely to stay with the producer that has traditionally provided a particular model wheel because tooling costs are substantial. 6/ Price negotiations can continue even after the OEM makes a final selection, as design and quantity changes often occur.

1/ * * *

2/ * * *

3/ On p. 20 of its prehearing brief and p. 4 of its administrative protective order brief, Kelsey-Hayes stated that * * *.

4/ Conference testimony of petitioner and respondent, pp. 33 and 154.

5/ The petitioner stated in its conference testimony that in recent years this pattern has not been as consistent as in the past.

6/ Awarding the contract to a different supplier would require the OEM to pay the additional tooling costs. This additional outlay may more than offset any price advantage another supplier might have over the current supplier. In its questionnaire response, Chrysler provided tooling costs for each model wheel. The average tooling cost was * * *.

According to both petitioner and respondents, the steel wheel producing companies have very little bargaining power because of the market power wielded by the large automobile manufacturers. 1/ Both state that the OEMs usually require yearly price reductions based upon productivity improvements from the wheel producers. However, price increases are allowed for increases in material costs. 2/ Petitioner stated that "if steel wheels were to suddenly lose 50 percent of their value in the market, the auto companies would not purchase more wheels...because the market for steel wheels is static, from the standpoint that there are no new potential customers for wheels, price competition is severe." Respondents stated that because of the OEMs' market power, they can force wheel producers to price at their long-run average costs. 3/ 4/

U.S. producers and importers of steel wheels were requested to provide information on all bids for production of steel and aluminum wheels scheduled for shipment during 1986-89, whether won or lost. The OEMs were requested to provide information on all bids received to provide them with steel and aluminum wheels during 1986 and subsequent years. The three major OEMs, seven U.S. producers, and three importers submitted information on the bidding process; all provided detailed bid information on specific projects involving competition to purchase or supply wheels. 5/

Bid competition.--6/ Because most transactions are made with OEMs through bid competition and subsequent negotiations, the discussion of prices is organized according to the OEM that requested the bid. The following information describes specific projects that were bid for shipment during 1986-89. 7/

Chrysler.--* * *. * * *.

* * * * *

1/ Conference testimony, pp. 80-81, 103, and 122.

2/ * * *.

3/ Testimony of Mr. Michael Stein, counsel for Rockwell-Fumagalli, conference transcript, p. 125.

4/ Mr. Franco Calandra, director general for Rockwell-Fumagalli Brazil, stated in his conference testimony that Rockwell-Fumagalli recently increased its prices in the American market for all its wheels. Conference testimony, p. 154. * * *.

5/ The petitioner, Kelsey-Hayes, and Motor Wheel Corp. together accounted for * * * percent of domestic open-market shipments of standard steel wheels.

6/ App. E contains data on producers' and importers' reported bids for steel and aluminum wheels, and app. F contains data on producers' and importers' reported shipments pursuant to steel wheel bids.

7/ Allegations of lost sales and lost revenues related to OEM contracts were based on the bids.

Information provided by Chrysler on bids to supply it with steel wheels is presented in table 27. 1/ Chrysler requested bids on * * * wheel models totaling * * * wheels, of which * * * wheel models totaling * * * have been contracted. * * * of the wheel models were dual sourced. The value of these wheels, calculated from the contracted prices, was \$* * *. 2/ Domestic firms submitted bids on * * * wheel models, with Kelsey-Hayes submitting bids on * * * wheel models, Motor Wheel submitting bids on * * * wheel models, and Superior submitting * * * bid. Kelsey-Hayes' Canadian and Venezuelan facilities each submitted bids on * * * wheel models. Motor Wheel's Canadian facility submitted bids on * * * wheel models. Brazilian firms submitted bids on all * * * wheel models, with Rockwell-Fumagalli submitting bids on * * * wheel models and Borlem submitting bids on * * * wheel models.

Table 27

Standard steel wheels: Bid information on contracts to Chrysler, submitted by Chrysler, for shipments during 1988-92

* * * * *

In eight instances the firm that submitted the lowest bid was awarded a contract by Chrysler. Motor Wheel and Rockwell-Fumagalli were each awarded one contract where they provided the lowest bid against all other firms. Kelsey-Hayes' Venezuelan facility and ROH of Australia were each awarded three contracts where they provided the lowest bid against all other firms. Of the * * * contracts awarded to domestic firms, * * * bids, all by * * *, were below the bids of Brazilian firms. Of the * * * contracts awarded to Brazilian firms, * * * bid was below the lowest bid by domestic firms.

U.S. firms received awards for domestic production for * * * wheel models, accounting for just over * * * wheels, valued at \$* * *. This amounted to about * * * percent of the volume and * * * percent of the total value of wheels awarded by Chrysler. Motor Wheel's U.S. operations, which were awarded the largest percentage of the estimated wheel demand by Chrysler, were awarded * * * contracts totaling approximately * * * wheels, valued at \$* * *. This amounted to over * * * percent of the volume and over * * * percent of the value. Kelsey-Hayes' U.S. operations were awarded * * * contracts for approximately * * * wheels, valued at \$* * *. 3/ This amounted to approximately * * * percent of the volume and about * * * percent of the value. Superior was awarded * * * contract for over * * * wheels, valued at \$* * *. This amounted to approximately * * * percent of the volume and about * * * percent of the value.

1/ The bid information submitted by Chrysler covered its 1986 "world wide" request for bids. Bid information on wheel models bid upon prior to the "world wide" bid was not available.

2/ The quantity and value numbers are based on Chrysler's estimated requirements.

3/ Kelsey-Hayes' domestic shipments to Chrysler are * * *.

Motor Wheel's total operations, which include its Canadian facility, received nearly * * * percent of Chrysler's estimated wheel purchases, or over * * * wheels. The estimated value of these contracts was \$* * *, or * * * percent of the total awarded by Chrysler. There were * * * contracts awarded to Motor Wheel's Canadian facility for * * * wheels, valued at \$* * *. 1/ This amounted to approximately * * * percent of the volume and about * * * percent of the value.

Kelsey-Hayes' total operations, which include its Canadian and Venezuelan facilities, received nearly * * * percent of Chrysler's estimated wheel purchases, or * * * wheels. 2/ The estimated value of these contracts was almost \$* * *, or approximately * * * percent of the total. There were * * * contracts awarded to Kelsey-Hayes' Canadian facility for * * * wheels, valued at \$* * *. This amounted to * * * percent of the volume and about * * * percent of the value. There were * * * contracts awarded to Kelsey-Hayes' Venezuelan facility for * * * wheels, valued at \$* * *. This amounted to * * * percent of the volume and about * * * percent of the value.

Brazilian firms were awarded * * * contracts for approximately * * * wheels, valued at just over \$* * *. This amounted to approximately * * * percent of Chrysler's purchases and nearly * * * percent of the total value of Chrysler awards. Of this * * *, Rockwell-Fumagalli was awarded * * * contracts for just over * * * wheels, valued at \$* * *. This amounted to almost * * * percent of Chrysler's total volume and just over * * * percent of value. Borlem was awarded * * * contract for * * * wheels valued at nearly \$* * *. This amounted to * * * percent of Chrysler's total volume and * * * percent of total value.

The tabulation below shows information submitted by Chrysler detailing shipments of all wheels received during the period of investigation, by supplier (in thousands of units): 3/

* * * * *

General Motors.--General Motors (GM) submitted information detailing shipments received during much of the period of investigation by supplier and by wheel model. GM did not provide any bid information. GM data on shipments from domestic suppliers was for quantity only, whereas Brazilian shipments were for both quantity and value.

U.S. firms were contracted for * * * models of steel wheels during 1987 and * * * models of steel wheels during 1988. Total U.S.-produced noncaptive shipments to GM totaled * * * during 1987 and * * * during 1988. GM reported that in 1988, captive shipments accounted for * * * percent of shipments received, other domestic producers accounted for * * * percent of shipments received, Brazilian suppliers accounted for * * * percent of shipments

1/ * * *.

2/ Kelsey-Hayes, on p. 26 of its prehearing brief, states that * * *. However, * * *.

3/ Wheel shipments by wheel model to OEMs reported by producers and importers are listed in app. F.

received, and Canadian suppliers accounted for * * * percent of shipments received.

During 1987 Kelsey-Hayes was contracted to supply GM with steel wheels for * * * separate models. * * * of the wheel models were supplied from Kelsey-Hayes' Romulus facility and * * * from its Sedalia facility. Kelsey-Hayes supplied GM with over * * * wheels in 1987. Of the * * * wheels, nearly * * * were supplied by the Romulus facility and approximately * * * were supplied by the Sedalia facility. During 1988, Kelsey-Hayes was contracted to supply GM with * * * different models of steel wheels. * * * of the models were supplied from the Romulus facility and * * * from the Sedalia facility. Kelsey-Hayes supplied GM with over * * * wheels in 1988. Of the * * * wheels, over * * * were supplied by the Romulus facility and nearly * * * were supplied by the Sedalia facility.

During 1987 Motor Wheel supplied GM with * * * separate models of steel wheels totaling more than * * * wheels. During 1988 it supplied GM with * * * different models totaling over * * * wheels. Motor Wheel supplied GM with * * * separate models of steel wheels totaling * * * wheels during January-March 1989.

NI was contracted to supply GM with * * * types of wheels during 1986-88. In 1986, NI shipped GM * * * wheels. This quantity * * * to * * * in 1987 and * * * in 1988.

During 1987, Kelsey-Hayes' Canadian facility in Windsor, Ontario was contracted to supply GM with * * * different steel wheel models. The Canadian facility supplied GM with just over * * * wheels. During 1988, the facility was contracted to supply GM with * * * different steel wheel models. The Canadian facility supplied GM with just over * * * wheels.

Motor Wheel's Canadian facility in Chatham, Ontario supplied GM with * * * different steel wheel models totaling nearly * * * wheels during 1987. During 1988, this facility supplied GM with over * * * wheels covering * * * different models. This facility supplied GM * * * wheels for * * * different models during January-March 1989.

GM purchased a total of * * * wheels for * * * models, valued at \$* * *, from Brazilian suppliers during the 1988 model year. ^{1/} Of this amount, Borlem shipped * * * wheels, valued at just under \$* * *, and Rockwell-Fumagalli shipped * * * wheels, valued at approximately \$* * *. According to * * *, GM's business plan calls for * * *.

Ford.--* * *. * * *.

Ford reported that in 1988 captive shipments accounted for * * * percent of shipments received, other domestic producers accounted for * * * percent of shipments received, and Brazilian suppliers accounted for * * * percent of shipments received.

^{1/} GM's model year begins Aug. 1 of the year preceding the actual year listed as the model year and ends July 31. For example, the 1989 model year began on Aug. 1, 1988, and ends on July 31, 1989.

Ford submitted information detailing contracts awarded during the period of investigation by supplier and by wheel model. Ford did not provide any bid information on suppliers that did not receive contracts. No shipment data were provided. Ford awarded contracts for two steel wheel models, one for the Escort model vehicle and the other for the Thunderbird model vehicle. During June 1988, * * * won the contract to supply steel wheels for the Escort at \$* * * per wheel for an estimated annual volume of * * * wheels. * * * was contracted to supply the steel wheels for the Thunderbird at \$* * * per wheel for an estimated yearly volume of * * * wheels.

Aftermarket.--The aftermarket consists of sales to distributors, parts warehouses, and OEM dealers. Distributors and parts warehouses sell wheels to auto parts dealers and custom wheel shops. In practice, the distinction between sales to OEMs for use as original equipment and sales to OEM-related dealers for aftermarket resale is not very clear. OEMs often aggregate their expected production-related needs with their aftermarket needs when requesting a bid. Also, OEMs often maintain parts depot warehouses across the country for their branches and dealers. Wheels originally purchased for production could be used for resale and vice versa as requirements dictate.

Sales to distributors are on a spot basis in units of a full pallet, or approximately 40 wheels. Prices of wheels are on a per-unit basis and may vary depending on the diameter, width, and style of wheel.

Domestic producers provided consistent series for three types of steel wheels and one type of aluminum wheel sold in the aftermarket (table 28). Overall, the prices for standard 14-inch diameter steel wheels increased 12 percent during 1986-88. Prices for the standard 16-inch diameter steel wheel were stable through 1987 before increasing 5 percent in the first quarter of 1988. Prices for the standard 16-inch wheel remained at that level through the end of the third quarter of 1988, then increased to a level 25 percent above the original 1986 price. Prices for the custom 14-inch diameter steel wheel increased 6 percent during the period of investigation. Prices for the aluminum 15-inch diameter wheel fluctuated up and down through the third quarter of 1987 before increasing throughout the rest of the period of investigation to a level 28 percent above the original 1986 price level.

Importers of Brazilian-produced wheels provided consistent series for three types of steel wheels sold in the aftermarket (table 29). Prices for standard 15-inch diameter wheels increased 6 percent above the original 1986 level by the third quarter of 1988. Prices for the standard 16-inch diameter wheel fell slightly through the middle of 1987, then increased by the third quarter of 1988 to a level 4 percent above the original 1986 level. Prices for the custom 15-inch diameter wheel increased early in 1987 to a level 4 percent higher than the original 1986 level before plummeting in the fourth quarter of 1987 and ending in 1988 at a level 26 percent below the original 1986 price level. 1/

1/ The dramatic fall in the price index for the custom 15-inch wheel was the result of greater quantities of lower-priced custom 15-inch wheels being imported vis-a-vis higher-priced custom 15-inch wheels.

Table 28

Steel and aluminum wheels: Price indexes for aftermarket sales of U.S.-produced wheels, by products and by quarters, January 1986-December 1988

Period	Steel			Aluminum 15" diameter
	Standard 14" diameter	Standard 16" diameter	Custom 14" diameter	
1986:				
January-March.....	100	100	100	100
April-June.....	105	100	100	97
July-September....	101	100	100	93
October-December..	94	100	100	101
1987:				
January-March.....	1/	100	100	98
April-June.....	97	100	104	97
July-September....	97	100	104	93
October-December..	107	100	106	103
1988:				
January-March.....	106	105	106	117
April-June.....	99	105	106	120
July-September....	108	105	106	122
October-December..	112	125	106	128

1/ Not available.

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

Table 29

Steel wheels: Price indexes for aftermarket sales of Brazilian-produced wheels, by products and by quarters, January 1986-December 1988

Period	Standard	Standard	Custom
	15" diameter	16" diameter	15" diameter
1986:			
January-March.....	100	100	100
April-June.....	100	100	100
July-September....	101	100	100
October-December..	100	99	100
1987:			
January-March.....	100	99	104
April-June.....	100	99	104
July-September....	101	101	104
October-December..	104	102	70
1988:			
January-March.....	103	103	73
April-June.....	104	103	70
July-September....	106	104	71
October-December..	106	104	74

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

Lost sales and lost revenues 1/

U.S. producers were asked for information relating to any sales or revenues that have been lost as a result of imports of steel wheels or rims from Brazil since January 1986. Of the allegations where purchasers could be identified with exact quantities, two were cited in two allegations of sales lost because of competition from imports from Brazil. Five purchasers were cited in seven allegations of sales revenues lost to avoid losing sales to imports from Brazil. All the lost sale and lost revenue allegations were investigated.

Alleged sales lost to imports from Brazil totaled * * * wheels and * * * rims. Alleged revenues lost because of price reductions necessary to avoid losing sales to imports from Brazil were estimated at \$* * * on * * * wheels and \$* * * on * * * rims.

* * * was named by * * * in an allegation of sales lost during 1987, involving * * * wheels allegedly purchased instead from suppliers of Brazilian wheels. * * * said that his firm has never purchased wheels from Brazil.

* * * was named by * * * in an allegation of sales lost during 1988, involving * * * rims allegedly purchased instead from suppliers of Brazilian wheels. * * * was also cited in an allegation of revenues lost during 1987, also involving * * * rims because of price competition from imported Brazilian rims. * * * said that although Brazilian rims are lower-priced than * * *'s, the only domestic firm * * * purchases from, these allegations are incorrect. According to * * *, * * * is in direct competition with * * * and has never sold * * * rims. He said that when * * * is in short supply of rims, he might purchase a couple of thousand rims from * * *.

* * * was named by * * * in an allegation of revenues lost during 1986, involving * * * wheels, model number * * *, because of price competition from imported Brazilian wheels. * * * said that this allegation was incorrect. According to * * *, this particular model wheel was contracted to * * * for \$* * * per wheel and to * * * for \$* * * per wheel. * * * stated that * * * had a 3-year contract beginning in 1985 that stipulated price reductions by * * * from \$* * * in 1985 to \$* * * in 1986 and \$* * * in 1987. He also stated that * * *, whose contract was extended through 1989, was granted a materials cost increase that raised the price to \$* * * per wheel. * * * said that the * * * model wheel will be eliminated after 1989, and added that the * * * will no longer purchase from any Brazilian producer after * * * 1989.

* * *, an aftermarket distributor, was named by * * * in an allegation of revenues lost during 1987, involving * * * wheels, part number * * *, because of price competition from imported Brazilian wheels. * * * said that this allegation was correct. According to * * *, this particular wheel's price was reduced by * * * from over \$* * * per wheel to nearly \$* * * per wheel. * * * stated that this wheel is used as a replacement wheel on trailers.

1/ Although the producer questionnaire requested lost sales and lost revenues information only for the aftermarket, * * * provided one lost revenue allegation relating to a sale to * * *.

* * * was named by * * * in allegations of revenues lost during 1987, involving * * * rims, and during 1988 involving * * * rims because of price competition from imported Brazilian rims. * * * said that his firm never considered Brazilian rims and has no knowledge of the prices. According to * * *, he was not aware of any price reductions by domestic rim producers.

* * * was named by * * * in allegations of revenues lost during 1987, involving * * * rims, and during 1988 involving * * * rims because of price competition from imported Brazilian rims. * * * said that his firm buys small quantities of Brazilian rims, but that to his knowledge, no domestic firm has lowered its price of rims to * * * because of competition from Brazil. He stated that domestic and Brazilian prices are about the same.

Exchange rates

Quarterly data reported by the International Monetary Fund indicate that during the period January 1986 through December 1988 the nominal value of the Brazilian cruzado depreciated 97.3 percent against the U.S. dollar (table 30). ^{1/} Adjusted for relative movements in producer price indexes, the real value of the cruzado appreciated 16.9 percent as of the third quarter of 1988 relative to the 1986 first quarter level.

^{1/} International Financial Statistics, March 1989. Data on producer prices in Brazil for October-December 1988 are not available.

Table 30

Nominal exchange rates of the Brazilian cruzado in U.S. dollars, real exchange-rate equivalents, 1/ and producer price indexes in the United States and Brazil, 2/ indexed by quarters, January 1986-December 1988

Period	U.S.	Brazil	Nominal exchange- rate index	Real exchange- rate index 3/
	Pro- ducer Price Index	Pro- ducer Price Index		
			--US dollars/cruzado--	
1986:				
Jan.-Mar.....	100.0	100.0	100.0	100.0
Apr.-June.....	98.2	103.9	92.0	97.3
July-Sept.....	97.7	105.7	92.0	99.5
Oct.-Dec.....	98.1	111.8	89.5	102.0
1987:				
Jan.-Mar.....	99.2	145.2	69.8	102.2
Apr.-June.....	100.8	259.6	40.6	104.6
July-Sept.....	101.9	375.0	26.9	99.0
Oct.-Dec.....	102.3	514.0	21.2	106.5
1988:				
Jan.-Mar.....	102.9	830.7	13.9	112.2
Apr.-June.....	104.8	1,433.3	8.4	114.9
July-Sept.....	106.2	2,642.1	4.7	116.9
Oct.-Dec.....	106.7	4/	2.7	4/

1/ Exchange rates expressed in U.S. dollars per unit of foreign currency.

2/ Producer price indexes--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

3/ The indexed real exchange rate represents the nominal exchange rate adjusted for relative movements in producer price indexes in the United States and Brazil. Producer prices in the United States increased 6.2 percent during January 1986-September 1988, compared with an increase of 2,542.1 percent in Brazil during the same period.

4/ Not available.

Note.--January-March 1986=100.

Source: International Monetary Fund, International Financial Statistics, March 1989.

APPENDIX A

THE COMMISSION'S AND COMMERCE'S FEDERAL REGISTER NOTICES

[Investigation No. 701-TA-296 (Final)]

Certain Steel Wheels from Brazil

AGENCY: International Trade Commission.

ACTION: Institution of a final countervailing duty investigation.

SUMMARY: The Commission hereby give notice of the institution of final countervailing duty investigation No. 701-TA-296 (Final) under section 705(b) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)) (the act) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of

imports from Brazil of steel wheels,¹ provided for in item 692.32 of the Tariff Schedules of the United States (TSUS), that have been found by the Department of Commerce, in a preliminary determination, to be subsidized by the Government of Brazil. Commerce also initiated an upstream subsidy investigation on steel wheels from Brazil. Commerce therefore has 165 days after its preliminary determination in which to issue its final determination and it is scheduled to make its final determination no later than April 7, 1989. The Commission will not establish a schedule for the conduct of this investigation until the Department of Commerce makes a preliminary determination in a currently ongoing antidumping investigation on steel wheels from Brazil. The date of that preliminary is scheduled to be January 5, 1989.

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and C (19 CFR part 207 as amended, 53 FR 33034, August 29, 1988), and part 201, subparts A through E (19 CFR part 201).

EFFECTIVE DATE: October 28, 1988.

FOR FURTHER INFORMATION CONTACT: Debra Baker (202-252-1180), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

SUPPLEMENTARY INFORMATION:

Background. This investigation is being instituted as a result of an affirmative preliminary determination by the Department of Commerce that certain benefits which constitute subsidies within the meaning of section 701 of the act (19 U.S.C. 1671) are being provided to manufacturers, producers, or exporters in Brazil of certain steel

wheels. The investigation was requested in a petition filed on July 29, 1988, by Kelsey Hayes Company, Romulus, MI. In response to that petition, the Commission conducted a preliminary countervailing duty investigation and, on the basis of information developed during the course of that investigation, determined that there was a reasonable indication that an industry in the United States was materially injured by reason of imports of the subject merchandise (53 FR 11351, April 6, 1988).

Participation in the investigation. Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's rules (19 CFR 201.11), not later than twenty-one (21) days after the publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the 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 as amended, 53 FR 33034, 33041), 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 certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Limited disclosure of business proprietary information under a protective order. Pursuant to § 207.7 (a) of the Commission's rules (19 CFR 207.7(a), as amended 53 FR 33034, 33041), the Secretary will make available business proprietary information gathered in this final investigation to authorized applicants under a protective order, provided that the application be made not later than twenty-one (21) days after the publication of this notice in the Federal Register. A separate service list will be maintained by the Secretary for those parties authorized to receive business proprietary information under a protective order. The Secretary will not accept any submission by parties containing business proprietary information without a certificate of service indicating that it has been filed

with all the parties that are authorized to receive such information under a protective order.

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

By order of the Commission.

Issued: November 23, 1988.

Kenneth R. Mason,

Secretary.

[FR Doc. 88-27614 Filed 11-29-88; 0:45 am]

BILLING CODE 7020-02-M

¹ The products covered by this investigation are steel wheels currently provided for in item 692.32 of the Tariff Schedules of the United States Annotated (TSUSA) and classifiable in Harmonized Tariff Schedule (HTS) subheading 8708.70.80. The merchandise includes steel wheels, assembled or unassembled, consisting of a disc and a rim, designed to be mounted with both tube type and tubelless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 16.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles.

reason of imports from Brazil of steel wheels,¹ provided for in subheading 8708.70.80 of the Harmonized Tariff Schedule of the United States (item 692.32 of the Tariff Schedules of the United States), that have been found by the Department of Commerce, in a preliminary determination, to be subsidized by the Government of Brazil. Commerce will make its final subsidy determination in this investigation on or before April 7, 1989 and the Commission will make its final injury determination by May 24, 1989 (see sections 705(a) and 705(b) of the act (19 U.S.C. 1671d(a) and 1671d(b))).

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 207, Subparts A and C (19 CFR Part 207, as amended, 53 FR 33041 *et seq.* (August 29, 1988)), and Part 201, subparts A through E (19 CFR Part 201).

EFFECTIVE DATE: February 1, 1989.

FOR FURTHER INFORMATION CONTACT: Debra Baker (202-252-1180), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

SUPPLEMENTARY INFORMATION:

Background.—Effective October 28, 1988, the Commission instituted a final countervailing duty investigation on certain steel wheels from Brazil (53 FR 48320, November 30, 1988). It planned to establish a schedule for the conduct of the investigation when the Department of Commerce made a preliminary determination in the currently ongoing antidumping investigation on steel wheels from Brazil. The date of that determination was originally scheduled to be January 5, 1989. On December 20, 1988, Commerce, at the request of the petitioner Kelsey Hayes Company,

(Investigation No. 701-TA-296 (Final))

Certain Steel Wheels From Brazil

AGENCY: United States International Trade Commission.

ACTION: Scheduling of a hearing to be held in connection with a final countervailing duty investigation.

SUMMARY: The Commission hereby gives notice of the scheduling of a hearing to be held in connection with a final countervailing duty investigation No. 701-TA-296 (Final) conducted under section 705(b) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)) (the act) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by

¹ The products covered by this investigation are steel wheels currently classifiable in *Harmonized Tariff Schedule (HTS)* subheading 8708.70.80 and provided for in item 692.3230 of the *Tariff Schedules of the United States Annotated (TSUSA)*. The merchandise includes steel wheels, assembled or unassembled, consisting of a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 18.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles.

extended its preliminary antidumping duty determination to not later than February 24, 1989. To date, the petitioner has not requested that Commerce's final subsidy determination be delayed to conform with the final antidumping determination. The Commission is therefore establishing a schedule for the conduct of the countervailing duty investigation on certain steel wheels.

Staff report.—The prehearing staff report in this investigation will be placed in the nonpublic record on April 7, 1989, and a public version will be issued thereafter, pursuant to § 207.21 of the Commission's rules (19 CFR 207.21).

Hearing.—The Commission will hold a hearing in connection with this investigation beginning at 9:30 a.m. on April 20, 1989 at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on April 11, 1989. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 9:30 a.m. on April 14, 1989 at the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is April 17, 1989.

Testimony at the public hearing is governed by § 207.23 of the Commission's rules (19 CFR 207.23). This rule requires that testimony be limited to a nonbusiness proprietary summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. Any written materials submitted at the hearing must be filed in accordance with the procedures described below and any business proprietary materials must be submitted at least three (3) working days prior to the hearing (see § 201.6(b)(2) of the Commission's rules (19 CFR 201.6(b)(2))).

Written submissions.—All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 of the Commission's rules (19 CFR 207.22).

Posthearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24) and must be submitted not later than the close of business on April 17, 1989. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before April 27, 1989.

A signed original and fourteen (14) copies of each submission must be filed

with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for business proprietary 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 information for which business proprietary treatment is desired must be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Business Proprietary Information." Business proprietary submissions and requests for business proprietary treatment must conform with the requirements of §§ 201.6 and 207.7 of the Commission's rules (19 CFR 201.6 and 207.7).

Parties which obtain disclosure of business proprietary information pursuant to § 207.7(a) of the Commission's rules (19 CFR 207.7(a), as amended, 53 FR 33041 *et seq.* (August 29, 1988)) may comment on such information in their prehearing and posthearing briefs, and may also file additional written comments on such information no later than May 2, 1989. Such additional comments must be limited to comments on business proprietary information received in or after the posthearing briefs.

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

Issued: February 7, 1989.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 89-3578 Filed 2-14-89; 8:45 am]

BILLING CODE 7030-02-M

[C-351-802]

Final Affirmative Countervailing Duty Determination; Steel Wheels From Brazil

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

ACTION: Notice of final affirmative countervailing duty determination.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers or exporters in Brazil of steel wheels, as described in the "Scope of Investigation" section of this notice. The estimated net subsidy and duty deposit rates are specified in the "Suspension of Liquidation" section of this notice.

We have notified the U.S. International Trade Commission (ITC) of our determination. If the ITC determines that imports of steel wheels materially injure, or threaten material injury, to a United States industry, we will direct the U.S. Customs Service to resume suspension of liquidation of all entries of steel wheels from Brazil that are entered, or withdrawn from warehouse, for consumption on or after the date of publication of the countervailing duty order, and to require a cash deposit as described in the "Suspension of Liquidation" section of this notice.

EFFECTIVE DATE: April 18, 1989.

FOR FURTHER INFORMATION CONTACT: Philip Pia or Bernard Carreau, Office of Countervailing Compliance, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 377-2786.

SUPPLEMENTARY INFORMATION:**Final Determination**

Based on our investigation, we determine that benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to manufacturers, producers or exporters in Brazil of steel wheels. For purposes of this investigation, we find the following programs to confer subsidies:

- CACEX Preferential Working Capital Financing for Exports
- Income Tax Exemption for Export Earnings
- CIC-OPCRE 6-2-6 Financing
- BEFIEIX: IPI Export Credit Premium, and Import Duty and IPI Tax Reductions
- FLNEX (Resolution 509) Export Financing

- Upstream Subsidy (steel input)

We determine the estimated net subsidy to be 1.82 percent *ad valorem* for Borlem S.A. and 17.29 percent *ad valorem* for all other manufacturers, producers or exporters in Brazil of steel wheels.

Case History

Since the publication of the preliminary determination (*Steel Wheels From Brazil; Preliminary Affirmative Countervailing Duty Determination and Initiation of Upstream Subsidy Investigation*) (53 FR 43749; October 28, 1988), the following events have occurred. Respondents submitted a supplemental response containing information pertaining to Borlem do Nordeste on December 23, 1988, and a response to our upstream questionnaire on January 6, 1989. We conducted verification in Brazil, from January 25, to February 3, 1989, of the questionnaire responses of the Government of Brazil (GOB), Rockwell-Fumagalli, Borlem, S.A., Borlem do Nordeste (BNE), and Usinas Siderurgicas de Minas Gerais (USIMINAS).

Petitioner requested a public hearing. Petitioner and respondents filed pre-hearing briefs on March 1, 1989. We held a public hearing on March 3, 1989. Petitioner and respondents filed post-hearing briefs on March 27, 1989.

Scope of Investigation

The United States, under the auspices of the Customs Cooperation Council, has developed a system of tariff classification based on the international harmonized system of Customs nomenclature. On January 1, 1989, the United States fully converted to the Harmonized Tariff Schedule (HTS), as provided for in section 1201 *et seq.* of the Omnibus Trade and Competitiveness Act of 1988. All merchandise entered, or withdrawn from warehouse, for consumption on or after that date is now classified solely according to the appropriate HTS item number(s).

The products covered by this investigation are steel wheels (except custom wheels), assembled or unassembled, consisting of both a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 18.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles. In 1988, such merchandise was classifiable under item 692.3230 of the Tariff Schedules of the United States Annotated. This merchandise is

currently classifiable under HTS item number 8708.70.80.

In our preliminary determination, we stated that "until we have sufficient information to make a definitive scope ruling, we tentatively determine that rims or discs, imported separately, are included in the scope of this investigation."

Petitioner argues that rims should be included within the scope of the order to prevent circumvention. The petitioner described the merchandise covered as wheels from Brazil, which included rims and centers for such wheels so as to avoid possible circumvention through the shipment of wheel components rather than finished wheels. In an October 7, 1988 letter to the department, petitioner restated this position with regard to the rims market by asserting that its "intention was not to include within the scope of the imports subject to investigation rims sold as distinct articles of commerce and, therefore, not in circumvention of an order. . . . Petitioner's concern lies with circumvention." In other submissions, petitioner was inconsistent regarding the reasons for including rims in the scope. We conclude, however, that petitioner's primary concern is circumvention.

We verified that during the period of review the only parts of steel wheels imported from Brazil into the United States were rims. Discs were not imported. These rims were purchased by unrelated custom wheel manufacturers who combined the rims with non-Brazilian discs to make custom wheels at their own facilities. The discs add significant value to the rims.

The rims that are now imported are not of concern to the petitioner. The rims that are currently being imported are used exclusively for the manufacture of custom wheels, and the petitioner has explicitly indicated that it did not wish to include custom wheels in the scope of the order (October 7, 1988 letter). Nor is it likely that imports of these rims would undermine the effectiveness of a countervailing duty or antidumping order on steel wheels. While the steel wheels that are subject to this investigation are purchased by original equipment manufacturers (i.e., automobile manufacturers), the custom wheels that incorporate the rims currently being imported are sold exclusively in the aftermarket (i.e., to automobile owners).

In past cases where petitioners have raised concerns about circumvention of any resulting order, the department has specifically included parts in the scope of an investigation because of

uncertainty as to the authority of the Department to include parts subsequent to the publication of an order where parts are imported to circumvent the order. See, e.g., *Cellular Mobile Telephones from Japan* (50 FR 42577 (1985)). Now, however, section 781 of the Omnibus Trade and Competitiveness Act of 1988 not only clarifies that the Department has such authority but sets forth the criteria for dealing with this type of circumvention. Therefore, notwithstanding pre-1988 Act administrative precedents, it is neither necessary nor appropriate to include rims in the scope of the proceeding at this time. If in the future there is evidence of circumvention of the order on steel wheels by importation of Brazilian rims and discs, the Department will invoke the remedies available under section 781.

Analysis of Programs

For purposes of this final determination, the period for which we are measuring subsidies ("the review period") is calendar year 1987. Based upon our analysis of the petition, the responses to our questionnaire, verification, and written comments filed by petitioner and respondents, we determine the following:

1. Programs Determined To Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers and exporters in Brazil of steel wheels under the following programs.

(1) CACEX Preferential Working Capital Financing for Exports

Under this program, the Department of Foreign Commerce ("CACEX") of the Banco do Brasil provides short-term working capital financing to exporters at preferential rates. The loans have a term of one year or less. During the period of review, Fumagalli made interest payments on CACEX loans, but Borlem did not use this program.

On August 21, 1984, resolution 950 make CACEX working capital financing available through commercial banks at prevailing market rates, with interest due at maturity. It authorized the Banco do Brasil to pay the lending institution an "equalization fee," or rebate, of up to 10 percentage points over the commercial interest rate, which we verified the lending institution passed on to the borrowers. On May 2, 1985, Resolution 1009 increased the equalization fee to 15 percentage points.

Since the interest charged on CACEX export financing under Resolutions 950 and 1009 is at prevailing market rates, this program would not be

countervailable absent the equalization fee and the exemption from the IOF (a tax on financial transactions). Therefore, the interest differential for these loans is equal to the equalization fee plus the 1.5 percent IOF. Because this program provides financing at preferential rates only to exporters, we determine that it is countervailable.

We consider the benefit from loans to occur when the borrower makes the interest payments. For CACEX loans on which interest was paid during the period of review, we multiplied the interest differential by the length of the loan and the loan principal. We allocated the result over Fumagalli's total exports. On this basis, we determine the benefit from this program to be zero for Borlem and 1.10 percent *ad valorem* for Fumagalli and all other firms.

(2) Income Tax Exemption for Export Earnings

Under this program, exporters of steel wheels are eligible for an exemption from income tax on the portion of their profits attributable to exports. According to Brazilian tax law, the tax-exempt fraction of profit is calculated as the ratio of export revenue to total revenue. Because this program provides tax exemptions that are limited to exporters, we determine that it is countervailable. Fumagalli used this program in 1987, but Borlem did not.

The nominal corporate tax rate in Brazil is 35 percent. However, Brazilian tax law permits companies to reduce their income taxes by investing up to 20 percent of their tax liability in specified companies and funds. This tax credit effectively reduces the nominal 35 percent corporate tax rate. Because Fumagalli invested in the specified companies and funds, its effective tax rate was lower than the nominal 35 percent rate during the period of review.

We calculated Fumagalli's effective tax rate by dividing its net tax liability by its taxable profit. We calculated the benefit by multiplying the amount of tax-exempt profit by the effective tax rate and allocating the result over Fumagalli's total exports. On this basis, we determine the benefit from this program to be zero for Borlem and 0.39 percent *ad valorem* for Fumagalli and all other firms.

(3) CIC-OPCRE 6-2-6 (CIC-CREGE 14-11) Financing

Under its Circular CIC-CREGE 14-11, later modified by Circular CIC-OPCRE 6-2-6, the Banco do Brasil provides preferential financing to exporters on the condition that they maintain on deposit a minimum level of foreign

exchange. The interest rate is based on the cost of funds to banks plus a spread of three percentage points, which is below our benchmark rate. The loans have a term of one year and a variable interest rate, which changes every quarter. Because this program provides loans at preferential rates only to exporters, we determine that it is countervailable.

Fumagalli made payments on a loan under this program during the period of review. The interest payments on this loan were made on the last day of each month, and the full principal was repaid at maturity. Borlem did not participate in this program during the review period.

Based on information gathered during verification from commercial banking sources in Brazil, we have determined that the "taxa ANBID" rate published by *Gazeta Mercantil*, a Brazilian daily financial publication, is a broader measure of the rates available for short-term financing and is a more accurate basis for calculating our benchmark than the rate for the discounting of accounts receivable used in our preliminary determination. Because of the complex calculations necessary to convert the rates on discounts of accounts receivable into an annual benchmark, certain distortions can occur that sometimes lead to a benchmark below the rate of inflation. The "taxa ANBID" is an average monthly lending rate calculated by the National Association of Brazilian Investment Banks (ANBID) and is based on a survey of the monthly rates on short-term loans charged by Brazilian commercial banks. We calculated our annual average benchmark by compounding the "taxa ANBID" rate published for each month during 1987.

To calculate the benefit, we compared the benchmark with the preferential rate and multiplied the differential by the term of the loan and the loan principal. We then divided the result by Fumagalli's total exports. On this basis, we determine the benefit from this program to be zero for Borlem and 0.14 percent *ad valorem* for Fumagalli and all other firms.

Because we verified that, effective September 20, 1988, the interest rate on all CIC-OPCRE 6-2-6 loans was equal to the ANBID rate (our commercial benchmark rate), we determine that these loans are not longer preferential. Therefore, for purposes of the cash deposit of estimated countervailing duties, we determine the benefit from this program to be zero for all firms.

(4) BEFIEEX

The Commission for the Granting of Fiscal Benefits to Special Export Programs ("BEFIEEX") allows Brazilian exporters, in exchange for export commitments, to take advantage of several types of benefits, such as import duty reductions, an IPI export credit premium, and tax exemptions or tax credits. Because these benefits are provided only to exporters, we determine that this program is countervailable.

(a) *The IPI Export Credit Premium.* This benefit is a cash payment by the Brazilian government to exporters. The amount of the payment is a fixed percentage of the f.o.b. price of the exported merchandise. The payment is made through the bank involved in the export transaction. Fumagalli was eligible for the maximum IPI export credit premium, which was 15 percent during the period of review. Borlem was not eligible to receive this benefit during the period of review.

We calculated the benefit by dividing the amount of IPI credit premiums received by Fumagalli on shipments of the merchandise to the United States by the company's exports of the merchandise to the United States. On this basis, we determine the benefit from this program to be zero for Borlem and 12.47 percent *ad valorem* for Fumagalli and all other firms.

(b) *Import Duty and IPI Tax Reductions on Imported Capital Equipment.* Fumagalli received reductions of customs duties and the IPI tax on imported capital equipment used in the manufacture of the subject merchandise during the review period.

To calculate the benefit, we divided the total amount of the reductions received in 1987 by Fumagalli's total exports in 1987. On this basis, we determine the benefit to be zero for Borlem and 0.43 percent *ad valorem* for Fumagalli and all other firms.

(5) FINEX Export Financing

Resolutions 68 and 509 of the Conselho Nacional do Comercio Exterior (CONCEX) provide that CACEX may draw upon the resources of the Fundo de Financiamento a Exportacao (FINEX) to subsidize short- and long-term loans for both Brazilian exporters (Resolution 68) and foreign importers (Resolution 509) of Brazilian goods. CACEX pays the lending bank an "equalization fee" that makes up the difference between the subsidized interest rate and the prevailing commercial rate. CACEX also provides the lending bank with a "handling fee" equal to two percent of the loan

principal in order to encourage foreign bank participation in the program. During the period of review, the interest rates on Resolution 509 dollar loans ranged between 5.25 percent and 8.19 percent per annum, which are below our benchmark rate. Because this program provides loans at preferential rates only to exporters (or their foreign importers), we determine that it is countervailable.

We consider loans to U.S. importers to be equivalent to loans to their corresponding exporters. One of Fumagalli's importers had Resolution 509 FINEX loans on which it made interest payments in 1987. Neither Borlem nor its importers used this program during the period of review. Since Resolution 509 loans to U.S. importers are given in U.S. dollars, we chose as a benchmark interest rate the average quarterly interest rate for commercial and industrial short-term dollar loans, as published by the United States Federal Reserve Board. The average rate was 10.47 percent per annum in 1986 and 9.81 percent per annum in 1987.

To calculate the benefit, we multiplied the value of the loan principal on which interest payments were due in 1987 by the differential between the preferential interest rate and our benchmark. Since we were able to tie these loans to exports to the United States, we divided the result by Fumagalli's exports of steel wheels to the United States in 1987. On this basis, we determine the benefit to be zero for Borlem and 1.04 percent *ad valorem* for Fumagalli and all other firms.

II. Upstream Subsidy

Petitioner has alleged that steel wheel producers benefit from an upstream subsidy, as defined in section 771A of the Act, by virtue of domestic subsidies provided to producers of the major raw material input in steel wheels: hot-rolled sheet and coil. We verified that USIMINAS supplied all of the steel used in the merchandise exported to the United States in 1987. We determine that USIMINAS benefited from two domestic subsidies in 1987: government provision of equity and import duty and IPI tax reductions under CDI.

A. Government Provision of Equity of USIMINAS

Siderurgia Brasileira S.A. (SIDERBRAS) is a government-controlled corporation under the jurisdiction of the Ministry of Industry and Commerce. Pursuant to Decree Law No. 8159 of December 8, 1974, SIDERBRAS became the holding company for the federally-owned steel corporations. SIDERBRAS is a majority

shareholder of nine Brazilian steel producers, including USIMINAS, and a minority shareholder of one small Brazilian steel producer. From 1977 through 1987, SIDERBRAS made equity infusions in USIMINAS.

We have consistently held that government provision of, or assistance in obtaining, capital does not *per se* confer a subsidy. Government equity purchases or financial backing bestow a countervailable benefit only when provided on terms inconsistent with commercial considerations. Because USIMINAS' shares are not publicly traded, there is no market-determined price for its shares. Therefore, we examined whether USIMINAS was a reasonable investment (a condition we have termed "equityworthy") in order to determine whether the equity infusions were inconsistent with commercial considerations.

A company is a reasonable investment if it shows the ability to generate a reasonable rate of return within a reasonable period of time. For purposes of this determination, we reviewed the company's financial data and other factors on the record. We focused on the rate of return on equity and long-term prospects for the company in question for the period 1980 through 1987. (Petitioner alleged that USIMINAS was unequityworthy based on prior determinations by the Department. We did not investigate equity infusions from 1977 through 1979 because we have previously determined that USIMINAS was equityworthy in those years.) We examined financial ratios, profitability, and other factors, such as market demand projections and current operating results, to evaluate the company's current and future ability to earn a reasonable rate of return on investment.

Based on these factors, as applied to information on the record, we conclude that USIMINAS was unequityworthy between 1980 and 1987 (see also, *Certain Carbon Steel Products from Brazil: Final Affirmative Countervailing Duty Determinations* (49 FR 17988; April 28, 1984) (USIMINAS unequityworthy between 1960 and 1982); *Final Affirmative Countervailing Duty Determination; Certain Agricultural Tillage Tools from Brazil* (50 FR 34525; August 28, 1985) (USIMINAS unequityworthy in 1983); *Certain Carbon Steel Products from Brazil: Final Results of Countervailing Duty Administrative Review* (52 FR 829; January 9, 1987) (USIMINAS unequityworthy in 1984). Accordingly, we determine that the actions of the Government of Brazil in taking an equity position in USIMINAS

in the years 1980 through 1987 were inconsistent with commercial considerations and may confer a subsidy.

To the extent that we find government investment to be commercially unreasonable and the government's rate of return on its investment less than the national average rate of return on investment, we consider the investment to provide a countervailable benefit. Starting in the year such an infusion is made, we examine the "rate of return shortfall," which is the difference between the national average rate of return on equity and the company's rate of return on equity. We continue to examine the shortfall in each year of a 15-year period, the average useful life of capital assets in integrated steel mills according to the Asset Guideline Classes of the U.S. Internal Revenue Service. For example, we would examine the rate of return shortfall for the 1980 equity infusion in each year through 1994. If no shortfall exists for any year under review during the 15-year period, there is no countervailable subsidy for that particular year. If a shortfall does exist for the year under review, we multiply the rate of the shortfall by the amount of the original equity infusion to find the benefit for the review period.

For purposes of this determination, we consider the amounts received from SIDERBRAS as "advances for future capital increase" and "capitalized funds" in a particular year as the amount of the equity infusion in that year. According to generally accepted accounting principles in Brazil, these amounts become part of a firm's capital account at the time of receipt, and they appeared as part of USIMINAS' capital account in its financial statements. That the amounts in these accounts are later transferred to the paid-in capital account with the formal issuance of shares has no impact on the total amount in the capital account. Furthermore, when determining the rate of return on equity, it is standard accounting practice in Brazil to include advances for future capital increase and capitalized funds as equity in that calculation.

Due to inflation, the nominal values of the original equity infusions in USIMINAS have increased substantially. All companies in Brazil must regularly restate the value of certain accounts (including equity) according to a standard factor for monetary correction. The index used for monetary correction is the readjusted value of Brazilian Treasury bills, *Obrigacoes do Tesouro Nacional*

("OTN," formerly ORTN). For each year's equity infusions, we converted the actual cruzeiro (or cruzado, after the February 1986 currency reform) amount received into an OTN equivalent by dividing the amount received by the average value of the OTN in that year. To obtain the 1987 cruzado value of the government's equity infusions since 1980, we multiplied the OTN equivalents by the average cruzado value of the OTN in 1987.

We measured USIMINAS' rate of return by dividing its net loss in 1987 by its total capital and compared the result with the national average rate of return on equity in Brazil in 1987, as reported in a September 1988 special annual edition of *Exame*, a Brazilian business publication. USIMINAS' rate of return was lower than the national average. We then multiplied this rate of return shortfall by the 1987 cruzado value of all equity infusions (back to 1980) that we have found to be inconsistent with commercial considerations.

However, because USIMINAS' net loss was very large during the 1987 review period, the benefit calculated using the rate of return shortfall methodology exceeded the amounts we would have calculated for the review period had we treated the equity infusions as outright grants rather than equity. Under no circumstances do we countervail in any year an amount greater than what we would have countervailed in that year had we treated the government's equity infusions as outright grants. Therefore, we have capped the subsidy for the review period at the level that would have resulted if we had treated the equity infusions as grants.

To determine the grant cap for the review period, we allocated the OTN equivalents of the equity infusions in each year from 1980 through 1987 using a declining balance methodology and the 15-year allocation period. Because there is no nongovernment long-term cruzado borrowing in Brazil, we have used as a discount rate the highest rate the Brazilian government pays on its longest-term OTNs' 8 percent on 5-year OTNs. (The discount rate we normally use in our grant methodology is a rate that incorporates both the "real" and inflation components of an interest rate, and we apply this discount rate to the original amount of the grant. However, by converting the equity amounts to OTNs as a means of determining their value over time, we have accounted for the effects of hyperinflation on the amount of the original equity infusions. Therefore, we have used as our discount rate the interest rate on OTNs, which is

a real interest rate, as the basis for allocating the inflation-adjusted OTN values over time.) We then converted the OTN benefit allocated to 1987 into cruzados by multiplying that benefit by the average value of the OTN in 1987. Finally, we divided this cruzado benefit by the value of USIMINAS' total sales in 1987. On this basis, we determine the subsidy to USIMINAS from this program to be 5.82 percent *ad valorem*.

B. Fiscal Benefits by Virtue of a Project Approved by CDI

Under Decree Law 1428, the Industrial Development Council ("CDI") provides for the exemption of up to 100 percent of the customs duties and up to 10 percent of the IPI tax, a value-added tax on domestic sales, on certain imported machinery for specific projects in 14 industries approved by the Brazilian government. The recipient must demonstrate that this machinery or equipment is not available from a Brazilian manufacturer.

Decree Law 1726 repealed this program in 1979. However, companies whose projects were approved prior to the repeal continue to receive benefits from this program pending completion of the project. USIMINAS received benefits under this program during 1987. Because this program is limited to specific enterprises of industries, we determine that it is countervailable.

To calculate the benefit, we divided the total amount of import duty and IPI tax reductions in 1987 by USIMINAS' total 1987 sales. On this basis, we determine the subsidy to USIMINAS from this program to be 0.79 percent *ad valorem*.

C. Competitive Benefit

Section 771A(a)(2) provides that the domestic subsidies described above must bestow a competitive benefit on the merchandise. Section 771(A)(b) states:

... a competitive benefit has been bestowed when the price for the input product referred to in subsection (a)(1) for such use is lower than the price that the manufacturer or producer of merchandise which is the subject of a countervailing duty proceeding would otherwise pay for the product in obtaining it from another seller in an arms-length transaction.

To determine the price that steel wheel producers would have paid in an arm's length transaction, we first look to see at what price a steel wheel produce could have bought the input from an unsubsidized seller in Brazil. During the review, the only producers in Brazil of hot-rolled sheet and coil were USIMINAS, Companhia Siderurgica

Paulista (COSIPA) and Companhia Siderurgica Nacional (CSN). Although we have not determined in this investigation whether COSIPA and CSN received countervailable subsidies, we determined in a past investigation and administrative review (see the final determination and final results of review on *Certain Carbon Steel Products* (op. cit.)) that both companies benefited from countervailable government provisions of equity. Based on our equity methodology, most of these equity infusions would continue to provide benefits in 1987 to the extent that these companies' rates of return fell below the national average rate of return on equity. Furthermore, a report submitted by the GOB, "Evaluation of the Financial Restructuring of the SIDERBRAS Group: Report to the SIDERBRAS Directors" (February 1988), indicates that both COSIPA and CSN received additional equity infusions from SIDERBRAS through 1988—in fact, more than USIMINAS received. The report also indicates that COSIPA and CSN had worse profitability, liquidity and leverage ratios than USIMINAS in 1987.

Based on this information, we believe it is reasonable to assume that other domestic suppliers of hot-rolled sheet and coil received subsidies during the period of review. Therefore, the prices charged by these companies would not be an appropriate benchmark for determining whether a competitive benefit arises through the steel wheels producers' purchase of this input from USIMINAS.

In the absence of an unsubsidized domestic price, we look to world market prices as a potential benchmark. Generally, we will use the price of one of the world's lowest-cost producers. During the review period, one of the lowest-cost producers of steel was the Republic of Korea (ROK). If the world market price is lower than the price that producers of the merchandise actually paid for the input product, we would conclude that there is no competitive benefit on the merchandise. If the world market price is higher than the price that producers paid for the input product, we would conclude that there is a competitive benefit on the merchandise. The amount of the competitive benefit would depend on the difference between the subsidized price and the world market price.

As the best estimate of the price of Korean steel in Brazil, we used the average monthly c.i.f. price for hot-rolled sheet and coil, with the specifications needed to produce wheels, imported into the United States from the ROK in 1987.

We found that the Korean prices were on average over 50 percent higher than domestic Brazilian prices in 1987. Therefore, we conclude that there is a competitive benefit.

D. Significant Effect

For purposes of determining whether the competitive benefit has a significant effect on the cost of producing the merchandise, we multiplied the *ad valorem* subsidy rate on the steel input by the proportion of the total production costs of steel wheels accounted for by the steel input. Multiplying those proportions by the total domestic subsidy for USIMINAS yields a rate of 2.66 percent for Fumagalli and 2.31 percent for Borlem.

In the *Final Affirmative Countervailing Duty Determination: Certain Agricultural Tillage Tools from Brazil* (50 FR 34525; August 28, 1985), we established thresholds regarding the existence of a significant effect. We stated that we would presume no significant effect if the *ad valorem* subsidy rate on the input product multiplied by the proportion of the input product in the cost of manufacturing the merchandise accounted for less than one percent. If the result of this calculation is higher than five percent, we would presume that there is a significant effect. If the result is between one and five percent, we would examine the effect of the input subsidy on the competitiveness of the merchandise. Since in this case the input subsidy allocated to the merchandise yields rates that are between one and five percent for both Fumagalli and Borlem, we have examined the price sensitivity of steel wheels.

A steel wheel is a relatively unsophisticated product made by welding a circular rim to a disc. This process requires standard technology that is available both in Brazil and the United States. The quality of the product made in Brazil is similar, if not identical, to that made in the United States. In fact, the wheels imported into the United States from Brazil are made to standard specifications. These specifications include size, thickness, Society of Automotive Engineer grades of steel, and, in certain instances, the casting process for making the steel used in the wheels. For example, we verified that, in at least one contract, a U.S. importer required that continuous cast steel be used in the wheels.

USIMINAS, which supplied all of the steel used in the wheels exported to the United States during the period of review, has a special line of steel used exclusively for the production of wheels. Fumagalli, which accounted for over 95

percent of the wheels exported to the United States from Brazil during the period of review, is owned entirely by Rockwell International Corp., a U.S. firm. Fumagalli exports over 90 percent of the wheels it produces, mostly to the United States. Rockwell maintains strict quality control over the wheels produced by Fumagalli. In Fumagalli's product manual, every type of wheel produced is matched to specific models of cars produced by the world's major automobile manufacturers.

The only U.S. importers of steel wheels from Brazil are original equipment manufacturers (OEM's) of automobiles. The ITC found in its preliminary determination (*Certain Steel Wheels from Brazil; Investigation No. 701-TA-246 (Preliminary)*) that a wheel producer must be approved by the OEM's purchasing and engineering departments before it can submit a bid. Once the supplier is approved, it achieves the same status as all other approved suppliers. Both Fumagalli and Kelsey-Hayes, the petitioner, are approved suppliers for all the major U.S. automobile manufacturers. The ITC found that an OEM's request for a quotation usually includes a set of specifications and criteria for the wheels.

The ITC also found that steel wheel producers have little bargaining power in the contract negotiations because of the market power of the large automobile manufacturers. The overwhelming majority of the demand for steel wheels stems from the demand for new automobiles. The ITC report quotes the petitioner as saying "... because the market for steel wheels is static, from the standpoint that there are no new potential customers for wheels, price competition is severe." (p.A-34).

Although we recognize, as stated in the ITC report, that there are nonprice factors, such as long-standing supplier relationships and reliability in delivery, that may affect the outcome of the bid, we conclude, given the uniformity of the Brazilian and U.S. product, that price is the single most important factor in determining which supplier wins the bid. Therefore, we conclude that subsidies to the input supplier have a significant effect on the competitiveness of Brazilian steel wheels.

In summary, we have determined that: (1) There are domestic subsidies to input suppliers; (2) there is a competitive benefit bestowed on producers of steel wheels; and (3) subsidies to input producers have a significant effect on the cost of manufacturing steel wheels. Therefore, we determine that producers

of steel wheels in Brazil benefit from an upstream subsidy.

Since the amount of the differential between the Korean and Brazilian prices is higher than the amount of domestic subsidy on USIMINAS steel, we conclude that there is a full pass-through of the subsidy from USIMINAS to the wheel producers. To determine the amount of the upstream subsidy, we multiplied the total domestic subsidy on the input product by the proportion of the value of the merchandise accounted for by the input product. (Although we use the cost of the merchandise for purposes of determining whether the input subsidy has a significant effect on the merchandise, we calculate the upstream subsidy, as we do most other subsidies, on an *ad valorem* basis.) We determine the upstream benefit for Borlem to be 1.82 percent *ad valorem* and 1.72 percent *ad valorem* for all other firms.

III. Programs Determined Not To Be Used

We determine that manufacturers, producers and exporters in Brazil of steel wheels did not receive benefits during the review period under the following programs:

- (1) Accelerated depreciation for Brazilian-made capital goods;
- (2) Financing for the storage of merchandise destined for export ("Resolution 330");
- (3) Federal stock (EGF) loans; and
- (4) Industrial enterprise (FST) loans.

COMMENTS

Comment 1: The Government of Brazil (GOB) argues that the Department overstated the amount of the benefit attributable to the income tax exemption for export earnings. The Department mistakenly divided the benefit received by Fumagalli by the total exports of Borlem. Furthermore, the Department should allocate the benefits from this program over total sales instead of total exports. Since the program rebates direct taxes, it is a domestic subsidy, which requires the Department to allocate the benefit over total sales. In addition, effective January 1, 1988, the GOB decreed that export earnings are no longer fully exempt from income taxes and are now subject to a 3 percent tax. Therefore, the Department should take into account this program-wide change in calculating the rate of cash deposit of estimated countervailing duties for this program.

Department's Position: We have corrected the clerical error made in our preliminary determination by dividing the benefit to Fumagalli by that firm's total exports. We have considered and

rejected in other Brazilian countervailing duty cases the GOB's claim that the income tax exemption is a domestic subsidy. See, e.g., *Certain Carbon Steel Products From Brazil* (op. cit.). The GOB has provided neither new evidence nor new arguments that convince us to reconsider this issue. With respect to program-wide changes in this program, we do not have sufficient information to recalculate the cash deposit rate. Because none of the companies we verified has yet filed income tax statements incorporating this change, we are unable to measure the effect of the change.

Comment 2: The GOB argues that the Department overstated the benefit from CACEX preferential export financing by failing to take into account the length of each loan when calculating the benefit. In addition, the GOB claims that, in calculating the short-term interest rate benchmark, the Department should not include the IOF tax. The IOF functions as an indirect tax, and neither the exemption nor the rebate of an indirect tax is considered a subsidy under the General Agreements on Tariffs and Trade and U.S. law. Inclusion of the IOF in the benchmark improperly countervails an exemption of an indirect tax applicable to exports. In addition, the Department should also take into account a reduction in the equalization rate from 15 to 7.5 percent, effective November 30, 1988, for purposes of calculating the cash deposit rate.

Department's Position: We have corrected the clerical error of failing to take the length of the loans into account. We have considered and rejected in other Brazilian countervailing duty cases the GOB's claim concerning the propriety of including the IOF tax in our benchmark. See, e.g., *Certain Castor Oil Products From Brazil: Final Results of Countervailing Duty Administrative Review* (48 FR 40534, September 8, 1983). The Brazilian government has provided neither new evidence nor new arguments that convince us to reconsider this issue. We have not taken into account the reduction in the equalization rate because it is our policy to consider only those program-wide changes that occur prior to our preliminary determination, which was published on October 28, 1988.

Comment 3: The GOB argues that loans issued pursuant to the Banco do Brasil's CIC-CREGE 14-11 circular (later modified by circular CIC-OPCRE 6-2-6) do not constitute a government program and, therefore, cannot confer a subsidy on exports of steel wheels. The Banco do Brasil receives no financial support from the GOB for this program and operates the program in a manner

consistent with commercial considerations. Even assuming, *arguendo*, that the program is countervailable, the Department has overstated the benefit by using an incorrect benchmark. The Department has used the discounting of accounts receivable rate in past investigations and administrative reviews because there was no published short-term commercial interest rate information available. In this investigation, the Department should use the "taxa ANBID" rate published in *Gazeta Mercantil*, which it has verified is the general commercial rate for short-term loans. Furthermore, if the Department uses the discounting of accounts receivable as its benchmark, it should adjust its methodology for compounding interest.

Department's Position: We have considered and rejected in other Brazilian countervailing duty cases the GOB's argument concerning whether this program is countervailable. See, e.g., *Final Affirmative Countervailing Duty Determination: Brass Sheet and Strip From Brazil*, (51 FR 40837, November 10, 1986). The Brazilian government has provided neither new evidence nor new arguments that convince us to reconsider this issue. As noted in the discussion in section I(3) of this notice, we have used the "taxa ANBID" rate as our benchmark.

Comment 4: The GOB argues that the Department overstated the benefit attributable to the IPI export credit premium program by dividing the amount of the benefit received on Fumagalli's total exports by the firm's exports to the United States. In addition, the Department verified that Fumagalli will not be eligible for the IPI credit premium on exports made after December 31, 1989. The Department should adjust the deposit rate automatically on January 1, 1990 to reflect this change.

Department's Position: We have corrected our calculation of the benefit from this program by dividing the IPI export credit premiums received on shipments of the subject merchandise to the United States by exports of this merchandise to the United States (see section I(4) of this notice). Regarding Fumagalli's future ineligibility for the IPI export credit premium, it is our policy to take into account only those program-wide changes that occur prior to our preliminary determination. Any program-wide change that is scheduled to occur in 1990 can only be addressed in the context of an administrative review.

Comment 5: The GOB argues that Decree Law 1428, which allows import duty exemptions on imported capital equipment of firms with projects approved by the Conselho de Desenvolvimento Industrial (CDI), is not limited to an industry or group of industries and is therefore, not countervailable.

Department's Position: We disagree. We have found that CDI benefits are provided by the government to specific industries (see section II.B.).

Comment 6: The GOB argues that the Department should adjust the deposit rate to take into account a program-wide change, effective May 18, 1983, whereby the exemption of imported capital equipment from the IPI tax is no longer specifically provided under the BEFIEX and CDI programs and is now generally available.

Department's Position: We disagree. Although we verified that program-wide changes took place, the availability of this exemption is still subject to certain conditions. At this time, we do not have sufficient information to make a determination that this program is not specifically provided and no longer countervailable. For this reason, we are not adjusting the rate of cash deposit of estimated countervailing duties for this program.

Comment 7: The GOB argues that FINEX financing under Resolutions 66 and 509 is not countervailable because the program is consistent with the Arrangement on Guidelines for Officially Supported Export Credits, which is not considered an illegal export subsidy under item (k) of the Illustrative List of Export Subsidies annexed to the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code). The Department verified that the lending rate for FINEX financing is LIBOR plus a spread of 0.5 percent, a rate comparable to commercial lending rates for importers in the United States. Furthermore, the Department verified that, effective January 4, 1989, the FINEX program as suspended. This should be taken into account in any calculation of the rate of cash deposit of estimated countervailing duties.

Department's Position: We disagree. Since the FINEX loans in this case are short-term loans, they are not covered by the Arrangement and, hence, do not fall within the second paragraph of item (k). Regarding the preferentiality of FINEX lending rates, the Banco Central do Brasil (BCB) provides all or some portion of a spread (the equalization fee) above an interest rate based on LIBOR. Exporters and importers were unable to

demonstrate either the value of the spread or the portion of the spread that was retained by the intermediary bank. Therefore, we have assumed that the full benefit from the equalization fee was passed through to the importer. Since Resolution 509 short-term loans are given in U.S. dollars, we maintain that the appropriate benchmark is the average rate for comparable short-term loans in the United States, as published by the Federal Reserve. We have no documentation regarding an average lending rate based on LIBOR. Concerning the suspension of this program, it is our policy to take into account only those program-wide changes that occur prior to our preliminary determination.

Comment 8: The GOB argues that, in alleging an upstream subsidy, petitioner never made an allegation that the GOB's equity infusions in USIMINAS provided a subsidy during the period of review. On this basis, the GOB contends that the statutory requirements for initiating and upstream subsidy investigation were not met on this issue. The GOB further argues that if petitioner intended to imply, by referring to the section 751 administrative review on *Certain Carbon Steel Products from Brazil; Final Results of Countervailing Duty Administrative Review* (52 FR 829; January 9, 1987), that USIMINAS was unequityworthy for the years 1980 through 1984, then petitioner's implied allegation only provides a basis for investigation equity infusions in those years.

Department's Position: We disagree. In making the upstream subsidy allegation, petitioner cites the administrative review on carbon steel products. Petitioner based the allegation on the amount of the domestic subsidies determined in that review. Although the various domestic subsidies were not specifically identified, a clear reading of the results of that review leaves no doubt that petitioner was alleging the existence of equity infusions in an unequityworthy company. Subsidies from equity infusions from 1980 through 1984 were the single largest component of the total domestic subsidy found in that review. With respect to the investigation of equity infusions since 1984, the Department would be remiss in its administration of the countervailing duty law if it did not examine additional equity infusions in a company it had previously determined to be unequityworthy.

Comment 9: The GOB asserts that the Department's determination that USIMINAS was not equityworthy from 1980 through 1984 in the administrative review of carbon steel products was

incorrect and should be reversed. The GOB contends that the methodology employed by the Department in determining the USIMINAS was not equityworthy was erroneous because it: (1) Placed undue reliance on marginal returns on equity in the late 1970s to evaluate long-term future earnings potential; (2) relied on financial ratios that were distorted by the inclusion of expansion project assets not yet in operation; (3) improperly used subsequent operating performance to judge the reasonableness of SIDERBRAS' rate of return expectations at the time the equity was provided; (4) did not address evidence submitted by respondents concerning projections of long-term growth in steel demand in both the domestic Brazilian and international markets; and (5) ignored independent studies by the World Bank and other reputable sources which had favorable views on the prospects of the Stage III project as well as USIMINAS' performance and projected relatively high rates of return in the long-term on the investments made by SIDERBRAS.

The GOB argues that the factors that should be examined in assessing the prospects for future performance include: the long-term market environment, the company's anticipated costs of production, the company's ability to operate efficiently, and the company's ability to operate profitably.

Department's Position: We disagree. We stand by the methodology used in our determination in the administrative review of carbon steel products, which was upheld by the Court of International Trade in *Companhia Siderurgica Paulista, S.A., et al. v. United States*, 700 F. Supp. 38, Slip Op. 88-158, November 9, 1988. Although USIMINAS was not a party to this court proceeding, the methodology used in the administrative review to determine that the GOB's equity infusions in COSIPA, CSN and USIMINAS were countervailable was identical for all three companies.

Comment 10: The GOB argues that the Department incorrectly determined the USIMINAS was not equityworthy from 1980 through 1984. The Department evaluated government investments by SIDERBRAS from the point of view of a private outside investor instead of a private owner-investor. The GOB argues that its motive, as an owner-investor, is to maximize average returns on its past and future investments in USIMINAS, not to maximize marginal returns on investments, as an outside investor would. Therefore, it is unreasonable to expect SIDERBRAS to treat past equity infusions as sunk costs.

The GOB contends that the equity infusions in these years are directly tied to the massive long-term Stage III expansion project undertaken by USIMINAS. The government's decision to invest in Stage III was made in 1975. The decision relied on favorable long-term domestic and international market projections and World Bank appraisals which showed favorable financial returns for the projects. The GOB further contends that if it no longer provided equity, consequently forcing the Stage III project to a halt it would forego the future benefits from the expansion project, and therefore, realize no return on its past investments.

Department's Position: We disagree. Both a rational outside investor and a rational owner-investor make investment decisions at the margin. The relevant question for both types of investors is: What is the marginal rate of return on each cruzeiro/cruzado invested? An investor in USIMINAS does not ignore the potential return from the assets that the company has already acquired. The potential for a favorable return from those assets is an integral part of the investment calculus. However, a rational investor does not let the value of past investments affect present or future investment decisions. The decision to invest is only dependent on the marginal return expected from each additional equity infusion. Therefore, new equity infusions contemplated by investors such as the Brazilian government should not be affected by past investments or sunk costs.

We do not dispute the findings of the long-term market projections or World Bank project reports made in 1975. The GOB designed the Stage III expansion projects as a keystone in its Second National Development Plan (1971-1979). The plan explicitly called for steel investments with the objective of national self-sufficiency by 1979. With an anticipated completion date of 1979, Stage III was designed to supply steel for the Development Plan's large public sector investment program. The decision to sign the contracts for Stage III was based on the national goal of public welfare maximization and not necessarily on commercial considerations.

Although the decision to invest was made in 1975, actual construction began in the late 1970s. By that time, the investment climate had deteriorated, international markets for steel began to decline, and public sector investment dried up. Stage III may still have yielded positive financial returns despite the financial and economic conditions at the

time. However, because a sufficient rate of return on equity depends on the performance of the firm as a whole, an investor will invest based on the rate of return for the entire firm, not the rate of return for an individual project such as Stage III.

Current and anticipated future economic conditions and the effects of massive expansion projects on a steel company are just as important as projected long-term markets in an investor's prediction of USIMINAS' long-term viability and, therefore, the decision to invest in the company. Consistent with the desire to maximize overall profits, a rational owner-investor must constantly reevaluate projects such as Stage III in light of other investment opportunities before determining whether those projects should be continued, delayed or abandoned.

Comment 11: The GOB argues that the Department's evaluation of the performance of USIMINAS during the Stage III expansion program was short-sighted in that it incorrectly focused on financial performance instead of current operating performance. The short-term static financial ratios and overall operating performance that the Department relied on are insufficient measures of long-run investment potential and future company performance.

If the Department continues to depend on short-term indicators, it should adjust USIMINAS' overall operating performance by eliminating nonproductive assets (*i.e.*, assets under construction) and related liabilities from the calculation of the financial ratios. When made, these adjustments reveal a healthy current operating performance for USIMINAS during the periods the Department found the company not equityworthy. More importantly, such adjustments show strong profit margins and asset turnover, current operating performance measures which are fundamental determinants in the rate of return on equity.

The GOB contends that the economic constraints existing in the late 1970s and early 1980s, such as government price increases, high real domestic and international interest rates, a temporary cyclical downturn in the steel market, and lower-than-expected government equity infusions were unanticipated transient problems that were insufficient to cause SIDERBRAS to abandon its long-term investment plans. These transient problems and their effects on the companies are relatively unimportant because they do not have a

direct bearing on the company's long-term prospects.

The GOB believes that the logical conclusion from the evaluation of equityworthiness is that the only problem faced by the firms was undercapitalization, or lack of equity infusions. Therefore, the GOB believes that SIDERBRAS should have infused more, not less, equity into the companies.

Department's Position: We disagree. The most significant factor in determining the required rate of return on an investment is the degree of risk. The greater the risk of the investment, the higher the expected rate of return. From the point of view of an investor, the purchase of equity is highly risky compared to other types of investments.

In contemplating an equity purchase, an investor will evaluate past and present company performance, anticipated future economic conditions, and overall investment climate. Important determinants in the evaluation include the financial stability of the company (*e.g.*, asset structure, funding sources, and risk of insolvency), past earnings, and the amount of financial leverage in the company's capital structure. Therefore, we disagree with the Brazilian government that present and past performance indicators are relatively unimportant in an investment decision.

Investors will also assess the potential future performance of the company. In this case, the GOB undertook a massive expansion program designed to exploit the projected increase in the demand for steel. In evaluating the equityworthiness of USIMINAS, we do not rely exclusively on the future prospects of the expansion project. We also cannot ignore, just as an investor would not have ignored, the effects of such an expansion on the company's present operations and future viability. An investor purchases equity based on the rate of return of the firm as a whole, not on the financial returns from a specific project.

From an investor's point of view, there is no relevant distinction between financial and operating results. Rather, an investor will look to the rate of return on equity, which is primarily a function of three variables: profit margin (*income/sales*), asset turnover (*sales/assets*), and financial leverage (*assets/equity*).

Evaluation on the basis of current operating results (profit margin and asset turnover), without considering nonoperational assets and accompanying liabilities, may be an appropriate approach for managing or

analyzing profit centers with a company. An investor, however, is concerned with the company's overall performance. An investor must evaluate the effects of the Stage III expansion project on the whole company. Nonperforming assets not only drag down overall operating performance, but the chance that they might never come on-stream creates additional uncertainty for future earnings and therefore increases the risk of the investment.

The rate of return on equity equation shows the fundamental interrelationship between financial performance (financial leverage) and operating performance (profit margin and asset turnover). The decision to continue Stage III in the face of inadequate equity infusions from the Brazilian government led to substantial increases in the company's financial leverage. There is a direct relationship between financial leverage and earnings variability. Therefore, both are also directly related to investment risk.

In the late 1970s and early 1980s the Brazilian steel industry was characterized by Stage III construction delays, marginal or negative earnings, and a mounting economic and financial crisis. The lack of funding in the industry became critical. (The GOB had a history of underfunding steel expansion projects.) By 1982, USIMINAS would have required hundreds of millions of dollars in equity to correct its financial position. Although it is now clear that the company were severely undercapitalized, we cannot base our equityworthiness decision on what the financial standing of the company might have been if this were not the case.

USIMINAS responded to its condition in the late 1970s by contracting variable-rate debt at a time of high real interest rates and using increasing amounts of short-term debt. Not only was USIMINAS undercapitalized, but it mismatched long-term assets with expensive short-term debt.

During this time, an investor would have found that USIMINAS was incapable of covering the additional debt expense with internally-generated funds. The company had a low probability of increasing earnings over the short- and medium-term from domestic sales because of the squeeze between supplier price increases and the government's policy of steel price suppression. Further, it became increasingly evident that there was a long-term decline in the world-wide demand for steel, continuing the depression of steel prices in the international market.

A project such as Stage III can have future positive returns only if the

company does not become insolvent. In this case, the continuation of Stage III severely jeopardized USIMINAS' financial standing. Even if we disregard profit margins and asset turnover, we cannot disregard the adverse effects of increased financial leverage on the company's equity standing. The additional risk in the highly leveraged company would have dissuaded any private investor from purchasing equity in USIMINAS during the periods we consider it not to be equityworthy.

Comment 12: The GOB argues that its investments in USIMINAS in 1987 were not on terms "inconsistent with commercial considerations." The investments were part of the SIDERBRAS Restructuring Plan, by which USIMINAS transferred some of its debt to SIDERBRAS. This transfer was reflected as a reduction in long-term and short-term debt and an equal increase in the equity held by SIDERBRAS. The Restructuring Plan also provided for the recapitalization of SIDERBRAS; operational improvements and investments to improve operating efficiency and reduce costs; a commitment to support a realistic pricing policy to allow USIMINAS to recover its costs; and a commitment that SIDERBRAS not undertake investments unless adequate funding is available. The effect of these measures has been to greatly improve the ability of USIMINAS to meet its debt service obligations and earn a reasonable rate of return. A study by independent financial experts has projected substantial returns on equity over the next ten years for USIMINAS. Thus, when the GOB invested additional equity in USIMINAS under the Restructuring Plan, it had a reasonable expectation of a very high real return on its investment.

Department's Position: We disagree. From the perspective of a rational private investor, USIMINAS was no more attractive as a potential investment in 1987 than it was in any of the earlier years in which we determined it to be unequityworthy. Its financial ratios since 1984 indicated no appreciable improvement and, in many areas, had deteriorated. The company had become even more severely leveraged and, in those years in which it did not have a loss, did not demonstrate the ability to generate more than minimal profits.

While the GOB's decision to convert some of USIMINAS' debt to equity clearly addressed one of the basic problems facing USIMINAS, there were still considerable risks associated with any further investment in USIMINAS. The debt conversion was only one

component of the Restructuring Plan, and its success was dependent on other contingencies, such as a proper pricing policy. The suppression of steel prices throughout the 1980s as part of the GOB's policies to counter inflation, and the GOB's failure to provide scheduled equity infusions due to budgetary constraints, led to results considerably different from the attractive rates of return projected for USIMINAS in the studies conducted in relation to earlier investment plans.

In this respect, there is a clear distinction between a reasonable private investor's expectations and those of a government owner-investor. In light of the past, a private investor would have to consider the possibility that future macroeconomic concerns of the GOB could jeopardize any investment in an ailing, if recovering, company, whereas the GOB at any time could decide to renege on its commitments to the improvement of USIMINAS' financial health in favor of national economic and social obligations. In doing so, the GOB might again choose to sacrifice the interests of USIMINAS to some more important public welfare goal.

The GOB refers to a study submitted by independent financial experts to SIDERBRAS in February 1989 evaluating the results of the Restructuring Plan through 1988. This study projects substantial rates of return on equity for USIMINAS as a result of the Restructuring Plan. While the projections of this study may prove accurate, they were not contemporaneous with the Restructuring Plan, and we cannot consider the results of this study to be the basis on which the GOB made its investment decisions in 1987. The GOB provided us with no studies contemporaneous with its investment decision.

Comment 13: The BOG claims that the amounts for "advances for future capital increase" that appear in the "Statement of Changes in Financial Position" are end-of-year amounts that in certain years include interest and monetary correction accrued during the year. Therefore, the GOB argues that the Department should use the OTN rate at the end of the year when converting these amounts into OTN equivalents.

Department's Position: We disagree. Advances for future capital increase are received at various points during the year. It is not apparent from the "Statement of Changes in Financial Position," nor could we verify, that in some years these amounts included interest and monetary correction. We have assumed that the amounts of the

advances that we used for calculating the value of the equity infusions are the nominal amounts received during the year. Therefore, we used the average OTN rate for the year when converting these amounts into OTN equivalents.

Comment 14: Respondents argue that it is inappropriate to include investments made during the year of review when calculating the benefit from equity infusions. Respondents claim that it is improper to assume that the investor would expect a return on equity for investments made during the year equal to the rate of return on investments for a full year. Therefore, respondents argue that the Department should either exclude such equity infusions or calculate a prorated return based on the number of months since the equity infusion was made.

Respondents further argue that, when calculating USIMINAS' loss as a percentage of its total capital, the Department should add back any losses deducted from capital. To do otherwise would overstate the percentage of the loss.

Department's Position: We disagree. Adjusting the rate of return calculation to exclude or prorate equity infusions during the year would either reduce the rate of return on equity in profitable years or increase the rate of loss on equity in unprofitable years. The methodology proposed by respondents runs counter to standard accounting practices in Brazil. By using USIMINAS' total capital (including all equity received and losses incurred), we calculated a negative rate of return for USIMINAS in 1987 that was identical to that reported in the September 1988 edition of *Exams*.

Comment 15: The GOB argues that the Department should change its policy of using as its benchmark a national average rate of return and use instead an average rate of return applicable to heavy industry, thus recognizing the structural differences and increased capital requirements of heavy industries.

Department's Position: We disagree. A national average rate of return is a more accurate reflection of the return that a reasonable investor could expect from a prudent investment than an industry-specific rate. A national average rate of return reflecting the different rates of return and levels of risk in the whole economy is a better benchmark with which to compare rates of return for particular investments. Only by comparing the expected returns and risks across the whole economy can the investor decide where to invest his money most effectively. In contrast, an industry-specific benchmark rate would not serve as a reasonable basis for

comparison because it does not take into account the variety of investment options available to an investor.

Furthermore, the use of an industry-specific average rate of return would be especially inappropriate in this case because a large portion of the steel industry in Brazil is controlled by the government. For this reason, the use of the steel sector rate of return would not provide an objective standard. It is far more reasonable to use the national average rate of return because it includes the rates of return for government-owned firms and private firms as well as for profitable and unprofitable firms.

Comment 16: Respondents argue that the Department should use 1988 as the review period for the upstream subsidy portion of this investigation. Calendar year 1988 is the most recently completed fiscal year prior to the date of the upstream subsidy questionnaire response. Information from 1988 provides the most accurate basis for determining the existence of an upstream subsidy.

Petitioner contends that the Department cannot measure upstream subsidies for a different year than that used for all other subsidies.

Department's Position: We agree with petitioner. We announced in our initiation notice on August 24, 1988 that the period of review was calendar year 1987. We must use the same period for measuring all subsidies because to do otherwise might distort the average benefit we attempt to capture in our "snapshot" view of the firm. Furthermore, we cannot use a review period that did not conclude until after our preliminary determination.

Comment 17: Fumagalli contends that, because the government controls the price of steel, the Department should treat the alleged below-market prices of steel as a direct subsidy, not as an upstream subsidy. Fumagalli notes the Department's practice in a number of cases involving products from Mexico (e.g., *Anhydrous and Aqua Ammonia from Mexico* (48 FR 28322) and *Oil Country Tubular Goods from Mexico* (49 FR 47054)). In those cases, where the Department examined the effect of the Mexican government's price control on natural gas, the Department found that low-priced natural gas was available to a wide variety of users and not limited to a particular industry or group of industries. Since the Brazilian government controls the price of steel, and steel is available to a wide variety of users, the provision of steel at government-regulated prices to wheel producers is analogous to government controls on natural gas prices in Mexico.

Therefore, the Department should analyze both situations in the same way.

Department's Position: The cases that Fumagalli refers to deal with the alleged preferential pricing of inputs, which is a direct subsidy, not an upstream subsidy. The statute includes a special provision for upstream subsidies, as well as a specific three-pronged test for determining whether an upstream subsidy exists. We do not believe that the existence of price controls precludes us from invoking the the upstream subsidy provision (see our response to Comments 18 and 20).

Comment 18: Fumagalli argues that the specificity analysis that applies to any domestic subsidy also applies to upstream subsidies. Thus, an upstream subsidy is only countervailable if the benefit of that subsidy on downstream products is limited "to a specific enterprise or industry, or group of enterprises or industries."

Fumagalli cites *Certain Steel Products from the Federal Republic of Germany* (47 FR 26321), where the petitioner alleged that German steel producers benefited from subsidies provided by the German government to coal producers. In its preliminary determination in that case, the Department found there was no benefit because low-priced coal was not limited to the steel industry but was, in fact, available to a wide variety of users in the FRG.

Fumagalli contends that the legislative history of the Trade and Tariff Act of 1984 makes clear that the upstream subsidy provision did not change basic Department practice regarding subsidies. Congress intended that the specificity test be used to determine whether the low-priced input was made available only to a specific industry or group of industries. In fact, in a letter to Congress, the former Secretary of Commerce indicated that the Department intended the upstream subsidy provision to apply "where an input is provided to a particular industry or group of industries. . . ."

Petitioner argues that it is clear in the statute and in the legislative history that the specificity test applies only at the upstream level (i.e., on the input product). The statute clearly states that the Department is to look at the competitive benefit from the upstream subsidy on the merchandise under investigation. To determine competitive benefit, the Department must compare the price of the input product from the subsidized producer with a benchmark price. In situations where prices of the input product are artificially depressed in the country under investigation, the

statute authorizes the Department to use other sources for the benchmark price, presumably including prices outside the country. This provision would make no sense if there were a specificity requirement at the downstream level.

Department's Position: We agree with the petitioner that a second-tier specificity test is not required in the analysis of upstream subsidies. If Congress had intended to include a separate specificity test, it would have included the same specificity language in the upstream subsidy provision that is included in the definition of domestic subsidy, as provided for in section 771(5)(B) of the Act. Domestic subsidies given directly to the input producer (in this case, the steel producer) must be specifically provided, and domestic subsidies given directly to the downstream producer (in this case, the wheel producers) must be specifically provided, but subsidized inputs purchased by downstream producers need not be specifically provided in order to be countervailable.

The House Conference Report describes an upstream subsidy as a subsidy paid by a government on an input product used to manufacture the merchandise under investigation. The report states, "The potential for an upstream subsidy exists only when a sector-specific benefit meeting all the other criteria of being a subsidy is provided to the input producer." (emphasis added). H.R. Rep. No. 98-1156, 98th Cong., 2nd Sess. 171 (1984). The report makes no mention of a sector-specific requirement for the downstream purchaser of the input product.

Furthermore, the Report indicates that the House Bill included a requirement that the upstream subsidy result in a "price for the intermediate product lower than the generally available price of that product in that country. . . ." but the Conferees agree to " . . . substitute for generally available price determination a determination that the upstream subsidy in the judgment of the administering authority bestows a competitive benefit on the merchandise . . .". This clarifies that Congress considered and rejected the second-tier specificity requirement.

The upstream subsidy provision was intended to codify and strengthen existing practice. See S. Rep. No. 98-485, 98th Cong., 2nd Sess. 33 (1984). Although we found in the preliminary determination on *Certain Steel Products from the Federal Republic of Germany* that subsidies to the coal industry did not benefit the steel industry because the coal was not specifically provided to the steel industry, we abandoned this

analysis in our final determination (47 FR 39345, September 7, 1982). In the final determination, we found that there was no benefit not because the coal was not specifically provided, but because the price of German coal was higher than world market prices. This approach is very similar to the analysis we use to determine the existence of a competitive benefit.

Thus, despite an early flirtation with the idea of a second-tier specificity test, both Congress and the Department in the end rejected this approach in favor of the competitive benefit test.

Comment 18: The GOB argues that, since wheel producers were able to import steel at prices less than the prices paid to USIMINAS, they derived no competitive benefit from any alleged upstream subsidy. Fumagalli provided information showing that hot-rolled coil was available in January 1989 from the Republic of Korea for less than what the wheel producers paid for steel in Brazil. Furthermore, since wheel producers can obtain full reimbursement for any duties paid on imported steel through Brazil's duty drawback system (provided for in Decree-Law NR 37/86 and Decree 68,904/71), the Department should take duty drawback into account when calculating the benchmark price.

Department's Position: Fumagalli cites a price from 1989, and our period of investigation is 1987. We found that Korean prices were on average over 50 percent higher than USIMINAS' prices in 1987. Since the world market benchmark price is higher than the Brazilian price, thus making importation economically impractical, the issue of using an import price adjusted for duty drawback is moot.

Comment 20: Fumagalli argues that the existence of price controls on domestically-sold Brazilian steel makes it impossible for a Brazilian steel producer to pass through the benefit of any subsidies it receives to the downstream purchaser. In an environment where prices are determined by an intervening and superseding cause, such as government price controls, prices will not vary, regardless of the level of subsidization of any individual producer. There is no evidence that the government of Brazil sets prices for any reason other than to control inflation. Thus, absent a causal relationship between the price of steel to wheel exporters and any subsidies received by steel producers, no competitive benefit can be bestowed.

Petitioner contends that controls on the selling price of steel guarantee the pass-through of any upstream subsidy to the downstream producer. Some of the difference between the controlled price

of steel and the market price is accounted for by subsidies to the steel producer. Thus, government subsidies offset differences between the two prices.

Department's Position: We disagree that the existence of price controls renders the pass-through of benefits impossible. Price controls in and of themselves are not dispositive of whether the input was sold at a subsidized price. For example, if there were unsubsidized sellers of the input product subject to the same price controls as subsidized sellers, we would determine that there is no competitive benefits because the downstream producer could have bought the input at the same price from an unsubsidized seller. Conversely, if all sellers of the input product are subsidized and all are subject to the same price controls, we cannot determine whether, or to what extent, prices in the domestic market reflect the subsidies received. In such cases, we resort to world market prices. If the world market price is higher than the domestic price of the subsidized sellers, as in this case, we conclude that the subsidy is built into the price of the input product even if the price is controlled.

Comment 21: Fumagalli contends that, in determining whether the competitive benefit has a significant effect on the merchandise, the Department should calculate the cost of steel as a percentage of the U.S. selling price of the merchandise rather than as a percentage of the cost of production of the merchandise. Fumagalli contends that this is the most accurate measure of the effect of an upstream subsidy on the competitiveness of the merchandise because it captures the degree of underselling of the merchandise in the U.S. market vis-a-vis merchandise sold by competing U.S. firms.

Department's Position: We disagree. Section 771A(a)(3) of the Act clearly states that the Department must examine whether the subsidy on the input product has a significant effect on the "cost of manufacturing or producing the merchandise."

Comment 22: Fumagalli contends that, for purposes of its upstream subsidy analysis, the Department should include general and administrative expenses in its calculation of the cost of manufacturing or producing the merchandise. According to the verification report, the Department calculated the cost of hot-rolled sheet and coil as a percentage of manufacturing costs by erroneously applying its standard practice in antidumping proceedings, in which the

cost of manufacture is interpreted as the cost of production minus general and administrative expenses.

Department's Position: There is no explicit direction in the statute or the legislative history as to how to calculate the cost of manufacturing or producing the merchandise in an upstream subsidy investigation. In this case, we measured the significant effect of the upstream subsidy on the cost of the merchandise based on the cost of manufacture. We have applied our standard practice used in antidumping proceedings of calculating the cost of manufacture by deducting general and administrative expenses from the cost of production. We note that using the cost of production, including general and administrative expenses, would not change the results of our significant effect analysis in this case.

Verification

In accordance with section 776(b) of the Act, we verified the information used in making our final determination. We followed standard verification procedures, including meeting with government and company officials, inspecting documents and ledgers, tracing information in the response to source documents, accounting ledgers and financial statements, and collecting additional information that we deemed necessary for making our final determination.

Suspension of Liquidation

In accordance with our preliminary affirmative countervailing duty determination, published on October 28, 1988, we directed the U.S. Customs Service to suspend liquidation on the products under investigation and to require a cash deposit or bond equal to the duty deposit rate. This final countervailing duty determination was extended, pursuant to section 703(h) of the Act, because of the upstream subsidy investigation. Under Article 5, paragraph 3 of the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code), provisional measures cannot be imposed for more than 120 days without final affirmative determination of injury. Therefore, we instructed the U.S. Customs Service to discontinue the suspension of liquidation on the subject merchandise entered on or after February 27, 1989, but to continue the suspension of liquidation of all entries or withdrawals from warehouse, for consumption, of the subject merchandise entered between October 28, 1988, and February 26, 1989. We will reinstate suspension of

liquidation under section 703(d) of the Act, if the ITC issues a final affirmative injury determination, and require duty deposits on all entries of the subject merchandise in the amounts indicated below:

Manufacturer/producer/exporter	Estimated net subsidy	Duty deposit rate
Bortem, S.A.....	1.82	1.82
All others.....	17.29	17.15

ITC notification

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

If the ITC determines that material injury, or the threat of material injury, does not exist, this proceeding will be terminated and all estimated duties deposited or securities posted as a result of the suspension of liquidation will be refunded or cancelled. If, however, the ITC determines that such injury does exist, we will issue a countervailing duty order, directing Customs officers to assess countervailing duties on all entries of steel wheels from Brazil entered, or withdrawn from warehouse, for consumption, as described in the "Suspension of Liquidation" section of this notice.

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

Date: April 7, 1989.

Timothy N. Bergan,
Acting Assistant Secretary for Import
Administration.

(FR Doc. 89-0180 Filed 4-17-89; 8:45 am)

GILLING CODE 2510-08-11

SUPPLEMENTARY INFORMATION**Background**

On April 18, 1988, the Department of Commerce ("the Department") published in the Federal Register (54 FR 15523) its final affirmative countervailing duty determination on steel wheels from Brazil. After publication of our final determination we received comments from petitioner alleging errors of fact.

Section 1333 of the Omnibus Trade and Competitiveness Act of 1988, which amends section 735 of the Tariff Act of 1930, authorizes Commerce to correct ministerial errors in final determinations.

Ministerial Error

We corrected the following ministerial error:

In the final determination the Department stated that "the petitioner has explicitly indicated that it did not wish to include custom wheels in the scope of the order (October 7, 1988 letter). This statement, which was the sole basis for excluding custom wheels, was incorrect. In fact, the petitioner later stated during the course of the investigation that "custom wheels are a kind of steel wheel which is within the class or kind of merchandise" (October 21, 1988 letter). Therefore, our decision to exclude custom wheels was based on a mistake of fact. We have now revised our determination to take into account the correct facts.

The Department finds no error in its final determination to exclude rims sold as distinct articles of commerce from the scope of the investigation. We continue to maintain that the record demonstrates that petitioner's primary concern is with circumvention of an order through shipment of rims for which section 781 of the Omnibus Trade and Competitiveness Act of 1988 provides sufficient remedies.

Amended Scope of Investigation

We have amended the scope of the investigation as follows:

The products covered by this investigation are steel wheels, assembled or unassembled, consisting of both a disc and a rim, designed to be mounted with both tube type and tubeless pneumatic tires, in wheel diameter sizes ranging from 13.0 inches to 18.5 inches, inclusive, and generally for use on passenger automobiles, light trucks and other vehicles.

Michael J. Courney,

Acting Assistant Secretary for Import Administration.

Dated: April 27, 1989.

[FR Doc. 89-10754 Filed 5-4-89; 8:45 am]

SELLING CODE 3510-08-01

[C-351-802]

Steel Wheels From Brazil; Amendment to Final Affirmative Countervailing Duty Determination

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

ACTION: Notice of amendment to final affirmative countervailing duty determination.

SUMMARY: On April 18, 1988, the Department of Commerce published the final affirmative countervailing duty determination on steel wheels from Brazil. After publication of our final determination, we received comments from petitioner alleging errors. We have corrected the ministerial errors and, accordingly are now amending the scope of that determination to include custom steel wheels.

EFFECTIVE DATE: May 5, 1989.

FOR FURTHER INFORMATION CONTACT: Philip Pia or Paul McGarr, Office of Countervailing Compliance, International Trade Administration, U.S. Department of Commerce, Washington, DC 20230; telephone: (202) 377-2788.

APPENDIX B

LIST OF WITNESSES WHO APPEARED AT THE HEARING

CALENDAR OF PUBLIC HEARING

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

Subject: CERTAIN STEEL WHEELS FROM BRAZIL
Inv. No.: 701-TA-296 (Final)
Date and time: April 20, 1989 - 9:30 a.m.

Sessions were held in connection with the investigation in the Main Hearing Room 101 of the United States International Trade Commission, 500 E Street, S.W., in Washington.

In support of the imposition of
countervailing duties:

Barnes, Richardson and Colburn
Washington, D.C.
on behalf of

Kelsey-Hayes Company

Keith A. Postell, Executive Vice President,
Sales and Marketing, Kelsey-Hayes Corporation

G. J. Brunet, Vice President, Wheel Operations
Kelsey-Hayes Corporation

William S. Linski, Plant Manager,
Kelsey-Hayes Corporation

Douglas D. MacIntyre, Senior Technical Specialist
Fabricated Wheel Engineer, Kelsey-Hayes Corporation

Robert D. Dushaw, Vice President, Marketing,
Kelsey-Hayes Corporation

Joseph F. McCarthy, Corporate Counsel for
Kelsey-Hayes Corporation

James H. Lundquist)
) —OF COUNSEL
Matthew T. McGrath)

In support of the imposition of
countervailing duties:

Dickinson, Wright, Moon, Van Dusen
and Freeman
Washington, D.C.
on behalf of

Motor Wheel Corporation

David Haviland, Director of Marketing,
Motor Wheel Corporation

Bruce A. Tassan)—OF COUNSEL

Steptoe and Johnson
Washington, D.C.
on behalf of

NI Industries, Inc.

Anthony J. LaRocca)—OF COUNSEL (Was present, but did not
testify)

In opposition to the imposition of
countervailing duties:

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

Positrade, Inc.

Bill Alberger)—OF COUNSEL

In opposition to the imposition of
countervailing duties:

Dewy, Ballantine, Bushby, Palmer and Wood
Washington, D.C.
on behalf of

Rockwell International Corporation

Gerald Kern, Director of Marketing,
Rockwell International Corporation

Michael H. Stein--OF COUNSEL

APPENDIX C
CANADIAN OPERATIONS

Table C-1

Standard steel wheels: Production, capacity, and capacity utilization of Canadian production operations of U.S. wheel manufacturers, by firms, 1986-88

* * * * *

Table C-2

Standard steel wheels: Shipments to the United States by producers with U.S. and Canadian production operations, by firms, 1986-88

* * * * *

Table C-3

Income-and-loss experience of Canadian producers on the overall operations of their establishments within which standard steel wheels, steel rims, custom steel wheels, and aluminum wheels are produced, accounting years 1985-88

* * * * *

Table C-4

Income-and-loss experience of Canadian producers on their operations producing standard steel wheels, accounting years 1985-88

* * * * *

APPENDIX D
EFFECTS OF IMPORTS ON U.S. PRODUCERS

*

*

*

*

*

*

*

APPENDIX E

DATA ON PRODUCERS' AND IMPORTERS' REPORTED BIDS
FOR STANDARD STEEL AND ALUMINUM WHEELS

Table E-1

Standard steel wheels: Bid information on contracts to automobile manufacturers submitted by U.S. producers and U.S. importers of Brazilian-produced wheels, for shipments during 1986-89

* * * * *

Table E-2

Aluminum wheels: Bid information on contracts to automobile manufacturers submitted by U.S. producers and U.S. importers of Brazilian-produced wheels, for shipments during 1986-89

* * * * *

APPENDIX F

DATA ON PRODUCERS' AND IMPORTERS' REPORTED SHIPMENTS
PURSUANT TO STANDARD STEEL WHEEL BIDS

Table F-1
Standard steel wheels: Shipments reported by producers and importers of wheels
to OEMs during 1986-88

* * * * *