

# **CHROME-PLATED LUG NUTS FROM THE PEOPLE'S REPUBLIC OF CHINA AND TAIWAN**

Determinations of the Commission in  
Investigations Nos. 731-TA-474-475  
(Final) Under the Tariff Act of 1930,  
Together With the Information  
Obtained in the Investigations

**USITC PUBLICATION 2427**

**SEPTEMBER 1991**

**United States International Trade Commission  
Washington, DC 20436**



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Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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  
Investigations Nos. 731-TA-474 and 475 (Final)

CHROME-PLATED LUG NUTS FROM THE PEOPLE'S  
REPUBLIC OF CHINA AND TAIWAN

Determinations

On the basis of the record<sup>1</sup> developed in the subject investigations, the Commission unanimously determines,<sup>2</sup> pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the act), that an industry in the United States is materially injured by reason of imports from the People's Republic of China and Taiwan of chrome-plated lug nuts, provided for in subheading 7318.16.00 of the Harmonized Tariff Schedule of the United States, that have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

Background

The Commission instituted these investigations effective April 18, 1991, following preliminary determinations by the Department of Commerce that imports of chrome-plated lug nuts from the subject countries were being sold at LTFV within the meaning of section 733(a) of the act (19 U.S.C. § 1673b(a)). Notice of the institution of the Commission's investigations and of a public hearing to be held in connection therewith was given by posting copies of the notices in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notices in the Federal Register of May 8, 1991 (56 F.R. 21390) and June 19, 1991 (56 F.R. 28169). The hearing was held in Washington, DC, on August 1, 1991, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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

<sup>2</sup> Commissioner Rohr not participating.





## VIEWS OF THE COMMISSION

Based on the information obtained in these final investigations, we unanimously<sup>1</sup> determine that an industry in the United States is materially injured<sup>2</sup> by reason of imports of chrome-plated lug nuts from the People's Republic of China (China) and Taiwan.<sup>3</sup>

### I. LIKE PRODUCT AND DOMESTIC INDUSTRY

As a threshold matter in a Title VII investigation, we must make factual determinations with respect to domestic industry and like product. The term domestic industry is defined 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..."<sup>4</sup> In turn, like product is defined as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation..."<sup>5</sup>

The imported articles subject to these investigations are chrome-plated

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<sup>1</sup> Commissioner Rohr did not participate in the investigations.

<sup>2</sup> Material retardation of the establishment of an industry is not an issue in these investigations and will not be discussed herein.

<sup>3</sup> Petitioner in these investigations, Consolidated International Automotive, Inc. (petitioner), is one of the largest U.S. manufacturers of chrome-plated lug nuts. Respondents in these investigations include the China National Machinery & Equipment Import & Export Corporation, Jiangsu Company, Ltd., an exporter of inter alia, chrome-plated lug nuts produced in China (Chinese respondent), and the Coalition for Trade in Wheel Fasteners (Coalition), a group consisting of eight United States importers of chrome-plated lug nuts and two Taiwanese manufacturers of chrome-plated lug nuts.

<sup>4</sup> 19 U.S.C. § 1677(4)(A).

<sup>5</sup> 19 U.S.C. § 1677(10).

lug nuts.<sup>6</sup> Chrome-plated lug nuts are decorative wheel nuts used to secure wheels onto passenger cars, trucks, vans, and utility vehicles. They are primarily found on decorative chrome, steel, or aluminum wheels and are sold either in the aftermarket for custom wheels that consumers buy to customize their vehicles, or to original equipment manufacturers (OEMs) for use on new vehicles.<sup>7</sup> Chrome-plated lug nuts are "exposed" or visible on the decorative wheel, which does not have a hubcap.<sup>8</sup>

Chrome-plated lug nuts are manufactured from steel with a chrome-plated finish.<sup>9</sup> There are two basic styles of chrome-plated lug nuts: the one-piece nut and the two-piece nut.<sup>10</sup> Chrome-plated lug nuts are available in

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<sup>6</sup> The Department of Commerce's Final Determination of Sales at Less Than Fair Value describes the scope of the investigation as:

The merchandise covered by this investigation is one-piece and two-piece lug nuts, finished or unfinished. The subject merchandise includes chrome-plated lug nuts, finished or unfinished, which are more than 11/16 inches (17.45 millimeters) in height and which have a hexagonal (hex) size of at least 3/4 inches (19.05 millimeters) but not over one inch (25.4 millimeters). The term "unfinished" refers to unplated and/or unassembled chrome-plated lug nuts. The subject merchandise is used for securing wheels to cars, vans, trucks, utility vehicles, and trailers. Zinc-plated lug nuts, finished or unfinished, and stainless-steel capped lug nuts are not in the scope of this investigation. Chrome-plated lock nuts are also not subject to this investigation.

56 Fed. Reg. 30130 (July 31, 1991).

<sup>7</sup> Report at A-4.

<sup>8</sup> Id. at 5.

<sup>9</sup> Id.

<sup>10</sup> The one-piece nut can have either a closed or open hexagonal-shaped head, and either a "shank/mag" or a "conical nose/acorn" shaped seat. The two-piece nut features a stamped steel cap, attached to an open hexagonal-shaped head, and a shank/mag or conical nose/acorn-shaped seat. Most of the imported Taiwan lug nuts are two-piece style, most of the Chinese imports are the one-piece style, and the U.S. lug nuts are evenly divided between one-piece and two-piece styles. Id.

two basic categories: for passenger cars and trucks or vans. Within the two basic categories are many variations in size, in terms of the hex diameter, thread size, and length of the nut. Chrome-plated lug nuts may also be "case hardened" or heat treated for extra strength or hardness.<sup>11</sup>

A. Like Product

Our decision regarding the appropriate like product is essentially a factual determination.<sup>12</sup> The Commission applies the standards "like" and "most similar in characteristics and uses" on a case-by-case basis.<sup>13</sup> The Commission generally considers a number of factors in analyzing like product issues including: (1) physical characteristics, (2) end uses, (3) interchangeability, (4) channels of distribution, (5) common manufacturing facilities and production employees, (6) customer or producer perceptions, and, where appropriate, (7) price.<sup>14</sup> No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a given investigation. The Commission looks for clear dividing lines between like products,<sup>15</sup> and has found minor distinctions to be an insufficient basis for finding separate like products.

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<sup>11</sup> Id.

<sup>12</sup> See e.g., Mechanical Transfer Presses from Japan, Inv. No. 731-TA-429 (Final), USITC Pub. 2257 (February 1990), at 5.

<sup>13</sup> Asociacion Colombiana de Exportadores (ASOCOLFLORES), 693 F. Supp. 1165, 1169 (Ct Int'l Trade 1988) (like product issue essentially one to be based on the unique facts of each case).

<sup>14</sup> See, e.g., Certain All-Terrain Vehicles from Japan, Inv. No. 731-TA-388 (Preliminary), USITC Pub. 2071 (March 1988) at 6; ASOCOLFLORES, 693 F. Supp. at 1170 n.8.

<sup>15</sup> 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.

In our preliminary determination, we found there was a single like product consisting of chrome-plated and stainless steel-capped lug nuts.<sup>16</sup> In these final investigations, we again find one like product consisting of all U.S.-produced chrome-plated and stainless steel-capped lug nuts.<sup>17</sup> The record reflects that there is little physical difference between the two types of lug nuts -- the major portion of both types uses the same type of steel and both have the same general appearance.<sup>18</sup> Both are also interchangeable for the purpose of fastening a wheel to a motor vehicle.<sup>19</sup>

The evidence regarding channels of distribution indicates that there is overlap in the manner in which stainless steel and chrome-plated lug nuts are marketed.<sup>20</sup> Over the past decade, petitioner and other U.S. producers of chrome-plated lug nuts have sold to both the aftermarket as well as to OEMs.<sup>21</sup> While this practice is changing as fewer U.S. vehicle manufacturers use chrome-plated lug nuts on original equipment, two U.S. chrome-plated lug nut producers sold to OEMs during the period of investigation.<sup>22</sup> In addition, certain aftermarket purchasers of lug nuts surveyed by the Commission indicated that their customers buy both stainless steel and chrome-plated lug

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<sup>16</sup> Preliminary Determination at 13.

<sup>17</sup> Commissioners Lodwick and Newquist join in this determination of the like product. Acting Chairman Brunsdale sets forth her analysis of the like product issue in her concurring views.

<sup>18</sup> Report at A-6.

<sup>19</sup> Id.

<sup>20</sup> Id.

<sup>21</sup> Id. at A-8 - A-9.

<sup>22</sup> Id.

nuts.<sup>23</sup>

With respect to customer perceptions, the record suggests that automobile dealers frequently purchase decorative wheels to upgrade the vehicles they are selling and that these dealers use either type of lug nut to secure the wheel.<sup>24</sup> In addition, decorative wheels are sold to end users in packages including either type of lug nut.

The information relating to common manufacturing facilities and production employees indicates that stainless steel-capped lug nuts can be produced on the same basic punching machinery as two-piece chrome-plated nuts using the same employees.<sup>25</sup> Indeed, while there is information of considerable expense involved in the retrofitting of such punching machinery,<sup>26</sup> one U.S. manufacturer produces both stainless steel and chrome-plated lug nuts on the same equipment using the same employees with minimal equipment modifications and downtime in shifting production between the two types of lug nuts.

Finally, with respect to prices, the record indicates that producer prices for chrome-plated and stainless steel-capped lug nuts are similar.<sup>27</sup> In sum, we note the absence of a clear dividing line that differentiates chrome-plated and stainless steel-capped lug nuts.

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<sup>23</sup> Id. at A-30.

<sup>24</sup> Transcript of preliminary conference at 80.

<sup>25</sup> Petitioner's Posthearing Br. at 10.

<sup>26</sup> In order to produce stainless steel-capped lug nuts, the punching machines must be retrofitted with distinctive stamping heads which is estimated to cost anywhere between \$40,000 and \$500,000. Transcript of preliminary conference, at 122-25; Transcript of final hearing, at 30-32.

<sup>27</sup> Report at A-28.

As we did in the preliminary investigations, we reject petitioner's arguments that there is a separate like product of only those chrome-plated lug nuts sold in the "aftermarket," i.e. that market created by chrome-plated lug nut purchases by car owners, auto parts businesses and auto dealerships to change the original stock wheels to custom wheels using chrome-plated lug nuts.<sup>28</sup> This determination is based on the practically identical nature of the chrome-plated lug nuts in both the OEM market and the aftermarket, complete similarity of production processes, and the evidence of overlap in the distribution channels of chrome-plated lug nuts. Accordingly, we find that there is simply no basis to support a separate like product of "aftermarket" sales of chrome-plated lug nuts.<sup>29</sup>

#### B. Domestic Industry

Based on our determination concerning the like product, we find that the domestic industry consists of those companies which produce chrome-plated and stainless steel-capped lug nuts.

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<sup>28</sup> Preliminary determination at 14-15.

<sup>29</sup> Petitioner has cited two Commission decisions which it claims provide a basis for the Commission to find that there is a distinct like product based on different channels of distribution. However, both of the cited decisions are inapposite. In 12-Volt Motorcycle Batteries from Taiwan, Inv. No. 731-TA-42 (Final), USITC Pub. 1228 (March 1982), the Commission found separate like products for 12-volt motorcycle batteries, but did so on the basis of different uses and physical characteristics between the two types of batteries. Similarly, in Agricultural Tillage Tools from Brazil, Inv. No. 701-TA-223 (Final), USITC Pub. 1761 (October 1985), the Commission found that there were two like products of disc and other tillage tools, and conducted no analysis whatsoever of the OEM or replacement sales in relation to like product. Petitioner has cited no Commission decision - and we are aware of none - which would create a separate like product based solely on distinct channels of distribution. Indeed, the Commission has rejected arguments for a like product based only on different channels of distribution. See e.g., Aspherical Ophthalmoscopy Lenses from Japan, Inv. No. 731-TA-518 (Preliminary), USITC Pub. 2396 (June 1991) at 9; Generic Cephalixin Capsules from Canada, 731-TA-423 (Final), USITC Pub. No. 2211 (August 1989) at 6.

### C. Related Parties

The related parties provision allows for the exclusion of certain domestic producers from the domestic industry.<sup>30</sup> Under that provision, when a producer is related to exporters or importers of the product under investigation, or is itself an importer of that product, the Commission may exclude such producers from the domestic industry "in appropriate circumstances." Application of the related parties provision is within the Commission's discretion based upon the facts presented in each case.<sup>31</sup>

The Commission generally applies a two-step analysis in determining whether to exclude a domestic producer from the domestic industry under the related parties provision. The Commission considers first whether the company qualifies as a related party under section 771(4)(B), and second whether in view of the producer's related status there are "appropriate circumstances" for excluding the company in question from the definition of the domestic industry.<sup>32</sup> The related parties provision may be employed to avoid any distortion in the aggregate data bearing on the condition of the domestic industry that might result from including related parties whose operations are shielded from the effects of the subject imports.<sup>33</sup>

The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude the related parties include:

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<sup>30</sup> 19 U.S.C. § 1677(4)(B).

<sup>31</sup> *Empire Plow Co. v. United States*, 675 F. Supp. 1348, 1352 (CIT)(1987).

<sup>32</sup> See, e.g., *Commercial Microwave Ovens, Assembled or Unassembled, from Japan*, Inv. No. 731-TA-523 (Preliminary), USITC Pub. 2405 (July 1991) at 12-13.

<sup>33</sup> *Portable Electric Typewriters from Singapore*, Inv. No. 731-TA-515 (Preliminary), USITC Pub. 2388 (June 1991) at 12-13.

- (1) the percentage of domestic production attributable to related producers;
- (2) the reason why importing producers choose to import the articles under investigation (viz., whether they import in order to benefit from the unfair trade practice or in order simply to be able to compete in the domestic market); and
- (3) the competitive position of the related domestic producer vis-a-vis other domestic producers.<sup>34</sup>

The Commission has also considered whether the primary interests of the related producers lie in domestic production or in importation.<sup>35</sup>

As in the preliminary investigation, we again conclude that petitioner should not be excluded from the definition of the domestic industry.<sup>36</sup> We base this determination on the analysis set forth in our preliminary determination.<sup>37</sup> In addition, we find unfounded the Chinese respondent's argument that "appropriate circumstances" exist to exclude petitioner's data because the petitioner allegedly has conspired to control the chrome-plated lug nut market by attempting to arrange exclusive importing arrangements with the Chinese producer during the pendency of this investigation.<sup>38</sup> Petitioner has actively maintained their petition against Chinese imports. Petitioner's

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<sup>34</sup> See, e.g., Thermostatically Controlled Appliance Plugs and Internal Probe Thermostats Therefor from Canada, Japan, Malaysia and Taiwan, Invs. Nos. 701-TA-292, 731-TA-400, 402-404 (Final), USITC Pub. 2152 (June 1989); Granular Polytetrafluoroethylene Resin from Italy and Japan, Invs. Nos. 731-TA-385-386 (Final), USITC Pub. 2112 (December 1987); Rock Salt from Canada, Inv. No. 731-TA-239 (Final), USITC Pub. 1798 (March 1985).

<sup>35</sup> See, e.g., Rock Salt from Canada, Inv. No. 731-TA-239, USITC Pub. 1798 (1986) at 12.

<sup>36</sup> Preliminary determination at 17-18.

<sup>37</sup> Id. at 15-18.

<sup>38</sup> See Transcript of final hearing at 56-58.



vigorous pursuit of an antidumping order<sup>39</sup> is inconsistent with the Chinese respondent's conclusion that petitioner desires to increase its imports of chrome-plated lug nuts from the Chinese. Thus, we find that the alleged discussions between petitioner and the Chinese lug nut producers regarding possible importation in no way constitute "appropriate circumstances" to exclude petitioner's data from the domestic industry.

## II. CONDITION OF THE DOMESTIC INDUSTRY<sup>40</sup>

In assessing the condition of the domestic industry, we consider, among other factors, U.S. production, shipments, capacity, capacity utilization, employment, wages, financial performance, capital investment, and research and development expenditures.<sup>41</sup> No single factor is dispositive, and in each investigation we consider the particular nature of the industry involved and the relevant economic factors which have a bearing on the state of the

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<sup>39</sup> Following the September 3, 1991, Commerce finding of 4.24 percent margins for Chinese chrome-plated lug nuts, Petitioner immediately petitioned Secretary of Commerce Mosbacher for reconsideration pursuant to a letter dated September 6, 1991, filed with the Commission on September 9, 1991.

<sup>40</sup> Acting Chairman Brunsdale joins in this discussion of the condition of the domestic industry. She notes that consistent with her determination regarding the like product, her conclusion regarding the condition of the domestic industry is based on a domestic industry consisting of the producers of only chrome-plated lug nuts. Moreover, she does not reach a separate legal conclusion regarding the presence or absence of material injury based on this information. While she does not believe an independent determination is either required by the statute or useful, she finds the discussion of the condition of the domestic industry helpful in determining whether any injury resulting from dumped or subsidized imports is material. See Certain Light-Walled Rectangular Pipes and Tubes from Taiwan, Inv. No. 731-TA-410 (Final), USITC Pub. 2169 (March 1989) at 10-15 (Views of Chairman Brunsdale and Vice Chairman Cass).

<sup>41</sup> 19 U.S.C. § 1677(7)(C)(iii).

industry.<sup>42</sup>

We determine that the domestic industry in the United States producing chrome-plated and stainless steel-capped lug nuts is materially injured. Because data relating to the condition of the stainless steel-capped lug nut industry is confidential, the combined stainless steel and chrome-plated data can only be discussed in general terms. Set forth below is a discussion regarding the U.S. chrome-plated industry.

U.S. production of chrome-plated lug nuts increased 2.3 percent from 1988 to 1989, but declined 23.4 percent between 1989 and 1990.<sup>43</sup> Capacity utilization for chrome-plated lug nuts decreased annually from 69.8 percent in 1988 to 47.6 percent in 1990.<sup>44</sup> The quantity of U.S. producers' domestic shipments of chrome-plated lug nuts increased 3.6 percent from 1988 to 1989, then declined 18.3 percent in 1990.<sup>45</sup> The value of domestic shipments of chrome-plated lug nuts increased slightly (1 percent) from 1988 to 1989, then declined 13.9 percent in 1990.<sup>46</sup> U.S. producers end-of-period inventories of chrome-plated lug nuts increased 11.4 percent between 1988 and 1989, then decreased by 19.9 percent in 1990.<sup>47</sup>

The number of production and related workers producing chrome-plated lug nuts declined 14.3 percent between 1988 and 1990, while hours worked declined

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<sup>42</sup> See e.g., Mechanical Transfer Presses from Japan, Inv. No. 731-TA-429, (Final), USITC Pub. 2257 (February 1990), at 15-22.

<sup>43</sup> Report at A-10.

<sup>44</sup> Id.

<sup>45</sup> Id. at A-11.

<sup>46</sup> Id.

<sup>47</sup> Id. at A-12.

in the same period.<sup>48</sup> Wages and total compensation paid increased during the period of investigation. Productivity increased by 21.2 percent in 1989, then declined by 20.6 percent in 1990.<sup>49</sup> Financial and investment data for the reporting U.S. producers of chrome-plated lug nuts are confidential business proprietary information. The confidential financial data supports our conclusion that the domestic chrome-plated lug nut industry is suffering injury.<sup>50</sup>

Set forth below is the combined data reflecting such injury relating to the domestic industry of chrome-plated and stainless steel-capped lug nuts (referred collectively herein as "lug nuts"). Because much of the information describing the condition of the domestic industry is business proprietary information, we are able to discuss this information in general terms only.

U.S. production, shipments and capacity utilization of lug nuts declined between 1988 and 1990.<sup>51</sup> The number of production and related workers producing lug nuts and their hours worked declined from 1988 to 1990.<sup>52</sup> Income and loss experience and gross profits on operations for the lug nut industry supports our finding that the domestic industry is materially injured.<sup>53</sup>

Based on the forgoing and the information in the confidential staff

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<sup>48</sup> Id. at A-13.

<sup>49</sup> Id.

<sup>50</sup> We note, however, that we have discounted to a certain extent the petitioner's profit and loss data based on the facts set forth in the Confidential Staff Report at A-26 - A-27.

<sup>51</sup> Id. at A-10.

<sup>52</sup> Id. at A-13.

<sup>53</sup> Id. at A-14 - A-17.

report, we determine that the domestic industry in the United States producing chrome-plated and stainless steel-capped lug nuts is materially injured.

### III. CUMULATION

The Commission is required to assess cumulatively the volume and price effect of imports from two or more countries of like products subject to investigation if such imports compete with one another and with the like product of the domestic industry in the United States market.<sup>54</sup> In assessing whether imports compete with each other and with the domestic like product, the Commission has generally considered four factors, including:

(1) the degree of fungibility between the imports from different countries and between imports and the domestic like product, including consideration of specific customer requirements and other quality related questions;

(2) the presence of sales or offers to sell in the same geographical markets of imports from different countries and the domestic like product;

(3) the existence of common or similar channels of distribution for imports from different countries and the domestic like product; and

(4) whether the imports are simultaneously present in the market.<sup>55</sup>

While no single factor is determinative, and the list of factors is not exclusive, these factors are intended to provide the Commission with a framework for determining whether the imports compete with each other and with

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<sup>54</sup> 19 U.S.C. § 1677(7)(iv).

<sup>55</sup> See Certain Cast-Iron Pipe Fittings from Brazil, the Republic of Korea, and Taiwan, Invs. Nos. 731-TA-278-280 (Final), USITC Pub. 1845 (May 1986), aff'd, Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898 (Ct. Int'l Trade 1988), aff'd, 859 F.2d 915 (Fed. Cir. 1988).

the domestic like product.<sup>56</sup>

We find that imports of chrome-plated lug nuts from Taiwan and China should be cumulated for purposes of causation. We reject the Chinese respondent's assertions regarding the distinctions between Chinese one-piece and Taiwan two-piece case-hardened chrome-plated lug nuts. The one-piece Chinese and two-piece chrome-plated lug nuts from Taiwan are virtually identical in appearance and for the most part completely fungible. Moreover, imports of chrome-plated lug nuts from Taiwan and the China compete with each other and the domestic chrome-plated lug nuts in the same channels of distribution.<sup>57</sup> Both the imported products and the domestic like products are marketed in the same geographic areas within a reasonably coincident period.<sup>58</sup>

Thus, we are not persuaded that there is no meaningful competition among imports subject to investigation and the domestic like product and we, therefore, cumulatively assess the price and volume effects of all imports subject to investigation.

#### IV. MATERIAL INJURY BY REASON OF THE IMPORTS<sup>59</sup>

Under 19 U.S.C. § 1673b(a), the Commission must determine whether an industry in the United States is materially injured by reason of the subject imports. Material injury is "harm which is not inconsequential, immaterial or unimportant." 19 U.S.C. § 1677(7)(A). The Commission may take into account

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<sup>56</sup> See *Wieland Werke, AG v. United States*, 718 F.Supp. 50 (Ct. Int'l Trade 1989); *Granges Metallverken AB v. United States*, 716 F.Supp. 17 (Ct. Int'l Trade 1989); *Florex v. United States*, 705 F.Supp. 582 (Ct. Int'l Trade 1989).

<sup>57</sup> Report at A-26 - A-31.

<sup>58</sup> *Id.*

<sup>59</sup> Acting Chairman Brunsdale does not join in this discussion of material injury. Her discussion of this issue are set forth in her concurring views.

information concerning other causes of harm to the domestic industry, but it is not to weigh causes.<sup>60</sup> The imports need only be a cause of material injury.<sup>61</sup> The Commission should consider all relevant factors and conditions of trade in making its determination.<sup>62</sup>

Discussion of the impact of imports from China and Taiwan with respect to the domestic industry of chrome-plated and stainless steel-capped lug nuts is precluded as it would reveal business proprietary information. We find that the confidential record supports our conclusion that the subject imports are a cause of material injury to the domestic industry. Set forth below is the record evidence relating to imports of chrome-plated lug nuts and the domestic chrome-plated lug nut industry.

U.S. imports of chrome-plated lug nuts from China and Taiwan increased annually, rising 61.0 percent between 1988 and 1990.<sup>63</sup> The share of the U.S. chrome-plated lug nut market supplied by domestic producers dropped from 50.7 percent in 1988 to 35.1 percent in 1990.<sup>64</sup> The value of U.S. imports from both Taiwan and China also increased by 62.0 percent during the same period.<sup>65</sup> Significantly, during the same period of this rapid increase in imports, the U.S. domestic industry evidenced sharp downturns in its performance

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<sup>60</sup> S. Rep. No. 249, 96th Cong. 1st Sess. 57-58, 74 (1979).

<sup>61</sup> See e.g., LMIM-LA Metalli Industriale, S.p.A. v. U.S., 712 F.Supp. 959, 971 (Ct. Int'l Trade 1989).

<sup>62</sup> 19 U.S.C. § 1677(7)(C)(iii) (Supp. 1989).

<sup>63</sup> Report at A-22.

<sup>64</sup> Id. at A-23.

<sup>65</sup> Id. at A-22.

indicators.<sup>66</sup>

U.S. imports from China increased 92.8 percent from 3.2 million units in 1988 to 6.2 million units in 1990.<sup>67</sup> U.S. imports from Taiwan increased from 3.1 million units in 1988 to 14.2 million units in 1990, an increase of 360.2 percent.<sup>68</sup> Imports of chrome-plated lug nuts from Taiwan increased considerably from 9.1 percent of apparent U.S. consumption of chrome-plated lug nuts in 1988 to 49.8 percent in the January-March 1991 interim period.<sup>69</sup> Imports of chrome-plated lug nuts from China increased from 9.4 percent of apparent U.S. consumption of chrome-plated lug nuts in 1988 to 17.9 percent 14.9 percent in 1990, before falling to 5.2 percent in the January-March 1991 interim period.<sup>70</sup>

Prices for bulk sales of domestic chrome-plated lug nuts increased slightly from 1988 to 1991, while prices for bulk sales of Chinese lug nuts remained relatively constant. Prices of imported lug nuts from Taiwan fluctuated during the same period, increasing slightly in two out of three categories of lug nuts.<sup>71</sup> Prices of stainless steel-capped lug nuts fluctuated during the period of investigation.<sup>72</sup>

In the majority of cases where comparisons were possible, prices for Chinese chrome-plated lug nuts were lower than prices for U.S.-produced

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<sup>66</sup> Id. at A-9 - A-17.

<sup>67</sup> Id. at A-22.

<sup>68</sup> Id.

<sup>69</sup> Id. at A-23.

<sup>70</sup> Id.

<sup>71</sup> Id. at A-26 - A-28.

<sup>72</sup> Id. at A-28.

chrome-plated lug nuts. The Chinese products were priced lower than the U.S. products during 52 of 59 quarters for which comparisons were available.<sup>73</sup> In the majority of cases where comparisons were possible, U.S. prices were lower than Taiwan prices. U.S. chrome-plated lug nuts were priced lower than Taiwan chrome-plated lug nuts during 38 of 52 quarters for which comparisons were available.<sup>74</sup>

The generally higher prices for Taiwan chrome-plated lug nuts are explained by the fact that the majority of Taiwan chrome-plated lug nuts were the case-hardened variety.<sup>75</sup> The Chinese and U.S. chrome-plated lug nuts generally are not case hardened.<sup>76</sup> In addition, some purchasers surveyed indicated that chrome-plated nuts from Taiwan were offered with liberal credit terms and were of a higher quality than U.S.-produced chrome-plated lug nuts.<sup>77</sup>

The price premium for case hardening make direct price comparisons with U.S.-produced chrome-plated lug nuts difficult.<sup>78</sup> Representatives of Taiwan producers and importers of Taiwan chrome-plated lug nuts testified that the case-hardening process alone added up to 5 cents to the selling price.<sup>79</sup> The

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<sup>73</sup> Id. at A-29.

<sup>74</sup> Id. at A-30.

<sup>75</sup> Id. at A-28.

<sup>76</sup> Id.

<sup>77</sup> Id. at A-31.

<sup>78</sup> Chinese imports and the bulk of U.S. production are non-hardened chrome-plated lug nuts and were sold without unconditional guarantees. As such, direct pricing comparisons between Chinese and most of the U.S. chrome-plated producers is possible.

<sup>79</sup> Transcript of preliminary conference at 116.



record indicates that in 30 out of 39 quarters for three select chrome-plated lug nuts, the Taiwan products were priced at less than five cents more per lug nut than the U.S. prices.<sup>80</sup> Given the value of the case hardening of the Taiwan product, we find that such pricing data reflect underselling of Taiwan chrome-plated lug nuts.<sup>81</sup>

We find that there has been persistent underselling by both Chinese and Taiwan chrome-plated lug nuts. Petitioner indicated that lug nuts are price sensitive, and the difference of a quarter cent a lug nut has been enough for it to lose a sale.<sup>82</sup> The petitioner also stated that it lowered its prices significantly on two types of chrome-plated lug nuts between January-March 1990 and January-March 1991, but still had its sales of these types of lug nuts decrease considerably.<sup>83</sup> Accordingly, we find that the underselling by Chinese and Taiwan lug nuts has depressed the price that the domestic industry can seek and obtain for its chrome-plated lug nuts. These price effects resulted in both a lower volume of business and lower profitability for domestic producers on the volume of business they did obtain, with consequent loss of scale economies and diminution of product development and research expertise.

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<sup>80</sup> Report at A-26 - A-28.

<sup>81</sup> In Phototypesetting and Imagesetting Machines and Subassemblies thereof from the Federal Republic of Germany, Inv. No. 731-TA-456 (Preliminary), USITC Pub. 2281 (May 1990), at 27, the Commission analyzed underselling by examining the practice of importers including extras, in that case, a Macintosh computer at one low all-inclusive cost. The Commission noted that such a methodology was important where point-to-point price comparisons are problematic.

<sup>82</sup> Petitioner's Prehearing Brief, at 16.

<sup>83</sup> Id. at 18.

In sum, we find that the significant increase of the subject imports which occurred simultaneously with material injury to the domestic industry, together with underselling by both Chinese and Taiwan lug nuts, demonstrate that the subject imports were a cause of material injury to the U.S. industry.

CONCURRING VIEWS OF ACTING CHAIRMAN ANNE E. BRUNSDALE  
Chrome Plated Lug Nuts From the People's Republic of China and Taiwan

Inv. No. 731-TA-474 and 475 (Final)

I agree with my colleagues that an industry in the United States is being materially injured by reason of dumped lug nuts from China and Taiwan. I am writing separately to explain my disagreement with the majority's inclusion of stainless steel lug nuts in the like product and to provide my usual microeconomic analysis of the key question of causation.

I. Domestic Like Product

In Polyethylene Terephthalate Film, Sheet and Strip from Japan and the Republic of Korea, Invs. Nos. 731-TA-458 and 459 (Final) USITC Pub. 2383 (May 1991), I explained why I thought we could improve our like product analysis by refining our usual six, seven, or eight part test to focus instead on whether dumping would induce significant substitution between the potential like products by either producers or consumers. In analyzing like product questions in this way, we can more accurately identify the products that will be significantly and directly affected by any dumping of the articles subject to investigation.

In the preliminary investigation, I joined my colleagues in including stainless steel lug nuts in the like product because the best evidence in the record showed "that stainless steel lug nuts can be produced on the same basic equipment which is used to make two-piece chrome plated lug nuts." Chrome-Plated Lug Nuts from the People's Republic of China and Taiwan, Invs. Nos. 731-

TA-474 and 475 (Preliminary), USITC Pub. 2342 (Dec. 1990) at 12. The record in the preliminary investigation also showed "that many end users do not perceive differences between chrome-plated and stainless steel capped lug nuts." Id. at 11. The more complete evidence in the final investigation has forced me to change my mind.

The best evidence now indicates that chrome-plated and stainless steel lug nuts are not easily interchangeable from the standpoint of producers. The physical differences between chrome-plated and stainless steel lug nuts require different tooling. Our final report states that the processes are "similar," A-6, but fails to include the undisputed testimony of both domestic and foreign producers that they cannot easily switch production from one type of lug nut to another. The key difference lies in the cap of the stainless steel lug nut, which requires a welding technique that is not needed to make chrome-plated lug nuts. Petitioner's Posth. Br. at 10. This technique is subject to a patent and, unsurprisingly, only the patent-holder makes both stainless steel and chrome-plated lug nuts. Moreover, manufacturers of chrome-plated lug nuts would have to retool to make stainless steel lug nuts. They estimated that the cost of this retooling at between \$40,000 and \$500,000. Hearing Tr. at 30-32. In this industry, neither of these figures is a trivial amount.

The evidence assembled in the final investigation also indicates that stainless steel and chrome-plated lug nuts are not

perceived by those who actually use them to be as substitutable as I first thought. In 1990, over 95 percent of chrome-plated lug nuts were sold in the aftermarket, and almost all stainless steel lug nuts were sold to original equipment manufacturers. It is true that both types of lug nut are used to attach a wheel to a car, are made out of steel, and look a lot alike. Op. at 6. However, U.S. car makers have almost entirely moved toward stainless steel lug nuts because of the tendency of chrome-plated lug nuts to chip and rust (presumably during the assembly process). A-9. In contrast, individuals and small businesses that customize cars have a strong preference for chrome-plated lug nuts, which are apparently somewhat more attractive to the trained eye. Whatever may have been the case "[o]ver the past decade," op. at 6, the record shows that as of now the markets for chrome-plated and stainless steel lug nuts seem to have diverged. But see p. 29, infra, at n.4. It does not matter whether the different preferences among lug nut buyers make sense to us. What matters is the commercial reality that there is a distinct market for chrome-plated lug nuts whose participants do not find, for whatever reason, that stainless steel lug nuts are a close substitute.

The facts produced in the final investigation show that our definition of the like product in the preliminary determination was too broad. The best evidence now available shows that the like product should be limited to chrome-plated lug nuts, and the domestic industry should thus be limited to the producers of

chrome-plated lug nuts in the United States.<sup>1</sup>

## II. Material Injury by Reason of Dumped Imports

Those who follow Commission proceedings are aware that my analysis of causation in title VII cases differs from that of my colleagues. In determining whether or not a domestic industry is materially injured by reason of dumped imports, I consider, as the statute directs, the volume and prices of the subject imports, the effects of these imports on the price in the United States of the like product, and the effects on the domestic industry producing the like product. See 19 U.S.C. Section 1677(7)(B). As is obvious from these statutory factors, and as I have stated so often in the past,<sup>2</sup> a coherent and transparent analysis of the kind demanded by the statute requires me to assess the domestic market and understand the role of the subject imports within that market. I frankly cannot tell what effect

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<sup>1</sup> I join in the majority's rejection of petitioner's argument that the few chrome-plated lug nuts sold to car makers should not be included in the like product. They are produced exactly like the chrome-plated lug nuts sold in the aftermarket and buyers view them as completely interchangeable.

<sup>2</sup> See, e.g., Sparklers from China, Inv. No. 731-TA-464 (Final), USITC Pub. 2387, at 19-20 (June 1991) (Concurring Views of Acting Chairman Anne E. Brunsdale); Residential Door Locks and Parts Thereof from Taiwan, Inv. No. 731-TA-433 (Final), USITC Pub. 2253, at 33-36 (January 1990) (Additional Views of Chairman Anne E. Brunsdale); Electrical Conductor Aluminum Redraw Rod from Venezuela, Invs. Nos. 701-TA-287 (Final) and 731-TA-378 (Final), USITC Pub. 2103, at 42-46 (August 1988) (Dissenting Views of Chairman Anne E. Brunsdale); and Color Picture Tubes from Canada, Japan, the Republic of Korea, and Singapore, Invs. Nos. 731-TA-367-370 (Final), USITC Pub. 2046, at 23-32 (December 1987) (Additional Views of Vice Chairman Anne E. Brunsdale).

dumped or subsidized imports have on a domestic industry simply by looking at the trends in volume and price, whether in absolute or relative terms. Not all sales of dumped or subsidized imports materially harm a domestic industry. They may, for example, meet the demand for low-quality, low-priced versions of domestically produced goods; or displace undumped and unsubsidized imports from other countries. But they also may deprive a domestic industry of a significant amount of sales revenue.

Deducing the effects that particular imports cause requires a deeper understanding of the market for the products involved than a mere description of various trends. Only by gauging the actual reactions of producers and consumers of a product to the imports being investigated can one begin to untangle causation from coincidence in the marketplace. This can only be done by economic analysis. Economic analysis involves little more than organizing and evaluating the evidence in the record in a way that permits me to assess the impact of the dumped imports in a rigorous fashion. It allows me to analyze in a direct way the volume effect, the price effect, and the overall impact of the dumped imports on the domestic industry as the law specifically and unambiguously requires. 19 U.S.C. Section 1677(7)(B).

(A) The Volume and Prices of the Imports. What makes this a fairly close case is a combination of relatively large combined market share and very small dumping margin. The market share by value of dumped lug nuts from Taiwan was 31.0 percent in 1990 (the most recent year for which we have complete data); the

market share for lug nuts from the PRC was 9.5 percent. A-23.<sup>3</sup> Their market shares based on quantity were even larger -- almost half the market for chrome-plated lug nuts.

Such a large market share suggests that injury is likely, but to gauge the effect of the dumped imports on domestic prices and quantities fully, one also needs to know what a "fair" price for these imports, calculated under title VII, would be. This is what the Commerce Department does in calculating the dumping margin. In this case, the margins are very low -- an average of 7.12 percent for the Taiwanese imports, and only 4.24 percent for the PRC imports. In other words, if sold at a "fair" price, Taiwanese lug nuts would be on average 7.12 percent, and PRC lug nuts 4.24 percent, more expensive than they are currently.

(B) The Effect of the Imports on Domestic Prices. The effect of these dumped lug nuts on the U.S. market is not determined by the volume of such imports and the dumping margin alone. One must place the imports and the prices at which they are sold

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<sup>3</sup> The figures in the staff report include all sales of chrome-plated lug nuts in the aftermarket, as well as sales of U.S. chrome-plated lug nuts to original equipment manufacturers. However, they omit the sales, if any, of fairly traded imports to original equipment manufacturers. PRC and Taiwanese chrome-plated lug nut manufacturers appear to produce only for sale to the aftermarket, and the overwhelming proportion of U.S. chrome-plated lug nut sales are in the aftermarket as well. However, Japanese carmakers, unlike U.S. carmakers, still use chrome-plated lug nuts. A-9. Since there are a number of Japanese companies now making cars in the United States, it is quite possible that they import lug nuts from Japan for use in this country. (A significant portion of the relatively small number of U.S. chrome-plated lug nuts that are sold to original equipment manufacturers are sold to these Japanese plants. Id.) However, there is no concrete evidence of such imports on the record.



in the context of the domestic market in which they compete. This requires an examination of the decrease in the quantity of lug nuts that would be sold if the price of the product rose -- the elasticity of demand -- and the degree of substitutability between the dumped and domestic lug nuts.

The staff estimates that demand for chrome-plated lug nuts is fairly inelastic, probably falling in a range of between .5 and 1. Economic Memorandum, INV-O-174, at 17. The reason for this is that the cost of lug nuts is a tiny fraction of the cost of custom wheels and an even tinier fraction of the cost of an entire car. This makes it unlikely that consumers would buy more lug nuts if their price fell, or fewer if their price rose. Moreover, although stainless steel lug nuts would seem to be substitutable for chrome-plated ones from a purely functional viewpoint, the fact that 95 percent of decorative lug nut sales in the aftermarket are of chrome-plated lug nuts indicates that, for whatever reason, consumers have a strong preference for chrome-plated lug nuts, one unlikely to be overcome by small changes in price. I therefore conclude that the elasticity of demand is more likely to fall toward the bottom of the range suggested by staff.

In contrast, the elasticities of substitution among U.S., Taiwanese, and PRC lug nuts are probably quite high. The staff estimate is that they all fall within the range of 5-10. Economic Mem., supra, at 15-16; Final Briefing Tr. at 7. The factors that affect substitutability show no great differences among the

lug nuts from various countries. All chrome-plated lug nuts function in the same way and are marketed with about the same conditions of sale (although there is some evidence that the lead time for shipments of U.S. lug nuts on the spot sale market can be made more rapidly than imported lug nuts). Economic Mem. at 15. Most Taiwanese and Japanese lug nuts are heat-treated, and there is evidence that some buyers perceive this as increasing the quality of the product. A-25. This may be reflected in the slightly higher price that both domestic and imported heat-treated lug nuts command in the market. Economic Mem. at 16. I conclude that the elasticities of substitution between Japanese and Taiwanese lug nuts, and between PRC and U.S. lug nuts, are probably at the higher end of the staff's estimated range. The elasticities of substitution between U.S. and Taiwanese, and between Japanese and PRC, lug nuts are probably toward the lower end.

A small dumping margin usually indicates that dumped imports are not causing material injury; while a large market share and a relatively high degree of substitutability usually indicate that they are. In close cases like this, I consider seriously the staff's analysis of the effect on the domestic industry's revenues when these various factors are all taken into account. This analysis is in the form of estimates of the price and volume effects of the dumping using the Comparative Analysis of the Domestic Industry's Condition (CADIC) computer program. In this investigation, cumulating the estimated effects of dumped imports

from the PRC and Taiwan over the entire range of elasticities discussed above shows that the domestic industry probably suffered revenue losses of between 7-15 percent. Using what I have characterized above as the most likely elasticities, the revenue effects cluster around an estimated revenue loss of approximately 9-11 percent.<sup>4</sup>

Given the weakened condition of this industry, a revenue loss of this size means that dumped lug nuts from the PRC and Taiwan are, in my view, causing material injury to the domestic chrome-plated lug nut industry. See 19 U.S.C. Section 1677(7)(B). I therefore join my colleagues in their affirmative determination.

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<sup>4</sup> The CADIC estimates also indicate that most of the revenue loss comes from a decline in sales volume, rather than in sales price. This is consistent with the high level of unused capacity and existing inventory levels the final investigation revealed. See A-10, A-12. See also Economic Mem. at 8 (estimating domestic supply elasticity between 5 and 10).



A-1

**INFORMATION OBTAINED IN THE INVESTIGATIONS**



## INTRODUCTION

Following a preliminary determination by the U.S. Department of Commerce (Commerce) that imports of chrome-plated lug nuts<sup>1</sup> from the People's Republic of China (China) and Taiwan are being, or are likely to be, sold in the United States at less than fair value (LTFV) (56 F.R. 15857, Apr. 18, 1991), the U.S. International Trade Commission (Commission), effective April 18, 1991, instituted investigations Nos. 731-TA-474 and 475 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such merchandise. Subsequently, Commerce extended the date for its final determinations in the investigations from June 24, 1991, to July 25, 1991, for Taiwan and to September 3, 1991, for China.

Notice of the institution of the Commission's investigations and the revision of its schedule to conform to Commerce's new schedule was posted in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and published in the Federal Register on May 8, 1991 (56 F.R. 21390) and June 19, 1991 (56 F.R. 28169).<sup>2</sup> The Commission's hearing was held in Washington, DC, on August 1, 1991.<sup>3</sup> The Commission voted on these investigations on September 11, 1991, and reported its final injury determinations to Commerce on September 13, 1991, the statutory deadline for Taiwan.

## BACKGROUND

These investigations result from a petition filed by Consolidated International Automotive, Inc. (CIA), Los Angeles, CA, on November 1, 1990, alleging that an industry in the United States is materially injured and threatened with material injury by reason of LTFV imports of chrome-plated lug nuts from China and Taiwan. In response to that petition, the Commission instituted investigations Nos. 731-TA-474 and 475 (Preliminary) under section 733 of the act and, on December 17, 1990, notified Commerce that there was a reasonable indication of such material injury. The Commission has conducted no previous investigations on chrome-plated lug nuts.

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<sup>1</sup> For purposes of these investigations, chrome-plated lug nuts include one-piece and two-piece lug nuts, finished or unfinished, which are more than 11/16 inches (17.45 mm) in height and which have a hexagonal (hex) size of at least 3/4 inches (19.05 mm) but not over 1 inch (25.4 mm). The term "unfinished" refers to unplated or unassembled chrome-plated lug nuts. The subject merchandise is used for securing wheels to cars, vans, trucks, utility vehicles, and trailers. Chrome-plated lock nuts and lug nuts plated with other substances are not included in these investigations.

<sup>2</sup> Copies of cited Federal Register notices are presented in app. A.

<sup>3</sup> A calendar of witnesses who appeared at the Commission's hearing is presented in app. B.

## NATURE AND EXTENT OF LTFV SALES

Commerce determined that the final LTFV margin for China was 4.24 percent. The period of Commerce's investigation was May 1, 1990, through October 31, 1990.

With respect to Taiwan, Commerce determined that the final LTFV margins were 11.57 percent for San Shing Hardware Works Co., Ltd., 6.57 percent for Gourmet Equipment (Taiwan) Corp., and 7.12 percent for all others. The period of Commerce's investigation was May 1, 1990, through October 31, 1990. Commerce made a negative determination with respect to critical circumstances for both countries.

## THE PRODUCT

### Description and Uses

Chrome-plated lug nuts are decorative wheel nuts manufactured from steel with a chrome-plated finish. There are two basic styles of chrome-plated lug nuts: the one-piece nut and the two-piece nut. The one-piece nut can have either a closed or open hexagonal-shaped head, and either a "shank/mag" or a "conical nose/acorn" shaped seat. The two-piece nut features a stamped steel cap, attached to an open hexagonal-shaped head, and a shank/mag or conical nose/acorn-shaped seat. Most of the imported Taiwan lug nuts are two-piece style, most of the Chinese imports are one-piece style, and the U.S. nuts are evenly divided between one-piece and two-piece styles.

Chrome-plated lug nuts are available in two basic categories: for passenger cars and for trucks or vans. There is some overlap in end uses between these categories. Within the two basic categories are many variations in size, in terms of the hex diameter, thread size, and length of the nut. Lug nuts may also be "case hardened" or heat treated for extra strength or hardness.<sup>4</sup>

Based on information received during the preliminary investigations, 90 percent of the imported Taiwan nuts are for passenger cars, whereas \*\*\* percent of the imported nuts from China are for passenger cars, and 75 percent of the domestically produced nuts fall into the passenger car category. Although most of the Taiwan lug nuts are case hardened, most of the U.S.-produced nuts and virtually all of the Chinese nuts are not heat treated.

Chrome-plated lug nuts are used to secure wheels onto passenger cars, small and medium size trucks, and vans. They are mostly found on decorative chrome, steel, or aluminum wheels and are sold either in the aftermarket for custom wheels that consumers buy to "customize" their vehicles, or to original equipment manufacturers (OEMs) for use on new vehicles. Chrome-plated lug

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<sup>4</sup> According to Mr. Durham McCauley, executive vice president of McGard Inc., there is no perceived value in case hardening a mild steel lug nut. Mr. McCauley further stated that the only thing gained is a marketing tool. Transcript of hearing (Tr.), p. 40.



nuts are "exposed" or visible on the decorative wheel, which does not have a hubcap.

Depending on the size and type of wheel, the number of lug nuts per wheel typically ranges from 4 to 5 and, again typically, there is one chrome-plated lock nut on each wheel as a theft-prevention device. Chrome-plated lock nuts are not subject to these investigations.

### Manufacturing Process

The manufacturing process for chrome-plated lug nuts differs according to style of nut (one-piece or two-piece) and hardness, and, to some degree, by national origin. However, despite the variations in manufacturing process, all chrome-plated lug nuts perform the same end use.

Domestically produced one-piece nuts are manufactured using a six-spindle automatic screw machine, fed by leaded, cold-finished, hexagonal steel bar stock (12L14). The screw machine performs the following metal-forming operations to form the metal lug nut: blanking, rough forming, shaving, tapping (threading), and cutting. Following the metal forming, the lug nuts are cleaned by a barrel machine containing caustic soap solution, which rids them of metal scrap and oil residue. Next, the lug nuts are polished using an automatic metal-grinding conveyer machine to smooth out the surface and provide better adhesion for the plating process. After polishing, the lug nuts are manually loaded onto dipping racks, and the racks are placed on automatic conveyors that dip them into vats containing various nickel and chromium solutions. The plating material is about 95 percent nickel and about 5 percent chromium. The chrome-plated lug nuts are then loaded into cardboard boxes for shipping.

The domestic-manufactured two-piece nuts are formed on an automatic progressive-heading machine, which has six stations performing blanking, rough-forming, and piercing operations. The header is fed by cold-heading-quality steel wire (1010). After the heading operations, the nuts are transferred to a bent-shank tapping machine for threading. They are then cleaned with a caustic soap solution. Meanwhile, the caps are manufactured on an automatic press from thin carbon steel strip, after which they are cleaned in a caustic soap solution. The caps and nuts are then assembled on a press and transferred to plating racks. From then on the manufacturing process is identical to that for the one-piece nut.

The domestically produced case-hardened or heat-treated chrome-plated lug nuts are manufactured on screw machines using heat-treatable alloy steel bar stock. The only U.S. manufacturer of case-hardened nuts is McGard, Inc. They are then cleaned and loaded into a vacuum heat-treatment furnace for hardening, after which they are again cleaned in a caustic solution. The lug nuts are then sent through a tempering furnace, which improves the ductility of the steel. Next, the lug nuts are polished in vibratory tumblers and the heads are polished on an automatic metal-grinding conveyer machine. The nuts are then loaded onto racks for chrome-plating, after which they are heat treated once again. Finally they are loaded into bubble packs for shipment.

The manufacturing process for the one-piece chrome-plated lug nut in China involves the use of automatic lathes (instead of automatic screw machines as in the United States) to form the metal parts from steel. Instead of using one machine with six sections, the Chinese use six automatic lathes for metal forming. The remainder of the manufacturing process in China is similar to the process used in the United States. The process for manufacturing two-piece lug nuts in Taiwan and in China is very similar to the U.S. process, except that most Taiwan two-piece lug nuts are case hardened, whereas only one U.S. producer uses heat treatment, and then only for one-piece nuts.

### Substitute Products

During the preliminary investigations, evidence received by the Commission supported a finding for those investigations that the appropriate like product consisted of both chrome-plated and stainless steel-capped lug nuts. The factors considered by the Commission in the preliminary investigations included the similarity of physical appearance, interchangeability, use, overlapping channels of distribution, similarity of equipment and manufacturing processes used, and similarity of price. When possible, this report includes information and data for chrome-plated and stainless steel lug nuts combined, as well as for chrome-plated lug nuts separately.

Both chrome-plated and stainless steel-capped lug nuts perform the same function and are used on decorative custom wheels without hubcaps. Both types are exposed, or visible on the wheel. Both have a shiny luster finish, although the chrome-plated nuts have a more brilliant finish than the stainless steel nuts. Only one U.S. company produces both chrome-plated and stainless steel nuts. While the channels of distribution overlap to some extent, stainless steel nuts are sold primarily to OEMs,<sup>5</sup> whereas chrome-plated nuts are sold primarily to wholesalers and distributors (aftermarket). The manufacturing processes and prices of stainless steel nuts and chrome-plated nuts are similar, although different equipment and tooling are required to produce the respective caps.<sup>6</sup>

Black anodized lug nuts<sup>7</sup> or "black chrome" lug nuts are also used on decorative wheels. Black nuts are sold to both OEMs and the aftermarket but constitute a very small percentage \*\*\* of each. Black nuts are manufactured using the same basic manufacturing process as chrome-plated lug nuts, although the black chrome application process is different. Retail prices for black nuts are similar to chrome-plated nuts. Data for imports of black chrome nuts

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<sup>5</sup> Key began production of chrome-plated lug nuts in 1990 for sales to the OEM market. According to Mr. Guillod, vice president for marketing and sales, Key got into the production of chrome-plated lug nuts because all of the Japanese vehicles utilize chrome-plated decorative wheel nuts versus stainless steel-capped decorative wheel nuts, Tr., p. 26.

<sup>6</sup> Petitioner's posthearing brief, p. 10.

<sup>7</sup> The Commission did not include black anodized lug nuts in its preliminary like-product definition.

are included with data for all chrome-plated nuts. There are no known U.S. producers of black chrome nuts.

The zinc-plated standard wheel nut used by OEMs on standard wheels with hubcaps is also used to secure wheels onto vehicles. However, the zinc-plated standard nut is designed to be concealed beneath a hubcap on a standard steel wheel, which explains its dull appearance. Chrome-plated and stainless steel lug nuts are designed to be exposed on custom steel, aluminum, or chrome wheels. Zinc-plated and chrome-plated nuts are produced by different companies, are sold in different channels of distribution, have different prices, and are perceived by consumers to be two different products.

#### U.S. Tariff Treatment

Chrome-plated lug nuts are provided for in Harmonized Tariff Schedule of the United States (HTS) subheading 7318.16.00. The column 1-general rate of duty on products of all countries eligible for most-favored-nation (MFN) status is 0.2 percent ad valorem. Imports from China and Taiwan are dutied at MFN rates.

#### THE U.S. INDUSTRY

##### U.S. Producers

Five firms, A & A Screw Products, CIA, Franzco, Key, and McGard, currently manufacture chrome-plated lug nuts in the United States, and two firms, Horizon and Key, produce stainless steel lug nuts. One firm, Horizon, ceased production of chrome-plated lug nuts in 1988, and another firm, Huron, ceased such production in 1990. Key, which began production of chrome-plated lug nuts in 1990, is the largest producer of stainless steel lug nuts, accounting for an estimated \*\*\* percent of U.S. production of stainless steel lug nuts. A & A Screw Products did not respond to the Commission's questionnaire in either the preliminary or final investigations; however, the firm accounts for \*\*\* percent of U.S. production. The producers, locations of production facilities, share of 1990 production of chrome-plated lug nuts, and position on the petition are presented in table 1.

The petitioner, CIA, imported chrome-plated lug nuts from China in 1989 but ceased its imports in April 1990. In 1989, the ratio of its imports of Chinese lug nuts to its total U.S. shipments of both domestic and imported chrome-plated lug nuts was \*\*\* percent. CIA's imports accounted for \*\*\* percent of total imports from China in 1989. CIA's reported reason for importing lug nuts from China was to round out its product line.

McGard, Inc., produces heat-treated chrome-plated lug nuts for the aftermarket, specializing in racing applications. \*\*\*. The McGard lug nuts are completely interchangeable with CIA's and the imported Chinese and Taiwan lug nuts.

Table 1

Chrome-plated lug nuts: U.S. producers, plant locations, estimated share of domestic production in 1990, and position on the petition, by firms

<u>Firm</u>	<u>Plant location</u>	<u>Share of production</u> <u>Percent</u>	<u>Position on petition</u>
A & A Screw Products...	South El Monte, CA	***	***
CIA.....	Los Angeles, CA	***	Supports
Franzco.....	Garden Grove, CA	***	***
Huron.....	Lexington, MI	***	***
Key.....	Royal Oak, MI	***	***
McGard.....	Orchard Park, NY	***	***
Total.....		100.0	

<sup>1</sup> Accounts for \*\*\* percent of U.S. production.

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

#### U.S. Importers

The Commission received questionnaire responses from seven firms that imported chrome-plated lug nuts from China and Taiwan. The responding firms accounted for 91 percent of U.S. imports of chrome-plated lug nuts from those sources in 1990.

#### Channels of Distribution

Demand for lug nuts depends upon wheel and automobile sales and may be influenced by the condition of the overall economy.<sup>8</sup> Demand for chrome-plated lug nuts depends largely on wheel and lug nut sales in the aftermarket, while the demand for stainless steel-capped lug nuts depends largely on OEM sales.<sup>9</sup> Chrome-plated lug nuts are sold through various channels of distribution. The majority of both U.S.-produced and imported lug nuts are sold to wholesalers/distributors who then sell the lug nuts to tire stores, chain automotive stores, and jobbers. A smaller percentage are sold directly from the producer or importer to the tire or chain automotive stores. A still smaller amount of domestic and imported chrome-plated lug nuts are sold directly to OEMs.<sup>10</sup>

<sup>8</sup> For example, petitioner states that demand for chrome-plated lug nuts has been countercyclical in the past, tending to increase during recession periods as owners upgrade their existing cars rather than buy new vehicles. Petition, p. 2. On the other hand, industry experts at the preliminary conference stated that sales of chrome-plated lug nuts declined in the past year or so, as the economy has slowed.

<sup>9</sup> Horizon sells \*\*\* percent of its stainless steel lug nuts to OEMs, and Key sells \*\*\* percent of its total lug nuts to OEMs.

<sup>10</sup> In general, producers and importers that sell to the OEM market tend not to sell in the aftermarket (and vice versa).

Most suppliers sell chrome-plated lug nuts in the aftermarket. Domestic OEMs tend to use either stainless steel or the standard zinc-plated open-end lug nuts, rather than chrome-plated ones. However, \*\*\* U.S. producers, \*\*\*, reported that they have sold chrome-plated lug nuts to OEMs during the period of the investigations.<sup>11</sup> \*\*\*. Key began production of chrome-plated lug nuts only after the Japanese manufacturers, which use primarily chrome-plated nuts, began production in North America.<sup>12</sup> \*\*\* reported that the chrome-plated lug nuts that go to \*\*\* are not specific to the OEM market and could also be sold to wholesalers/distributors. \*\*\* sold a small amount of chrome-plated lug nuts to \*\*\* for use on the \*\*\*. Those lug nuts were specifically made for the \*\*\* and could not be used on other cars. \*\*\* reported that it generally does not use decorative lug nuts although it has used a small amount on some vehicles.<sup>13</sup> \*\*\*, \*\*\*, and \*\*\* all stated that U.S. OEMs switched from chrome-plated lug nuts to stainless steel lug nuts several years ago, mainly because the chrome-plated lug nuts tend to chip and rust.<sup>14</sup>

OEMs typically purchase lug nuts on an as-needed basis pursuant to multiyear contracts. Contracts are based on a set price and estimated quantities.<sup>15</sup> After an OEM has determined the requirements for the desired lug nut, it solicits bids from a number of lug nut producers. The producers develop the likely costs of production of the lug nut and submit a bid, offering a price and quantity commitment to obtain all or a portion of the contract. Typically, bids are closed; however, suppliers generally know who they are competing against. Usually a supplier is given only one chance to offer a bid to supply a contract.

#### CONSIDERATION OF ALLEGED MATERIAL INJURY TO AN INDUSTRY IN THE UNITED STATES<sup>16</sup>

##### U.S. Capacity, Production, and Capacity Utilization

U.S. capacity to produce chrome-plated lug nuts increased 3.2 percent from 25.5 million units in 1988 to 26.3 million units in 1989, and continued to increase in 1990, rising an additional 11.3 percent to 29.2 million units, as presented in table 2. U.S. capacity to produce both chrome-plated and stainless steel lug nuts increased annually, rising \*\*\* percent from \*\*\* million units in 1988 to \*\*\* million units in 1990.

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<sup>11</sup> One importer, \*\*\*, reported that it sells a very small amount (about \*\*\* percent) of its chrome-plated lug nuts to OEMs.

<sup>12</sup> Tr., p. 26.

<sup>13</sup> \*\*\*.

<sup>14</sup> The chrome plating is often chipped when the lug nut is secured with a wrench.

<sup>15</sup> Actual quantities supplied can vary significantly from initial estimated quantities.

<sup>16</sup> Unless noted otherwise, data presented in this section of the report account for virtually all of the U.S. production of chrome-plated lug nuts and 100 percent of the U.S. production of stainless steel lug nuts.

Table 2

Chrome-plated and stainless steel lug nuts: U.S. average-of-period capacity, production, and capacity utilization, 1988-90, January-March 1990, and January-March 1991

Item	1988	1989	1990	January-March--	
				1990	1991
Chrome-plated lug nuts:					
Capacity (1,000 nuts).....	25,456	26,280	29,250	6,961	6,584
Production (1,000 nuts).....	17,773	18,187	13,932	2,715	2,019
Capacity utilization (percent).....	69.8	69.2	47.6	39.0	30.7
Stainless steel lug nuts:					
Capacity (1,000 nuts).....	***	***	***	***	***
Production (1,000 nuts).....	***	***	***	***	***
Capacity utilization (percent).....	***	***	***	***	***
Total:					
Capacity (1,000 nuts).....	***	***	***	***	***
Production(1,000 nuts).....	***	***	***	***	***
Capacity utilization (percent).....	***	***	***	***	***

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

U.S. production of chrome-plated lug nuts increased 2.3 percent from 17.8 million units in 1988 to 18.2 million units in 1989, then declined 23.4 percent to 13.9 million units in 1990. Total production of chrome-plated and stainless steel lug nuts increased from \*\*\* million units in 1988 to \*\*\* million units in 1989, an increase of \*\*\* percent, then declined \*\*\* percent to \*\*\* million units in 1990.

Capacity utilization for chrome-plated lug nuts decreased annually from 69.8 percent in 1988 to 69.2 percent in 1989 and to 47.6 percent in 1990. Total capacity utilization for chrome-plated and stainless steel lug nuts declined annually from \*\*\* percent in 1988 to \*\*\* percent in 1990.

#### U.S. Producers' Domestic Shipments

The quantity of U.S. producers' domestic shipments of chrome-plated lug nuts increased 3.6 percent from 17.2 million units in 1988 to 17.8 million units in 1989, then declined 18.3 percent to 14.6 million units in 1990 (table 3). U.S. producers' domestic shipments of both chrome-plated and stainless steel lug nuts declined from \*\*\* million units in 1988 to \*\*\* million units in 1990, a decline of \*\*\* percent.

Table 3

Chrome-plated and stainless steel lug nuts: Domestic shipments of U.S. producers, 1988-90, January-March 1990, and January-March 1991

Item	1988	1989	1990	January-March--	
				1990	1991
Chrome-plated lug nuts:					
Quantity (1,000 nuts).....	17,235	17,850	14,584	3,853	2,819
Value (1,000 dollars).....	5,036	5,077	4,370	1,075	843
Unit value (per nut).....	\$0.29	\$0.28	\$0.30	\$0.28	\$0.30
Stainless steel lug nuts:					
Quantity (1,000 nuts).....	***	***	***	***	***
Value (1,000 dollars).....	***	***	***	***	***
Unit value (per nut).....	\$***	\$***	\$***	\$***	\$***
Total:					
Quantity (1,000 nuts).....	***	***	***	***	***
Value (1,000 dollars).....	***	***	***	***	***
Unit value (per nut).....	\$***	\$***	\$***	\$***	\$***

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

The value of domestic shipments of chrome-plated lug nuts increased slightly (1 percent) from \$5.0 million in 1988 to \$5.1 million in 1989, then declined 13.9 percent to \$4.4 million in 1990. The average unit value of producers' shipments declined from 29 cents per lug nut in 1988 to 28 cents in 1989, then increased to 30 cents in 1990. The total value of U.S. producers' domestic shipments of chrome-plated and stainless steel lug nuts \*\*\*.

There were no company transfers by the U.S. producers during the period of investigation and \*\*\* reported exports, which totaled \*\*\* units valued at \$\*\*\* in 1990. There were no other exports during the period.

#### U.S. Producers' Inventories

U.S. producers' end-of-period inventories of chrome-plated lug nuts increased 11.4 percent from 3.0 million units in 1988 to 3.3 million units in 1989, then decreased 19.9 percent to 2.6 million units in 1990. The ratio of inventories to shipments increased from 17.2 percent in 1988 to 18.5 percent in 1989 and decreased to 18.1 percent in 1990 (table 4).

Total end-of-period inventories of chrome-plated and stainless steel lug nuts \*\*\*. The ratio of inventories to shipments \*\*\*.

Table 4

Chrome-plated and stainless steel lug nuts: U.S. producers' inventories as of Dec. 31, 1988-90 and Mar. 31, 1990-91

Item	As of Dec. 31--			As of Mar. 31--	
	1988	1989	1990	1990	1991
Chrome-plated lug nuts:					
Inventories (1,000 nuts)....	2,960	3,297	2,642	2,157	1,807
Share of domestic shipments (percent).....	17.2	18.5	18.1	14.0	16.0
Stainless steel lug nuts:					
Inventories (1,000 nuts)....	***	***	***	***	***
Share of domestic shipments (percent).....	***	***	***	***	***
Total:					
Inventories (1,000 nuts)....	***	***	***	***	***
Share of domestic shipments (percent).....	***	***	***	***	***

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

#### Employment and Productivity

The number of production and related workers producing chrome-plated lug nuts declined 14.3 percent from 56 in 1988 to 48 in 1990 (table 5). Hours worked declined 12.2 percent from 115,000 hours in 1988 to 101,000 hours in 1989, and remained the same in 1990. Wages paid increased by less than one percent from 1988 to 1989, then increased 8.5 percent in 1990. Total compensation paid increased 2.2 percent from 1988 to 1989, then increased an additional 20.0 percent in 1990. Hourly wages paid increased 13.9 percent from \$6.10 in 1988 to \$6.95 in 1989, then rose 8.5 percent to \$7.54 in 1990. Productivity increased by 21.2 percent in 1989, then declined by 20.6 percent in 1990. Unit labor costs remained steady at \$0.04 per lug nut in 1988 and 1989, then increased to \$0.06 in 1990.

The number of production and related workers producing chrome-plated and stainless steel lug nuts declined \*\*\* percent from \*\*\* in 1988 to \*\*\* in 1990 (table 6). Hours worked declined \*\*\* percent from \*\*\* hours in 1988 to \*\*\* hours in 1990. Wages paid \*\*\*. Total compensation paid \*\*\*. Hourly wages paid increased \*\*\* percent from \$\*\*\* in 1988 to \$\*\*\* in 1990. Productivity increased \*\*\* percent from 1988 to 1989 then declined \*\*\* percent in 1990. Unit labor costs remained steady at \$\*\*\* per lug nut from 1988 to 1989, then increased to \$\*\*\* in 1990.

Production workers of three of the chrome-plated lug nut producers are represented by unions. \*\*\*. Three firms reported reductions in their workforce during the investigation period. \*\*\*.



Table 5

Chrome-plated lug nuts: Average number of production and related workers, hours worked,<sup>1</sup> wages and total compensation paid,<sup>2</sup> hourly wages, labor productivity, and unit labor costs, 1988-90, January-March 1990, and January-March 1991

Item	1988	1989	1990	January-March--	
				1990	1991
Number of production and related workers (PRWs).....	56	49	48	38	32
Hours worked by PRWs (thousands).....	115	101	101	19	20
Wages paid to PRWs (1,000 dollars).....	701	702	762	177	208
Total compensation paid to PRWs (1,000 dollars).....	714	730	876	199	257
Hourly wages paid to PRWs....	\$6.10	\$6.95	\$7.54	\$9.32	\$10.40
Productivity (nuts per hour).....	142.4	172.6	137.0	167.6	155.3
Unit labor costs (per nut)...	\$0.04	\$0.04	\$0.06	\$0.06	\$0.07

<sup>1</sup> Includes hours worked plus hours of paid leave time.

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

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

Table 6

Total chrome-plated and stainless steel lug nuts: Average number of production and related workers, hours worked, wages and total compensation paid, hourly wages, labor productivity, and unit labor costs, 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

#### Financial Experience of U.S. Producers

Financial information was provided by four U.S. producers. CIA and Franzco produce chrome-plated lug nuts, Horizon produces stainless steel lug nuts, and Key, the largest producer of stainless steel lug nuts, initiated production of chrome-plated lug nuts in 1990. These companies accounted for \*\*\* percent of chrome-plated lug nut production in 1990 and \*\*\* percent of combined lug nut production in 1990. All of the producers provided income-and-loss data on their overall establishment operations and all except \*\*\* provided separate data for the subject lug nuts.

#### OVERALL ESTABLISHMENT OPERATIONS

All of these companies produce other products within their establishments. \*\*\*. The share of total establishment net sales accounted

for by chrome-plated and stainless steel lug nuts is shown in the following tabulation (in percent):

\* \* \* \* \*

Income-and-loss data for the producers' establishments are presented in table 7.

Table 7

Income and loss experience of U.S. producers on the overall operations of their establishments within which chrome-plated lug nuts and/or stainless steel lug nuts are produced, fiscal years 1988-90, January-March 1990, and January-March 1991<sup>1 2</sup>

Item	1988	1989	1990	January-March	
				1990	1991
	Value (1,000 dollars)				
Net sales.....	33,530	37,451	32,672	9,505	6,148
Cost of goods sold.....	23,631	28,444	24,451	7,447	5,364
Gross profit.....	9,899	9,007	8,221	2,058	784
Selling, general, and administrative expenses.....	3,861	4,307	4,273	1,063	935
Operating income or (loss).....	6,038	4,700	3,948	995	(151)
Interest expense.....	1,263	1,215	1,254	316	255
Other income or (loss), net.....	174	(322)	96	27	(190)
Net income or (loss) before income taxes.....	4,949	3,163	2,790	706	(596)
Depreciation and amorti- zation included above.....	1,128	1,204	1,234	310	357
Cash flow (deficit) <sup>3</sup> .....	6,077	4,367	4,024	1,016	(239)
	Share of net sales (percent)				
Cost of goods sold.....	70.5	75.9	74.8	78.3	87.2
Gross profit.....	29.5	24.1	25.2	21.7	12.8
Selling, general, and administrative expenses.....	11.5	11.5	13.1	11.2	15.2
Operating income or (loss).....	18.0	12.5	12.1	10.5	(2.5)
Net income or (loss) before income taxes.....	14.8	8.4	8.5	7.4	(9.7)
	Number of firms reporting				
Operating losses.....	0	0	1	1	1
Net losses.....	0	0	0	0	1
Data.....	4	4	4	4	4

<sup>1</sup> The producers are CIA, Franzco, Horizon, and Key.

<sup>2</sup> Fiscal years for all four producers currently end December 31; years prior to 1990 for CIA ended October 31.

<sup>3</sup> 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.

**CHROME-PLATED LUG NUTS**

Combined income-and-loss data for the two major chrome-plated lug nut producers (CIA and Franzco) are presented in table 8. \*\*\*.

\* \* \* \* \*

Table 8

Income-and-loss experience of U.S. producers on their operations producing chrome-plated lug nuts, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

Income-and-loss data on CIA's chrome-plated lug nut operations are presented in table 9. \*\*\*

Table 9

Income-and-loss experience of CIA on its operations producing chrome-plated lug nuts, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

**CHROME-PLATED AND STAINLESS STEEL LUG NUTS<sup>17</sup>**

Combined income-and-loss data for the four lug nut producers (CIA, Franzco, Horizon, and Key) are presented in table 10. Selected income-and-loss data for each of the four producers are presented in table 11.

**INVESTMENT IN PRODUCTIVE FACILITIES**

The producers' investment in property, plant, and equipment is presented in table 12. Combined assets and rates of return are not included \*\*\*.

**CAPITAL EXPENDITURES**

Reported capital expenditures are presented in table 13.

**RESEARCH AND DEVELOPMENT EXPENSES**

R&D expenses for chrome-plated and stainless steel lug nuts are presented in table 14.

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<sup>17</sup> \*\*\*.

Table 10

Income and loss experience of Key on the overall operations of its establishment within which stainless steel and chrome-plated lug nuts are produced, Horizon on its operations producing stainless steel lug nuts, and CIA and Franzco on their operations producing chrome-plated lug nuts, fiscal years 1988-90, January-March 1990, and January-March 1991<sup>1</sup>

	January-March--				
Item	1988	1989	1990	1990	1991
	Value (1,000 dollars)				
Net sales.....	26,050	25,953	23,486	6,986	4,428
Cost of goods sold.....	18,274	19,495	19,111	5,766	4,188
Gross profit.....	7,776	6,458	4,375	1,220	240
Selling, general, and administrative expenses.....	3,068	3,239	3,213	788	740
Operating income or (loss).....	4,708	3,219	1,162	432	(500)
Interest expense.....	1,069	920	1,114	267	256
Other income or (loss), net.....	196	(44)	463	117	(45)
Net income or (loss) before income taxes.....	3,835	2,255	511	282	(801)
Depreciation and amorti- zation included above.....	898	1,016	1,071	270	319
Cash flow (deficit) <sup>2</sup> .....	4,733	3,271	1,582	552	(482)
	Ratio of net sales (percent)				
Cost of goods sold.....	70.1	75.1	81.4	82.5	94.6
Gross profit.....	29.9	24.9	18.6	17.5	5.4
Selling, general, and administrative expenses.....	11.8	12.5	13.7	11.3	16.7
Operating income or (loss).....	18.1	12.4	4.9	6.2	(11.3)
Net income or (loss) before income taxes.....	14.7	8.7	2.2	4.0	(18.1)

<sup>1</sup> Fiscal years for all four producers currently end December 31; years prior to 1990 for CIA ended October 31.

<sup>2</sup> 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 11

Selected income-and-loss data of Key on the overall operations of its establishment within which stainless steel and chrome-plated lug nuts are produced, Horizon on its operations producing stainless steel lug nuts, and CIA and Franzco on their operations producing chrome-plated lug nuts, by firms, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

Table 12

Chrome-plated and stainless steel lug nuts: Value of assets and return on assets, by firms, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

Table 13

Chrome-plated and stainless steel lug nuts: Capital expenditures, by firms, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

Table 14

Chrome-plated and stainless steel lug nuts: Research and development expenses, by firms, fiscal years 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

#### CAPITAL AND INVESTMENT

The Commission requested U.S. producers to describe any actual or potential negative effects of imports of chrome-plated lug nuts from China and Taiwan on their existing development and production efforts, growth, investment, and ability to raise capital. Their responses are shown in appendix C.

#### 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<sup>18</sup>--

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<sup>18</sup> 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."

(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,

(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.<sup>19</sup>

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 entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged material injury" and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts (item (X)) is presented in the section entitled "Consideration of alleged material injury to an industry in the United States." Available information on U.S. inventories of the subject products (item (V)); foreign producers' operations, including the potential for "product-shifting" (items (II), (VI), and (VIII) above); any other threat indicators, if applicable (item (VII) above); and any dumping in third-country markets, follows. The other threat indicators are not an issue in these investigations.

#### U.S. Importers' Inventories

U.S. importers' end-of-period inventories of Chinese lug nuts increased 69.6 percent from 1.2 million units in 1988 to 2.1 million units in 1989, then increased 20.9 percent to 2.5 million units in 1990 (table 15). As a ratio to imports, inventories increased from 38.8 percent in 1988 to 41.8 percent in 1989, then declined to 41.2 percent in 1990.

End-of-period inventories of lug nuts from Taiwan increased 74.4 percent from 1.1 million units in 1988 to 1.8 million units in 1989, then increased 111.0 percent to 3.9 million units in 1990. As a ratio to imports, inventories declined from 34.1 percent in 1988 to 22.4 percent in 1989, then increased to 27.3 percent in 1990.

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<sup>19</sup> 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."

Table 15

Chrome-plated lug nuts: Importers' inventories of Chinese- and Taiwan-produced products as of Dec. 31, 1988-90 and Mar. 31, 1990-91

Item	As of Dec. 31--			As of Mar. 31--	
	1988	1989	1990	1990	1991
China:					
Inventories (1,000 nuts)....	1,241	2,105	2,545	421	604
Ratio of inventories to imports (percent).....	38.8	41.8	41.2	7.8	2.4
Taiwan:					
Inventories (1,000 nuts)....	1,053	1,836	3,875	2,935	4,616
Ratio of inventories to imports (percent).....	34.1	22.4	27.3	19.6	25.0

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

#### Ability of Foreign Producers to Generate Exports and the Availability of Export Markets other than the United States

Information supplied by counsel for the China National Machinery & Equipment Import & Export Corporation (CMEC)/Jiangsu Co. Ltd. are presented in table 16. CMEC/Jiangsu's data account for \*\*\* percent of Chinese production and exports to the United States.<sup>20</sup> Data regarding additional producers or exporters are unavailable.<sup>21</sup>

The capacity to produce chrome-plated lug nuts by CMEC/Jiangsu increased \*\*\* percent from \*\*\* million units in 1988 to \*\*\* million units in 1989, then declined \*\*\* percent to \*\*\* million units in 1990. Production followed the same trend as the Lu Dong factory reportedly produced chrome-plated lug nuts at \*\*\*. All of CMEC's/ Jiangsu's production was exported to the United States during 1988-90.

Table 16

Chrome-plated lug nuts: Chinese capacity, production, and exports, 1988-90, January-March 1990, January-March 1991, and projected 1991-92

\* \* \* \* \*

<sup>20</sup> CMEC/Jiangsu is an exporter, not a producer, of chrome-plated lug nuts. All of CMEC/Jiangsu's lug nuts are purchased directly from the producer, Lu Dong Grease Gun Factory, which is a separate company not controlled by CMEC/Jiangsu. All information in this section of the report which relates to the production of chrome-plated lug nuts was provided to CMEC/Jiangsu by Lu Dong Grease Gun Factory.

<sup>21</sup> The Commission has not yet received a reply to the telegram sent to the American Embassy in China requesting such data.



Information on the industry in Taiwan was supplied by counsel for San Shing Hardware Works Company, Ltd. and San Chien Electric Industrial Works, Ltd., and is presented in table 17.

Table 17

Chrome-plated lug nuts: Taiwan's capacity, production, and exports, 1988-90, January-March 1990, January-March 1991, and projected 1991-92

\* \* \* \* \*

Capacity to produce chrome-plated lug nuts in Taiwan increased annually from \*\*\* million units in 1988 to \*\*\* million units in 1990. Production also increased annually, rising from \*\*\* million units in 1988 to \*\*\* million units in 1990. Capacity utilization increased from \*\*\* percent in 1988 to \*\*\* percent in 1989, then declined to \*\*\* percent in 1990. Exports to the United States accounted for \*\*\* percent of production in 1988 and 1989, and for \*\*\* percent in 1990.

#### CONSIDERATION OF THE CAUSAL RELATIONSHIP BETWEEN IMPORTS OF THE SUBJECT MERCHANDISE AND THE ALLEGED MATERIAL INJURY

##### U.S. Imports

U.S. imports of chrome-plated lug nuts are not separately reported in official statistics. Based on \*\*\*, firms that responded to the Commission's importer's questionnaire accounted for 91 percent of U.S. imports from China and Taiwan in 1990. Data in this section of the report are based on those questionnaire responses.

U.S. imports of chrome-plated lug nuts increased annually, rising 61.0 percent from 16.7 million units in 1988 to 26.9 million units in 1990. U.S. imports from China increased 92.8 percent from 3.2 million units in 1988 to 6.2 million units in 1990. U.S. imports from Taiwan increased from 3.1 million units in 1988 to 14.2 million units in 1990, or by 360.2 percent (table 18).

The value of U.S. imports also increased annually, rising 62.0 percent from \$3.3 million in 1988 to \$5.3 million in 1990. The average unit value of imports increased from 19 cents in 1988 and 1989 to 20 cents in 1990.

Table 18

Chrome-plated lug nuts: U.S. imports for consumption, by specified sources, 1988-90, January-March 1990, and January-March 1991

Source	1988	1989	1990	January-March--	
				1990	1991
Quantity (1,000 lug nuts)					
China.....	3,202	5,037	6,173	1,941	484
Taiwan.....	3,086	8,193	14,201	3,745	4,620
Subtotal.....	6,288	13,230	20,374	5,686	5,104
All others.....	10,439	7,687	6,553	1,314	1,346
Total.....	16,727	20,917	26,927	7,000	6,450
Value (1,000 dollars)					
China.....	431	741	912	294	76
Taiwan.....	627	1,514	2,991	860	1,287
Subtotal.....	1,058	2,255	3,903	1,154	1,363
All others.....	2,196	1,664	1,368	268	294
Total.....	3,254	3,919	5,271	1,422	1,657
Unit value (per lug nut)					
China.....	\$0.13	\$0.15	\$0.15	\$0.15	\$0.16
Taiwan.....	.20	.18	.21	.23	.28
Average.....	.17	.17	.19	.20	.27
All others.....	.21	.22	.21	.20	.22
Average.....	.19	.19	.20	.20	.26

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

#### Market Penetration by the LTFV Imports

Based on quantity, U.S. imports from the countries subject to these investigations accounted for 18.5 percent of U.S. consumption of chrome-plated lug nuts in 1988, 34.1 percent in 1989, and 49.1 percent in 1990. The share of the U.S. market supplied by domestic producers dropped from 50.7 percent in 1988 to 46.0 percent in 1989 and to 35.1 percent in 1990 (table 19). Market penetration for chrome-plated and stainless steel lug nuts combined is presented in table 20.

Table 19

Chrome-plated lug nuts: U.S. producers' domestic shipments, U.S. imports, and apparent U.S. consumption, 1988-90, January-March 1990, and January-March 1991

Item	1988	1989	1990	January-March-- 1990	1991
<u>Quantity (1,000 lug nuts)</u>					
Producers' U.S. shipments.....	17,235	17,850	14,584	3,853	2,819
U.S. imports from--					
China.....	3,202	5,037	6,173	1,941	484
Taiwan.....	3,086	8,193	14,201	3,745	4,620
Subtotal.....	6,288	13,230	20,374	5,686	5,104
All others.....	10,439	7,687	6,553	1,314	1,346
Total.....	16,727	20,917	26,927	7,000	6,450
Apparent consumption.....	33,962	38,767	41,511	10,853	9,269
<u>Value (1,000 dollars)</u>					
Producers' U.S. shipments.....	5,036	5,077	4,370	1,075	843
U.S. imports from--					
China.....	431	741	912	294	76
Taiwan.....	627	1,514	2,991	860	1,287
Subtotal.....	1,058	2,255	3,903	1,154	1,363
All others.....	2,196	1,664	1,368	268	294
Total.....	3,254	3,919	5,271	1,422	1,657
Apparent consumption.....	8,290	8,996	9,641	2,497	2,500
<u>Share based on quantity (percent)</u>					
Producers' U.S. shipments.....	50.7	46.0	35.1	35.5	30.4
U.S. imports from--					
China.....	9.4	13.0	14.9	17.9	5.2
Taiwan.....	9.1	21.1	34.2	34.5	49.8
Subtotal.....	18.5	34.1	49.1	52.4	55.1
All others.....	30.7	19.8	15.8	12.1	14.5
Total.....	49.3	54.0	64.9	64.5	69.6
<u>Share based on value (percent)</u>					
Producers' U.S. shipments.....	60.7	56.4	45.3	43.1	33.7
U.S. imports from--					
China.....	5.2	8.2	9.5	11.8	3.0
Taiwan.....	7.6	16.8	31.0	34.4	51.5
Subtotal.....	12.8	25.1	40.5	46.2	54.5
All others.....	26.5	18.5	14.2	10.7	11.8
Total.....	39.3	43.6	54.7	56.9	66.3

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

Table 20

Total chrome-plated and stainless steel lug nuts: U.S. producers' domestic shipments, U.S. imports, and apparent U.S. consumption, 1988-90, January-March 1990, and January-March 1991

\* \* \* \* \*

### Prices

#### MARKET CHARACTERISTICS

Lug nuts are sold both in bulk and packaged form. Bulk sales of chrome-plated lug nuts are generally made to wholesalers/distributors while the pre-packaged chrome-plated lug nuts are mainly sold directly to chain stores, mass merchandisers, and tire stores. \*\*\*.

The ratio of bulk sales to sales of packaged lug nuts varies from firm to firm. CIA reported that bulk sales account for approximately \*\*\* percent of its total sales of lug nuts.<sup>22</sup> Franzco reported that \*\*\* percent of its sales are in bulk form. Key stated that bulk sales account for \*\*\* percent of its sales of both chrome-plated and stainless steel-capped lug nuts. Horizon, which produces only stainless steel lug nuts, reported that bulk sales account for \*\*\* percent of sales. McGard, however, reported that bulk sales account for \*\*\* percent of its total sales. Of the seven responding importers, three reported that nearly 100 percent of their sales were of bulk lug nuts, two stated that 70 percent consisted of bulk lug nuts, one stated that 90 percent were of packaged lug nuts, and one said all of its sales were packaged lug nuts. Two importers commented that they believe sales have been shifting toward packaged lug nuts. As a result, they believe that advertising and attractive packaging are becoming important in purchasing decisions.

Lug nuts are sold in the aftermarket on a spot basis and are usually priced on a per-lug nut basis. Most producers and importers reported that they issue price lists; however, discounts are usually given on these prices. CIA's discounts vary depending on \*\*\*. The discount for orders \*\*\*. Importers have similar discounting policies, with discounts ranging from \*\*\* to \*\*\* percent and generally varying depending on \*\*\*.

Lug nuts are usually sold on an f.o.b. U.S.-point-of-shipment basis; however, freight is sometimes paid by the supplier if the sale is very large. Transportation costs tend to account for approximately 1 to 4 percent of the total delivered cost of a lug nut.<sup>23</sup> Leadtimes for delivery from the U.S. point of shipment vary from supplier to supplier. Producers reported that deliveries are usually made within 7 to 14 days.<sup>24</sup> Leadtime for delivery of imported chrome-plated lug nuts also varied, ranging from 2 to 90 days.

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<sup>22</sup> \*\*\*.

<sup>23</sup> Some suppliers felt that transportation costs were an important consideration in a customer's purchasing decision, while others felt that it was not.

<sup>24</sup> \*\*\*.

There is disagreement on whether quality differences exist between the domestic product and lug nuts imported from China and Taiwan. Most imported Taiwan two-piece lug nuts are case hardened; only one U.S. producer, McGard, which accounted for \*\*\* percent of 1990 U.S. production of chrome-plated lug nuts, uses heat-treating to case-harden its lug nuts. \*\*\*, an importer, stated that lug nuts from Taiwan are of better quality than the domestic product, primarily because they are heat treated. \*\*\* states that its \*\*\*.<sup>25</sup> However, opinions differ as to whether heat-treating results in an actual or perceived quality difference to the customer. In general, prices for case-hardened lug nuts tend to be higher than prices for non-case-hardened lug nuts.

In addition, another importer and one purchaser stated that there were some quality problems with the Chinese product. The problems cited included missing threads, excessive rust, and poor finish and plating.<sup>26</sup>

#### QUESTIONNAIRE PRICE DATA

The Commission requested producers and importers to provide data for their largest quarterly bulk and package sales of chrome-plated and stainless steel lug nuts made in the aftermarket and their three largest contracts with OEMs during the period January 1988 to March 1991. Usable pricing data were received from five producers and seven importers. Pricing data reported by U.S. producers represented approximately 100 percent of total domestic shipments of chrome-plated and stainless steel lug nuts in 1990. Pricing data for imports from China and Taiwan represented 100 percent of total reported U.S. shipments of these imports during 1990.

The Commission requested prices for the three products listed below; although chrome-plated lug nuts come in a variety of sizes, these three represent the majority of sales of both the imported and the domestic product:<sup>27</sup>

Product 1.--Lug nut most similar to the "Mr. Lugnut" two-piece, conical (standard acorn style), 13/16-inch hex lug nut.

Product 2.--Lug nut most similar to the "Mr. Lugnut" one-piece, conical (standard acorn style), 13/16-inch hex lug nut.

Product 3.--Lug nut most similar to the "Mr. Lugnut" shank (regular mag), 13/16-inch hex lug nut.

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<sup>25</sup> \*\*\*.

<sup>26</sup> Conference transcript, p. 51.

<sup>27</sup> Price data were also requested for each firm's largest selling stainless steel lug nut.

## PRICE TRENDS

Prices for bulk sales of domestic chrome-plated lug nuts increased slightly from January-March 1988 through January-March 1991, while prices for bulk sales of Chinese lug nuts remained relatively constant. Prices of imported bulk lug nuts from Taiwan fluctuated during January-March 1988 through January-March 1991, increasing slightly in two out of three categories. Prices of packaged lug nuts from the United States and China remained constant throughout much of the period, and prices of packaged lug nuts from Taiwan decreased during this period.

Prices for bulk sales of U.S. product 1, two-piece chrome-plated lug nuts, generally increased slightly during the period of investigation, rising by \*\*\* percent from January-March 1988 to January-March 1991 (table 21 and figure 1). Prices for bulk product 1 from China were constant for 6 of the 7 quarters for which prices were reported. Weighted-average prices for bulk product 1 imported from Taiwan increased \*\*\* percent from January-March 1988 to January-March 1991. Prices for packaged sales of product 1 were available only for Taiwan. These prices were much higher than for bulk sales and generally decreased during the period of investigation, falling \*\*\* percent from January-March 1988 to January-March 1991 (figure 2).

Table 21

Weighted-average f.o.b. prices for lug nut product 1, as reported by U.S. producers and importers for bulk and packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 1

Weighted-average f.o.b. prices for lug nut product 1, as reported by U.S. producers and importers for bulk sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 2

Weighted-average f.o.b. prices for lug nut product 1, as reported by U.S. producers and importers for packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Prices for bulk sales reported by U.S. producers for product 2 were up slightly in the last quarter of 1990 (table 22 and figure 3). \*\*\*, prices for product 2 remain relatively constant, ranging between \*\*\* and \*\*\* cents per lug nut during the reporting period. Prices for bulk product 2 imported from China remained relatively constant during the period of investigation. Prices for bulk product 2 imported from Taiwan fluctuated with no apparent trend from January-March 1988 to November-December 1990 and were up in January-March 1991. Prices for packaged sales of product 2 were available from U.S. producers and importers of Chinese lug nuts (figure 4). These prices were constant for domestic nuts and virtually so for Chinese lug nuts during the period of investigation.

Table 22

Weighted-average f.o.b. prices for lug nut product 2, as reported by U.S. producers and importers for bulk and packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 3

Weighted-average f.o.b. prices for lug nut product 2, as reported by U.S. producers and importers for bulk sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 4

Weighted-average f.o.b. prices for lug nut product 2, as reported by U.S. producers and importers for packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Prices reported by U.S. producers for bulk sales of product 3 were erratic and fluctuated \*\*\* from January-March 1988 to January-March 1991 (table 23 and figure 5). Prices for bulk product 3 imported from China fluctuated between \*\*\* per lug nut during January-March 1988 to January-March 1991. Prices for bulk product 3 imported from Taiwan fluctuated \*\*\* after falling during the second quarter of 1988. Prices for packaged sales of product 3 were available for all three countries (figure 6). U.S. producers' prices were constant at \*\*\* per lug nut. Prices for this product imported from China increased \*\*\* percent during the period of investigation, while prices for packaged product 3 imported from Taiwan generally decreased, falling by \*\*\* percent during this period.

Prices for domestic stainless steel lug nuts were reported by two producers. \*\*\*. Importers did not provide any prices for stainless steel lug nuts.

Table 23

Weighted-average f.o.b. prices for lug nut product 3, as reported by U.S. producers and importers for bulk and packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 5

Weighted-average f.o.b. prices for lug nut product 3, as reported by U.S. producers and importers for bulk sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

Figure 6

Weighted-average f.o.b. prices for lug nut product 3, as reported by U.S. producers and importers for packaged sales in the aftermarket, by quarters, January 1988-March 1991

\* \* \* \* \*

#### PRICE COMPARISONS

Comparisons of prices for U.S.-, Chinese-, and Taiwan-produced lug nuts are presented in tables 24 and 25. In the majority of cases where comparisons were possible, prices for Chinese lug nuts were lower than prices for domestically produced lug nuts. The Chinese products were priced lower than U.S. products during 52 of 59 quarters for which comparisons were available, or approximately 88 percent of the time. In the majority of cases where comparisons were possible, U.S. prices were lower than Taiwan prices. U.S. products were priced lower than Taiwan products during 38 of 52 quarters for which comparisons were available, or approximately 73 percent of the time.

Prices for Chinese bulk product 2 and packaged products 2 and 3 were lower than the U.S. prices for these products during all 13 quarters for which comparisons were available. Prices for Chinese bulk product 3 were lower than the U.S. prices for this product during 11 of 13 quarters, and prices for Chinese bulk product 1 were lower than the U.S. prices for product 1 during 2 of 7 quarters. Margins of underselling for all products ranged from 2.4 to 55.3 percent, and margins of overselling ranged from 2.4 to 12.0 percent.

All prices reported by importers of Taiwan product 1 were for case-hardened, chrome-plated lug nuts. These lug nuts are more expensive than the non-case-hardened lug nuts sold by domestic producers. Direct comparisons between U.S. and Taiwan prices for product 1 are difficult to make because of the differences in these products. Prices for Taiwan bulk product 1 were higher than the U.S. prices for this product during all 13 quarters for which comparisons were available. Prices for Taiwan bulk product 2 were higher than the U.S. prices for bulk product 2 during 9 of 13 quarters. Prices for Taiwan bulk product 3 were higher than the U.S. prices of this product during 10 of



Table 24

Margins of under(over)selling in the aftermarket for lug nuts imported from China, by quarters, January 1988-March 1991

(In percent)					
Period	Bulk	Packaged			
	Product 1	Product 2	Product 3	Product 2	Product 3
1988:					
Jan.-Mar.....	( <sup>1</sup> )	14.8	(6.6)	45.0	55.3
Apr.-June.....	( <sup>1</sup> )	12.8	(9.7)	45.0	55.3
July-Sept.....	( <sup>1</sup> )	16.0	6.1	45.0	55.3
Oct.-Dec.....	( <sup>1</sup> )	12.4	24.5	45.0	55.3
1989:					
Jan.-Mar.....	( <sup>1</sup> )	20.7	14.9	42.8	50.9
Apr.-June.....	( <sup>1</sup> )	16.9	12.3	42.8	50.9
July-Sept.....	(12.0)	19.3	13.3	42.8	50.9
Oct.-Dec.....	(2.9)	23.2	20.8	42.8	50.9
1990:					
Jan.-Mar.....	(2.4)	26.5	12.1	41.6	42.5
Apr.-June.....	(3.0)	15.2	22.1	41.6	42.5
July-Sept.....	(2.8)	14.5	14.5	41.6	42.5
Oct.-Dec.....	6.3	21.1	9.2	41.6	42.6
1991:					
Jan.-Mar.....	3.6	37.5	2.4	44.0	45.2

<sup>1</sup> No price data were supplied.

Note.--Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

13 quarters, and prices for Taiwan packaged product 3 were higher than the U.S. prices for packaged product 3 during 6 of 13 quarters. Margins of underselling for all products ranged from 1.7 to 35.8 percent, and margins of overselling ranged from 0.7 to 45.5 percent.

#### CONTRACT SALES

\*\*\* and \*\*\* provided data on contract sales. \*\*\*.

#### PURCHASERS RESPONSES

Fourteen questionnaires were received from non-OEM purchasers. Most of the respondents identified themselves as distributors or vendors who sell directly to end users of the product. When asked about their major customers for chrome-plated and stainless steel lug nuts, aftermarket purchasers most frequently cited retail outlets, retail customers, and tire dealers as purchasers of chrome-plated lug nuts and retail outlets, retail customers,

Table 25

Margins of under(over)selling in the aftermarket for lug nuts imported from Taiwan, by quarters, January 1988-March 1991

Period	(In percent)			Packaged product 3
	Bulk Product 1	Product 2	Product 3	
1988:				
January-March.....	(15.0)	(19.8)	(41.8)	(3.3)
April-June.....	(25.8)	(22.6)	(22.1)	(6.0)
July-September.....	(18.1)	(18.0)	(11.8)	(21.4)
October-December.....	(15.2)	(23.2)	10.1	(7.2)
1989:				
January-March.....	(22.1)	(23.4)	2.5	2.7
April-June.....	(21.4)	17.4	(1.5)	9.8
July-September.....	(45.5)	(25.6)	(17.9)	(2.5)
October-December.....	(21.7)	26.4	(1.2)	1.7
1990:				
January-March.....	(20.1)	35.8	(1.0)	(0.7)
April-June.....	(24.9)	(26.9)	(2.7)	21.5
July-September.....	(21.0)	(2.8)	(2.2)	29.1
October-December.....	(13.8)	(18.1)	(12.0)	10.2
1991:				
January-March.....	(19.6)	(7.7)	(18.2)	25.0

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

warehouses, and trailer manufacturers as purchasers of stainless steel lug nuts. Ten of the 14 purchasers responded that their customers do not buy both stainless steel and chrome-plated lug nuts.

Purchasers were asked whether or not chrome-plated lug nuts are interchangeable with stainless steel or black anodized lug nuts. Eight out of 10 respondents stated that chrome-plated lug nuts are interchangeable with stainless steel, and 11 out of 12 respondents stated that chrome-plated lug nuts are interchangeable with black anodized lug nuts. Purchaser responses varied as to how demand for chrome-plated lug nuts is different from the demand for stainless steel lug nuts, but the most common response given was that chrome plated is the type most popular with customers.

Purchasers were asked to list three major factors considered when selecting suppliers. The reasons most frequently given were price, quality, and availability. Ten of the 14 purchasers responded that they did not know the manufacturer of the purchased lug nuts. Ten respondents were, however, aware of whether the purchased lug nuts were domestic or foreign. Of these respondents, 43 percent stated that customers were aware of or concerned with the country of origin. Thirty-eight percent of the respondents replied that they compete for sales with their suppliers, while the remaining 62 percent said that they do not.

Thirteen of the 14 responding purchasers make purchases on a monthly, quarterly, or irregular basis, while only 1 of the respondents makes purchases on a less-than-monthly basis. Eighty-six percent of these respondents claimed that they have not changed their purchasing pattern over the past 2 to 3 years, and 79 percent of these respondents have never changed, or have made only infrequent changes in their suppliers. Of those purchasers who have changed suppliers, the most frequently given reasons for the change were price and availability. Sixty-two percent of responding purchasers claimed that they contacted only one supplier before making a purchase, whereas the remaining 38 percent contacted two or more suppliers before purchasing.

Of the 14 purchasers who responded to a question regarding country of origin of purchased lug nuts, 6 bought only U.S. products, 2 bought only Taiwan products, and 1 bought products from another unspecified country of origin, while 4 bought both U.S. and Taiwan products and 1 bought both U.S. and Chinese products. Seventy-three percent of these respondents stated that there is no significant difference between foreign and domestic lug nuts. The purchasers of Taiwan products ranked brand acceptance, maintenance of additional sources, and credit terms as the major reasons for their purchasing decision.

When asked whether or not imported lug nuts were available at a lower price than domestic lug nuts during 1990, five of nine respondents stated that lower priced imported lug nuts were available, while four said that they were not. All of the respondents reported that Taiwan lug nuts were of comparable quality with the domestic lug nuts. When asked why a domestic lug nut was purchased even though a less expensive import was available, the most frequently given response was that U.S. suppliers provide better service. Purchasers most frequently cited better supply as the reason for purchasing foreign lug nuts even when less expensive domestic lug nuts were available.

Thirteen of the 14 respondents indicated that their suppliers' prices change on a yearly or more infrequent basis. Sixty-four percent of the respondents reported that they learn of supplier price changes through written or supplier notification, and the most frequent response given for how transaction prices are established was through a quotation or price list. Purchaser pricing information is presented in appendix D.

### Exchange Rates

Quarterly data reported by the International Monetary Fund indicate that during January-March 1988 through January-March 1991 the nominal value of the Taiwan dollar fluctuated, appreciating 5.3 percent overall relative to the U.S. dollar (table 26).<sup>28 29</sup> Adjusted for movements in producer price indexes in the United States and Taiwan, the real value of the Taiwan currency depreciated 5.0 percent overall between January-March 1988 and the first quarter of 1991.

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<sup>28</sup> International Financial Statistics, May 1991.

<sup>29</sup> The value of the Chinese currency is determined by the Government of China rather than the free market. Therefore, the Chinese exchange rate is not presented.

Table 26

Exchange rates:<sup>1</sup> Indexes of nominal and real exchange rates of the Taiwan dollar, and indexes of producer prices in the United States and Taiwan,<sup>2</sup> by quarters, January 1988-March 1991

(January-March 1988 = 100)

Period	U.S. producer price index	Taiwan producer price index	Nominal exchange rate index	Real exchange rate index <sup>3</sup>
1988:				
January-March.....	100.0	100.0	100.0	100.0
April-June.....	101.6	101.3	99.9	99.6
July-September.....	103.1	102.7	99.6	99.2
October-December....	103.5	102.6	100.9	99.9
1989:				
January-March.....	105.8	102.8	103.5	100.5
April-June.....	107.7	102.4	108.9	103.6
July-September.....	107.3	100.5	111.2	104.2
October-December....	107.7	99.6	110.2	101.9
1990:				
January-March.....	109.3	98.8	109.3	98.8
April-June.....	109.1	99.6	106.3	97.1
July-September.....	111.0	101.5	105.0	96.0
October-December....	114.4	102.6	105.1	94.2
1991:				
January-March <sup>4</sup> .....	113.5	102.4	105.3	95.0

<sup>1</sup> Exchange rates expressed in U.S. dollars per Taiwan dollar.

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

<sup>3</sup> The real exchange rate is derived from the nominal rate adjusted for relative movements in producer prices in the United States and Taiwan.

<sup>4</sup> Derived from exchange rate and price data reported for January only.

Source: International Monetary Fund, International Financial Statistics, May 1991.

#### Lost Sales And Lost Revenues

No U.S. producers reported specific lost-sales allegations, and \*\*\* provided one lost-revenue allegation. \*\*\* stated that, in general, it had to lower prices and has lost sales as a result of competition with lower-priced imports from China and Taiwan.

\* \* \* \* \*

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**APPENDIX A**

**COMMISSION'S AND COMMERCE'S FEDERAL REGISTER NOTICES**

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**INTERNATIONAL TRADE COMMISSION**

[Investigations Nos. 731-TA-474 and 475 (Final)]

**Chrome-Plated Lug Nuts From the People's Republic of China and Taiwan**

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution and scheduling of final antidumping investigations.

**SUMMARY:** The Commission hereby gives notice of the institution of final antidumping investigations Nos. 731-TA-474 and 475 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(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 the People's Republic of China (China) and Taiwan of chrome-plated lug nuts,<sup>1</sup> provided for in subheading 7318.16.00 of the Harmonized Tariff Schedule of United States.

For further information concerning the conduct of these investigations, hearing procedures, and rules of general application, consult the Commission's

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<sup>1</sup> For purposes of these investigations, chrome-plated lug nuts include one-piece and two-piece chrome-plated lug nuts, finished or unfinished, which are more than  $\frac{1}{4}$  inches (17.45 millimeters) in height and which have a hexagonal (hex) size of at least  $\frac{1}{2}$  inches (19.05 millimeters) but not over one inch (25.4 millimeters). The term "unfinished" refers to updated and/or unassembled chrome-plated lug nuts. The subject merchandise is used and/or unassembled chrome-plated lug nuts. The subject merchandise is used for securing wheels to cars, vans, trucks, utility vehicles, and trailers. Chrome-plated lock nuts, and lug nuts plated with other substances, are not included in these investigations.

Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201, as amended by 56 FR 11918, Mar. 21, 1991), and part 207, subparts A and C (19 CFR part 207, as amended by 56 FR 11918, Mar. 21, 1991).

**EFFECTIVE DATE:** April 18, 1991.

**FOR FURTHER INFORMATION CONTACT:** Bruce Cates (202-252-1187), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter 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.**—These investigations are being instituted as a result of affirmative preliminary determinations by the Department of Commerce that imports of chrome-plated lug nuts from China and Taiwan are being sold in the United States at less than fair value within the meaning of section 733 of the act (19 U.S.C. 1673b). The investigations were requested in petitions filed on November 1, 1990, by Consolidated International Automotive, Inc., Los Angeles, CA.

**Participation in the investigations and public service list.**—Persons wishing to participate in the investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 publication of this notice in the Federal Register. The Secretary will prepare a public service list containing the names and address of all persons, or their representatives, who are parties to these investigations upon the expiration of the period for filing entries of appearance.

**Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.**—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in these final investigations available to authorized applicants under the APO issued in the investigations, 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 BPI under the APO.

**Staff report.**—The prehearing staff report in these investigations will be placed in the nonpublic record on June 14, 1991, and a public version will be

issued thereafter, pursuant to § 207.21 of the Commission's rules.

**Hearing.**—The Commission will hold a hearing in connection with these investigations beginning at 9:30 a.m. on June 27, 1991, at the U.S. International Trade Commission Building. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before June 21, 1991. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the hearing. All parties and nonparties desiring to appear at the hearing and make oral presentations should attend a prehearing conference to be held at 9:30 a.m. on June 25, 1991, at the U.S. International Trade Commission Building. Testimony and written materials to be submitted at the public hearing are governed by §§ 201.6(b)(2), 201.13(f), and 207.23(b) of the Commission's rules.

**Written submissions.**—Each party is encouraged to submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of § 207.22 of the Commission's rules; the deadline for filing is June 24, 1991. Parties may also file written testimony in connection with their presentation at the hearing, as provided in § 207.23(b) of the Commission's rules, and posthearing briefs, which must conform with the provisions § 207.24 of the Commission's rules. The deadline for filing posthearing briefs is July 5, 1991; witness testimony must be filed no later than (3) days before the hearing. In addition, any person who has not entered an appearance as a party to the investigations may submit a written statement of information pertinent to the subject of the investigations on or before July 5, 1991. All written submissions must conform with the provisions of § 201.8 of the Commission's rules; any submissions that contain BPI must also conform the requirements of §§ 201.6, 207.3, and 207.7 of the Commission's rules.

In accordance with § 201.16(c) and 207.3 of the rules, each document filed by the party to the investigations must be served on all other parties to the investigations (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

**Authority:** These investigations are 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.

By order of the Commission.

Issued: April 29, 1991.

Kenneth R. Mason,  
Secretary.

[FR Doc. 91-10914 Filed 5-7-91; 8:45 am]

BILLING CODE 7000-02-M

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[Investigations Nos. 731-TA-474 and 475  
(Final)]

**Chrome-Plated Lug Nuts From the  
People's Republic of China and Taiwan**

**AGENCY:** United States International  
Trade Commission.

**ACTION:** Revised schedule for the subject  
investigations.

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**EFFECTIVE DATE:** June 13, 1991.

**FOR FURTHER INFORMATION CONTACT:**  
Bruce Cates (202-252-1187), Office of  
Investigations, U.S. International Trade  
Commission, 500 E Street SW.,  
Washington, DC 20436. Hearing-  
impaired persons can obtain information  
on this matter 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:** On April  
18, 1991, the Commission instituted the  
subject investigations and established a  
schedule for their conduct (56 FR 21390,  
May 8, 1991). Subsequently, the  
Department of Commerce extended the  
date for its final determinations in the  
investigations from June 24, 1991 to July  
25, 1991, for Taiwan and to September 3,  
1991, for China. The Commission,  
therefore, is revising its schedule in the  
investigations to conform with  
Commerce's new schedules.

The Commission's new schedule for  
the investigations is as follows: requests  
to appear at the hearing must be filed  
with the Secretary to the Commission  
not later than July 25, 1991; the  
prehearing conference will be held at



the U.S. International Trade Commission Building on July 29, 1991; the prehearing staff report will be placed in the nonpublic record on July 19, 1991; the deadline for filing prehearing briefs is July 29, 1991; the hearing will be held at the U.S. International Trade Commission on August 1, 1991; and the deadline for filing posthearing briefs is August 9, 1991. In addition, the Commission will allow parties in the investigation involving China to comment on Commerce's final determination; such comments will be due no later than one working day after the day Commerce announces its final determination.

For further information concerning these investigations see the Commission's notice of investigations cited above and the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201, as amended by 56 FR 11918, Mar. 21, 1991), and part 207, subparts A and C (19 CFR part 207, as amended by 56 FR 11918, Mar. 21, 1991).

**Authority:** These investigations are being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to section 207.20 of the Commission's rules.

Issued: June 14, 1991.

By order of the Commission.

Kenneth R. Mason,  
Secretary.

[FR Doc. 91-14601 Filed 6-18-91; 8:45 am]

BILLING CODE 7530-02-01

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**International Trade Administration  
(A-570-808)**

**Final Determination of Sales at Less Than Fair Value: Chrome-Plated Lug Nuts From the People's Republic of China**

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

**EFFECTIVE DATE:** September 10, 1991.

**FOR FURTHER INFORMATION CONTACT:** Gary Bettger, Julie Anne Osgood, or Carole Showers, Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC, 20230; telephone: (202) 377-2239, 377-0167, and 377-3217, respectively.

**Final Determination**

The Department determines that chrome-plated lug nuts from the People's Republic of China (PRC) are being, or are likely to be, sold in the United States at less than fair value, as provided in section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act). The estimated margin is shown in the "Suspension of Liquidation" section of this notice.

**Case History**

Since the publication of our preliminary determination on April 18, 1991 (56 FR 15857), the following events have occurred. On April 26, 1991, respondent requested that the Department postpone making its final determination to 135 days after the publication of the preliminary determination. On May 8, 1991, petitioner opposed the extension. On May 16, 1991, we published a notice postponing the final determination until no later than September 3, 1991 (56 FR 22896). We verified the response of China National Machinery & Equipment Import and Export Corporation, Jiangsu Co., Ltd. (CMEC Jiangsu) and Lu Dong Grease Gun Factory (Lu Dong) in Beijing and Jiangsu Province, PRC, from April 29 through May 10, 1991. Petitioner and respondent filed case briefs on July 23 and July 24, 1991, respectively. Both parties submitted rebuttal briefs on July 31, 1991. A public hearing was held on August 2, 1991.

**Scope of Investigation**

The products covered by this investigation are one-piece and two-piece chrome-plated lug nuts, finished or unfinished. The subject merchandise includes chrome-plated lug nuts, finished or unfinished, which are more

than 11/16 inches (17.45 millimeters) in height and which have a hexagonal (hex) size of at least 3/4 inches (19.05 millimeters) but not over one inch (25.4 millimeters). The term "unfinished" refers to unplated and/or unassembled chrome-plated lug nuts. The subject merchandise is used for securing wheels to cars, vans, trucks, utility vehicles, and trailers. Zinc-plated lug nuts, finished or unfinished, and stainless-steel capped lug nuts are not included in the scope of this investigation. Chrome-plated lock nuts are also not subject to this investigation.

Chrome-plated lug nuts are currently classified under subheading 7318.16.00.00 of the Harmonized Tariff Schedule (HTS). Although the HTS subheading is provided for convenience and customs purposes, the written description of the scope of this proceeding is dispositive.

**Period of Investigation**

The period of investigation (POI) is May 1, 1990, through October 31, 1990.

**Fair Value Comparisons**

To determine whether sales of chrome-plated lug nuts from the PRC to the United States were made at less than fair value, we compared the United States price (USP) to the foreign market value (FMV), as specified in the "United States Price" and "Foreign Market Value" sections of this notice.

**United States Price**

We based United States price on purchase price for all of CMEC Jiangsu's sales, in accordance with section 772(b) of the Act, both because the chrome-plated lug nuts were sold to unrelated purchasers in the United States prior to importation into the United States and because exporter's sales price methodology was not indicated by other circumstances. We calculated purchase price based on packed, CIF prices. We made deductions for foreign inland freight, ocean freight, and marine insurance in accordance with section 772(d)(2) of the Act. Because ocean freight was contracted from a market-economy shipper, we have used the ocean freight charges actually incurred by CMEC Jiangsu.

We based deductions for foreign inland freight and marine insurance on freight and marine insurance rates in Pakistan because no evidence was provided to indicate that the prices for those services were market-determined. Pakistan is the surrogate country chosen for purposes of this final determination (see, Foreign Market Value section of this notice). This action is consistent

with our practice that freight and insurance incurred in a state-controlled economy should be based on similar charges in a non-state-controlled economy. See, *Final Determination of Sales at Less than Fair Value: Sparklers from the People's Republic of China* (56 FR 20589, May 6, 1991).

#### *Foreign Market Value*

In every past case, (e.g., *Final Determination of Sales at Less than Fair Value: Sparklers from the People's Republic of China* (56 FR 20589, May 6, 1991)), the Department has treated the PRC as a nonmarket economy country (NME). Petitioner agrees with the Department's treatment and states that the PRC should continue to be treated as an NME for the purposes of this investigation. Respondent, however, claims that regardless of whether the Department views the PRC macroeconomy as nonmarket, the chrome-plated lug nut sector is sufficiently market-oriented to permit the Department to determine FMV under section 773(a) of the Act.

In our preliminary determination, we indicated that, from a macroeconomic perspective, the Department viewed the PRC as a nonmarket economy country. However, we left open the possibility that the chrome-plated lug nut sector may be sufficiently market-oriented to permit the Department to determine FMV under section 773(a) of the Act. In order to evaluate such a possibility, the Department indicated that it would apply the criteria listed in section 771(18) of the Act to the chrome-plated lug nut sector. We have subsequently reconsidered this approach.

After the preliminary determination in this proceeding was published, the Department made its preliminary determination in the antidumping duty investigation of Oscillating Fans and Ceiling Fans from the People's Republic of China, (56 FR 25664) (June 5, 1991) (Fans). In Fans, the Department determined that absent a showing that all costs are market-oriented, FMV in a NME cannot be based on home market prices, third country prices, or constructed value, but must be based on factors of production. The Department further determined that:

It is the Department's practice to value factor of production inputs at actual acquisition prices if it can be established that those inputs are purchased from a market economy country. (See, e.g., *Sparklers, supra.*) If a party is able to establish that inputs purchased in a NME are purchased at market-oriented prices, we may likewise be able to accept them for purposes of a factors of production analysis.

If at the time of these final determinations we are satisfied that the cost of inputs

sourced in the PRC, including materials, labor, water, electricity and rent, are valued on the basis of market principles, we may substitute those market values for surrogate country values in individual firm calculations.

(56 FR 25664) (June 5, 1991)

We have adopted the analysis described in Fans for the purposes of this final determination because, as outlined below, it best comports with what we believe the statute is directing us to do. Section 773(c)(1) states:

In general, if:

(A) The merchandise under investigation is exported from a nonmarket economy country, and

(B) The administering authority finds that available information does not permit the foreign market value of the merchandise to be determined under subsection (a), the administering authority shall determine the foreign market value of the merchandise on the basis of the value of the factors of production utilized in producing the merchandise . . . .

Thus, if both conditions laid out in the statute are met, we are directed to apply the factors of production methodology, which is unique to NME cases.

The issue which has arisen in this proceeding is how the Department will calculate FMV when the conditions are not met. Clearly, if the first condition is not met, i.e., if the Department determines that the country is a market economy country, then FMV will be based on the foreign producer's prices or costs. In essence, if the country is deemed a market economy country, normal dumping procedures will apply. However, respondent in this proceeding is not claiming that the PRC is a market economy country. Instead, respondent is arguing that available information permits FMV to be determined in the PRC.

As described above, we preliminarily determined in Fans those situations that would lead us to use sales prices or production costs in the NME for determining FMV. In short, in order for us to find a "bubble of capitalism" and to treat the NME producer as if it were a market economy producer despite the fact that the economy in which it operates is nonmarket, we will have to be persuaded that all prices and costs faced by the individual producer are market determined. Alternatively, in those situations where some, but not all, inputs are not market-determined, we will rely on the surrogate values for those inputs, but will utilize all NME input costs that are determined to be market-driven.

We have adopted this method of analysis because we question whether it

is possible to have a "bubble of capitalism" in an otherwise nonmarket economy. For example, an individual producer of chrome-plated lug nuts may be outside of direct government control in the sense that inputs are purchased outside the plan, management is selected by workers, and decisions on what to produce and sell, and what prices to charge are left to the producing entity. Nevertheless, this freedom from direct control occurs in an environment where the domestic currency is not fully convertible, a portion of basic industrial output is produced for the state at state-controlled prices, and most trade is still carried out through trading companies which only recently have begun to separate from national, central-government-owned trading companies.

Therefore, we have imposed what may be viewed as a strict test for determining whether a "bubble of capitalism" exists in an otherwise nonmarket economy—the price or cost of all inputs into the production of the product must be market-driven. This test clearly will be met only in exceptional circumstances, which accords with our view that bubbles of capitalism are exceptional events.

On the other hand, we recognize that for certain inputs into the production process, market forces may be at work. For example, inputs may be imported from suppliers in market economy countries. Similarly, we may find that market forces are at work in determining the prices for locally-sourced goods in the nonmarket economy. Where this occurs, we believe that it is appropriate to use those prices in lieu of values of a surrogate, market-economy producer, because they are market-driven prices and they reflect the producer's actual experience. There is nothing to be gained in terms of accuracy, fairness, or predictability in using surrogate values when market-determined values exist in the NME country. Indeed, where we can determine that a NME producer's input prices are market determined, accuracy, fairness, and predictability are enhanced by using those prices.

We have further concluded that the criteria listed in section 771(18) are not appropriate for determining the market orientation of any particular sector in a nonmarket economy. Because these criteria have a macroeconomics orientation, they are designed to be applied on an economy-wide basis rather than at a sectoral level. For example, while currency convertibility is an important criterion for evaluating the market-orientation of an overall economy, it is relatively unimportant

when assessing the internal market forces that may or may not exist with respect to the production of a particular product. Similarly, while the extent of foreign investment may be a useful indicator of the market orientation of the economy as a whole, foreign investment with respect to a particular product may have little, if any, effect upon the presence or absence of internal market forces in the production of that product. Accordingly, we have concluded that the criteria set out in section 771(18) of the Act are not appropriate for determining whether the chrome-plated lug nut sector is or is not free of government control and thus subject to market forces.

In deciding not to apply the criteria listed in section 771(18) of the Act, we looked to section 773(c)(1)(B) of the Act for guidance. Unfortunately, as we observed in *Fans*, the legislative history of this section "simply paraphrases the statutory language and provides no additional guidance in its interpretation or application." 56 FR at 25667. We note, however, that, from the legislative history, the principal concern expressed by Congress for not basing FMV on prices in a NME is that the antidumping duty law is inherently designed to address LTFV issues in terms of market prices.

With the individual factor input methodology described above, we believe that we are addressing the paramount concern expressed by Congress for not using NME prices to determine FMV, while at the same time recognizing that a NME country that is undergoing a transition to a market-oriented economy may contain sectors within its overall economic structure where market forces have already come into play. When the Department is able to verify the existence of such conditions, we believe it is appropriate to use those prices to determine FMV.

A summary of our analysis of certain individual factor inputs for chrome-plated lug nuts follows. For a more detailed analysis of these inputs, see, Memorandum to Eric L. Garfinkel from Francis J. Sailer on file in the Central Records Unit, room B-099, of the Main Commerce Building. We have determined whether particular inputs are market-driven by analyzing the extent to which each factor input is state-controlled.

#### *Steel*

Based upon evidence in the record and upon our verification, we found that the state has a considerable presence in the PRC steel sector. However, the extent of this presence appears to vary from province to province (e.g., the

overall percentage of steel subject to state-controlled prices approximates 45 percent nationally, but may be as little as 25 percent in Jiangsu Province). A state-owned company, Beijing Iron and Steel Company (BISC), is the largest supplier to Lu Dong (the sole manufacturer of chrome-plated lug nuts during the period of investigation) of steel used in the production of chrome-plated lug nuts. While BISC was required to sell 45 percent of its production to buyers named by the government at state-controlled prices, the remaining production was sold on the "open market" (i.e., the government does not direct BISC to sell to any particular party, nor does it mandate any particular price). At verification we found that Lu Dong purchased steel from BISC through the open market.

Furthermore, we learned that the rest of Lu Dong's steel suppliers are either locally public-owned or collective enterprises. We did not find any evidence that these suppliers are influenced by the state in making business decisions. Even though the State Ministry of Materials Supply publishes a "ceiling price" for all open market steel transactions, apparently these operate only as guidelines.

Lu Dong sourced all of its steel domestically during the POI. Consequently, we are not able to determine whether, if Lu Dong chose, it could have purchased steel from a non-PRC source. Lu Dong appears to select suppliers based on price, proximity, and quality. Local suppliers provide the best source when Lu Dong is in immediate need of steel. However, BISC provides the highest quality steel to Lu Dong, which it prefers to use in its production of chrome-plated lug nuts. Because of this higher quality, BISC charges a price higher than the prices charged by Lu Dong's local suppliers. As stated above, at verification we found no evidence of state involvement in the setting of the prices for steel sold by BISC to Lu Dong or for steel sold by the local suppliers.

Therefore, we have determined that the presumption of state control has been overcome for the steel purchased for use in the production of chrome-plated lug nuts. Thus, we have used the PRC price for steel in the factors of production analysis.

#### *Chemicals*

Based upon our verification, we determined that the state has some presence in the PRC chemical sector. However, it appears that a relatively small portion of chemicals supplied in the PRC fall under state-controlled guidelines. According to one official from the Jiangsu Provincial Industrial

Chemicals Corporation, approximately ten percent of the Chemical production in the PRC falls under state-controlled prices. We also did not find any evidence that two of Lu Dong's actual suppliers—locally, public-owned firms—are influenced by the State in making business decisions.

Because Lu Dong sourced all of its chemicals domestically during the POI, we are not able to determine whether, if Lu Dong chose, it could have purchased chemicals from non-PRC sources. As with steel, however, Lu Dong appears to select chemical suppliers based on price and proximity. In practice, Lu Dong will negotiate a price and then place an order. At verification we found no evidence of state involvement in the setting of prices by Lu Dong's chemical suppliers.

Accordingly, we have determined that the presumption of state control has been overcome for the chemicals purchased for use in the production of chrome-plated lug nuts. Thus, we have used PRC prices for chemicals in the factors of production analysis.

#### *Labor*

At verification, even though respondent provided documents suggesting that labor is relatively free to move in and out of the chrome-plated lug nut sector, certain state labor policies still appear to have substantial and direct effects on the labor decisions of workers and management. For instance, all workers, including those that produced chrome-plated lug nuts, are required to register under the "hukou" system. Upon obtaining a position with a new company, a worker must also notify the authorities in both the old and new locations. Furthermore, additional labor permits are required to work in certain positions.

We were not able to determine the extent to which wage rates are determined by any semblance of free bargaining between labor and management. We did not obtain information from any source on the nature of collective bargaining or the right to strike the PRC, generally, or the chrome-plated lug nut sector, specifically. Even though we obtained information regarding the overall salary amount of temporary, unskilled workers (plus the percentage breakdown of the various components of that salary), we were not able to determine to what extent employees could negotiate salary adjustments. Finally, we were not able to determine the effect that the employee representatives groups had upon the determination of wage and other employment policies.

As a result, we have concluded that respondent has not overcome the presumption of state control with respect to labor and that the PRC rate should not be used for purposes of the factors of production analysis.

#### *Electricity and Water*

Although there appear to be some market forces at work in the supply of electricity and water to Lu Dong, we were not able to determine from information on the record that the value of these inputs are sufficiently free of state control to be used for purposes of the factors of production analysis.

#### *Land*

The record shows that the state owns all of the land in the PRC, including that used by Lu Dong. It is not clear from the record whether Lu Dong can negotiate the rent that it pays for the use of the land. Consequently, due to the lack of information on the record, respondent has not overcome the presumption of state control with respect to the value of the land (rent). Therefore, this factor is valued using surrogate data.

#### *Other Factors of Production*

Section 773(c) of the Act, as amended by the Omnibus Trade and Competitiveness Act of 1988 (the 1988 Act), requires the Department to determine FMV on the basis of the factors of production utilized in producing the subject merchandise. The 1988 Act further requires the Department to value the factors of production, to the extent possible, in market economy countries that are at a level of economic development comparable to that of the NME country and that are significant producers of comparable merchandise.

For those factors found to be state-controlled, the Department has determined that Pakistan is the appropriate surrogate market economy country in which to value the factors of production in this investigation. Pakistan is a known producer of "hub nuts," a product comparable to the subject merchandise. Further, we have determined that Pakistan is comparable to the PRC in terms of per capita GNP, the national distribution of labor, and growth rate in per capita GNP. In valuing the factors of production, we have generally used information gathered by our Consulate in Karachi from a Pakistani producer of hub nuts.

#### *Factors of Production*

For the purposes of this final determination, the Department has valued the factors of production, as reported by the exporter CMEC Jiangsu, using data obtained from the U.S.

Consulate in Karachi. Pakistani data was used for those factors not found to be free of state-control (*i.e.*, labor, energy, water, packing, overhead, profit, credit, inland freight, and marine insurance). For those factors inputs we found to be free of state control (*i.e.*, steel and chemicals), we used verified prices in the PRC obtained from respondent. However, respondent failed to provide the Department with PRC prices for one type of steel and two chemicals; therefore, we have used Pakistani prices to value these factors. For the one type of steel where the Pakistani price was used, the price was inflated to a POI value using wholesale price indices published by the International Monetary Fund. We also added an amount for factory overhead based on the Pakistani producer's experience.

The statutory minimum of ten percent for general expenses was used, pursuant to section 773(e)(1)(B) of the Act, because the actual average general expenses incurred by the Pakistani hub nut producer was below the statutory minimum. Finally, we added the actual average profit earned by Pakistani hub nut producer, plus an amount for packing, valued in Pakistan, to arrive at a constructed FMV for a single chrome-plated lug nut.

Based on information provided at verification, we have recalculated steel consumption to reflect the actual quantity of steel consumed per piece rather than the planned quantity per piece. We have adjusted this recalculated steel consumption to reflect the waste generated during the production process. In addition, for one particular part number, we have added the cost differential for special polishing. We also revised: (1) labor hours, to reflect actual production experience; (2) freight costs, using a packed weight based on actual invoices obtained at verification; and (3) the amount of sulfuric acid consumed, to reflect verified amounts.

#### *Critical Circumstances*

Based on our analysis of the exports of chrome-plated lug nuts reported by CMEC Jiangsu, we do not find massive imports of the subject merchandise. Thus, we determine that critical circumstances do not exist with respect to imports of chrome-plated lug nuts from the PRC.

#### *Currency Conversion*

We made currency conversions in accordance with 19 CFR 353.60(a). Currency conversions for Pakistani Rupees to U.S. dollars were made at the rates certified by the Federal Reserve

Bank. For those conversions from PRC Renminbi to U.S. dollars we calculated a weighted-average rate for Lu Dong, weighted by its conversions at the official rate and the "swap" rate (*i.e.*, the rate at local uncontrolled exchanges).

#### *Verification*

Pursuant to section 776(b) of the Act, we verified information used in reaching our final determination. We used standard verification procedures, including examination of relevant accounting records and original source documents provided by the respondent. Public versions of our verification reports are on file in the Central Records Unit (room B-099) of the Main Commerce Building.

#### *Interested Party Comments*

*Comment 1:* Respondent argues that cancelled sales should be excluded from CMEC Jiangsu's sales base during the POI. Furthermore, respondent argues that any costs incurred on these sales should not be considered by the Department.

Petitioner argues that it may be appropriate to consider the cancelled sales as exporter sales price transactions.

*DOC Position:* We agree with respondent. At verification, we established that these sales were cancelled by the customer and that CMEC Jiangsu had not received payment. Therefore, we have not included these sales in our calculations.

*Comment 2:* Petitioner contends that the Department should make an adjustment for credit, commissions, warehousing, and inventory carrying costs incurred on CMEC Jiangsu's sales of chrome-plated lug nuts to the United States.

*DOC Position:* Since we have used the statutory minimum for SG&A in calculating constructed value, we were not able to determine the specific amount of direct selling expenses (*i.e.*, credit, commissions, etc.) included in FMV. It would be unreasonable to make an upward adjustment to FMV for the selling expenses incurred on U.S. sales without making a corresponding downward adjustment to account for the selling expenses embodied in the ten percent SG&A. Therefore, we have made no adjustment to FMV for U.S. selling expenses.

*Comment 3:* Petitioner argues that the discount granted on certain invoices to a particular U.S. customer should be applied to all sales.

Respondent argues that the Department found this discount only on

invoices pre-selected for verification and did not verify that the discount applied to all invoices. Furthermore, respondent states that it is irrelevant whether discounts were found at verification because they only applied to cancelled sales.

**DOC Position:** We determined at verification that CMEC Jiangsu failed to report a discount paid to a particular U.S. customer. Contrary to respondent's claim, not all of the sales to that customer were cancelled. Therefore, as best information available, we have applied a discount to all sales to that U.S. customer. We also verified that with respect to another U.S. customer CMEC Jiangsu did not grant a discount. Consequently, no discount was applied to those sales.

**Comment 4:** Based upon customs data, petitioner alleges that there is at least one additional supplier of chrome-plated lug nuts in the PRC, and that the respondent has not conclusively proved otherwise. Petitioner further argues that the Department must conclude that the entries made several months after the POI and not reported by respondent were shipped by some other producer, or not correctly reported by respondent. In addition, petitioner contends that the Department should disregard the shipment data reported in the response for purposes of the final critical circumstances determination.

Respondent argues that, as verified from the China Chamber of Commerce for Machinery and Electronic Products, Lu Dong is the sole producer of, and CMEC Jiangsu is the sole exporter of, chrome-plate lug nuts from the PRC. Therefore, if a dumping margin is determined for CMEC Jiangsu, the Department must eliminate the phrase "all other manufacturers, producers and exporters" as used in the preliminary determination.

**DOC Position:** We verified the shipment information on the record with respect to CMEC Jiangsu and found no discrepancies. We established that the entries outside the POI, referred to by petitioner, correspond to sales made by CMEC Jiangsu during the POI. From our discussions with the PRC Government, CMEC Jiangsu, and Lu Dong officials at verification, we have no reason to believe that there are additional manufacturers, producers, or exporters of chrome-plated lug nuts in the PRC. Therefore, we have used the data reported by respondent and verified for purposes of our final determination.

With regard to respondent's argument, it remains the Department's practice to include the language, "all other manufacturers, producers, and exporters," in preliminary and final

determination notices in order to establish a rate for any manufacturers, producers, or exporters that were not specifically reviewed or who begin to ship the subject merchandise to the United States after publication of an antidumping duty order.

**Comment 5:** Petitioner contends that workers involved in the production of chrome-plated lug nuts are "skilled" because they operate machinery and have been retained by the company for a number of years, acquiring on-the-job skills.

Respondent argues that all workers involved in the production of chrome-plated lug nuts are employed on a temporary basis and only receive one week of training before they begin operating machines. Respondent maintains that these workers do not plan production schedules, repair machines, or perform any other functions that would characterize them as skilled for purposes of this investigation. Respondent concludes that we should not use Pakistani labor rates, but that if we do, we should use an unskilled labor rate.

**DOC Position:** We have used the unskilled labor rate from Pakistan to value the wages paid to temporary workers directly involved in the production of chrome-plated lug nuts. These are temporary workers, and we have no reason to believe that they possess any particular skills suitable to the production of chrome-plated lug nuts. However, for those permanent employees operating in management or other supervisory capacities in the production of chrome-plated lug nuts, we have used a skilled labor rate from Pakistan in our constructed value calculations for purposes of the final determination.

**Comment 6:** Petitioner argues that the number of workers used by Lu Dong in the production of chrome-plated lug nuts differs from the number reported in the response and the number verified. Petitioner requests that the Department use the highest number of workers reported and include "shift directors" in its calculations. Petitioner further argues that production levels are too high per worker per machine per eight-hour shift. Petitioner references the "cutting stage" in the production process to support this argument. Petitioner questions whether the figures reported included support workers and argues that the figures reported assume an unrealistically high level of proficiency both at the beginning and end of a shift.

Respondent maintains that shift directors should not be included in the Department's calculations since they are not directly involved in the production

of the subject merchandise. Respondent also argues that petitioner confuses the cutting of the hexagonal rod with the production of lug nuts. Respondent maintains that the production levels for cutting the hexagonal bar into blanks are realistic and verified by the Department.

**DOC Position:** The documentation we received from Lu Dong at verification indicates total production processes and labor hours on a per shift basis for each pre-selected part number. Lu Dong provided this documentation for each production run. We have no reason to believe that the documentation provided does not accurately represent Lu Dong's actual production experience. These data, i.e., production hours and output, are used to calculate the labor factor, not the number of workers. Furthermore, the fact that Lu Dong hires workers on a temporary basis based on demand for chrome-plated lug nuts appears to indicate that Lu Dong would not maintain supplemental workers not already accounted for in the production records reviewed at verification.

**Comment 7:** Petitioner argues that the number of machines reported in the response is inconsistent with that in the verification report, and that, the Department should use the highest of the two numbers.

Respondent argues that the number of machines reported in the verification report is correct.

**DOC Position:** The actual number of machines used to produce the subject merchandise is not pertinent for calculating constructed value using the factors of production methodology. In our constructed value of calculations, we include an amount for factory overhead which is expressed as a percentage of total materials, labor, and energy costs, as experienced by Pakistani producers. We consider this percentage to reflect an amount for depreciation of machines and equipment.

**Comment 8:** Petitioner notes that the Department did not verify what equipment is used in the production of two-piece lug nuts.

Respondent argues that, with respect to the equipment used for two-piece lug nuts, the Department verified that the same equipment is used as for one-piece lug nuts.

**DOC Position:** See, DOC Position to Comment 7.

**Comment 9:** Petitioner argues that Lu Dong's consumption of steel increased when input was compared to actual production rather than planned production. Petitioner maintains that this method does not fully account for

steel waste and rejected lug nuts. Petitioner contends that the only accurate approach to determine the amount of steel used in the production process is to divide total steel used by pieces packed.

Aside from methodology, petitioner also argues that the total amount of steel purchased from April through September 1990, significantly exceeds the figures provided in the response. Petitioner contends that the amount reported in the response may reflect planned usage, while actual usage does not reflect beginning or ending inventory.

Respondent argues that the methodology used by Lu Dong to calculate steel consumption accurately reflects waste and rejects. In addition, respondent argues that, with respect to petitioner's contention regarding the total amount of steel purchased, the amount reported in the original response did not include the steel purchased from Lu Dong's local suppliers.

*DOC Position:* As discussed in the FMV section of this notice, we have recalculated Lu Dong's steel consumption to reflect the waste incurred during the production process for each of the 14 selected part numbers. We established at verification that the difference between the number of pieces produced and the number of pieces packed for each part number represents the amount remaining in inventory. If the Department were to recalculate steel consumption using the number of pieces packed, rather than the number of pieces actually produced, we would not take into account the fact that the pieces held in inventory are later sold from inventory.

Furthermore, the total steel used for finished lug nuts plus the steel discarded as a result of rejects is accounted for when we divide total steel consumed by total lug nuts produced for each part number. Therefore, the number of rejects that results in production if not relevant when calculating steel consumption on a per-piece basis as it is already accounted for above.

With respect to petitioner's argument regarding total steel purchased, we have calculated steel consumption for a selected number of lug nuts based on the total known quantity of steel input used for that production run. (See, Memorandum to File from Gary Bettger and Susan Strumbel dated March 19, 1991 on file in the Central Records Unit, room B-099, of the Main Commerce Building, for a complete discussion of the criterion applied to select those chrome-plated lug nut models used in our LTFV calculations.) Therefore, the total amount of steel purchased during

the POI is not relevant to our calculations.

*Comment 10:* Petitioner argues that the Department should not make an adjustment for scrap based on only one invoice provided by respondent at verification.

Respondent argues it is clear from verification that Lu Dong sold its scrap for reasons of economic efficiency.

*DOC Position:* At verification, we requested a sample invoice to illustrate Lu Dong's sale of steel scrap. The Department considers this invoice, dated during the POI, to be a representative sample of the sale of scrap made by Lu Dong during the POI. Therefore, we have made an adjustment for scrap.

*Comment 11:* Petitioner argues that it is unclear how Lu Dong determined the amount of chemicals used in the production of chrome-plated lug nuts because chemicals may not be used in the same month that they are purchased.

*DOC Position:* At verification, we determined that Lu Dong's allocation methodology was an accurate measure of the chemicals used for the production of chrome-plated lug nuts during the POI.

*Comment 12:* Petitioner argues that in the case of two-piece lug nuts, no material factor information was submitted for verification. Accordingly, the Department must use the best information available as presented in the petition.

Respondent contends that Lu Dong's production processes for both one-piece and two-piece lug nuts are the same. Furthermore, the technical processes are very similar and the factors of production are the same except for sheet plates used in producing the cap of the two-piece lug nut.

*DOC Position:* During verification, it is the Department's practice to select only a certain number of items to verify. Due to time constraints, the Department often is unable to complete the review of source documentation for all selected items. Nevertheless, if the Department's verification team establishes the integrity of the source documents for those sales that it does review, then it assumes that source documents for the remaining sales are similarly reliable. In this instance, because the Department confirmed the integrity of Lu Dong's reported material input data pertaining to one-piece chrome-plated lug nuts, we are also accepting the validity of the material input data reported for two-piece chrome-plated lug nuts.

*Comment 13:* Respondent argues that the Department must verify value information provided by the surrogate country for factors of production.

Petitioner asserts that the law does not require verification of factors of production in a surrogate country.

*DOC Position:* We agree with petitioner: It is not the Department's practice to verify information provided by the surrogate country in investigations involving NME countries (e.g., see, Final Results of Antidumping Administrative Review: Tapered Roller Bearings and Parts Thereof, Finished or Unfinished from the Republic of Hungary (56 FR 41819); Final Determination of Sales at Less than Fair Value: Sparklers from the People's Republic of China (56 FR 20589)). We requested and received public information from the U.S. Consulate in Karachi regarding a Pakistani producer of hub nuts. We consider the U.S. Consulate to be an accurate source of data. Therefore, we have used these data to value Lu Dong's factors of production that were not found to be free of state control.

*Comment 14:* Respondent maintains that the Department did not include in its freight calculation the distance for the supplier of sheet steel. Respondent argues that the calculation of freight cost for steel should be based on an average distance for supplying both hexagonal-shaped leaded steel and sheet steel.

Petitioner agrees that actual distances should be used, but, if averaged, the average should be weighted to reflect actual shipments. In addition, petitioner argues that the costs of moving hazardous chemicals are higher than those for moving steel.

*DOC Position:* We have revised freight costs to reflect the weighted-average distance for all suppliers of steel. Based on the information provided by the U.S. Consulate in Karachi, there is no difference between the freight rate applied to chemicals and that applied to steel.

*Comment 15:* Respondent argues that the Department used an incorrect methodology to calculate the value of the sheet plate used in producing the cap of the two-piece lug nut. Respondent contends that the Department included in its calculations the quantity and value of imports into Pakistan of sheet steel from countries not comparable to the PRC. Respondent argues that the Department should utilize factor costs from a market economy country most comparable to the PRC in terms of economic development, i.e., Brazil and South Korea, respectively.

Petitioner supports the Department's use of aggregate figures and contends that this methodology is reliable, consistent and accurate. Petitioner



maintains that when publicly available data are used, one measure of its reliability is the fact that the average price is used. Petitioner argues that an aggregate price is the most representative and will reflect the lowest costs during the appropriate period of time.

**DOC Position:** By using an aggregate, the Department captures the average price paid by the surrogate for imports, rather than a price that reflects the import price from an individual country. This more accurately reflects the cost of sheet steel into Pakistan, the surrogate country most comparable to the PRC.

#### Suspension of Liquidation

We are directing the U.S. Customs Service to continue to suspend liquidation on entries from CMEC Jiangsu and all other manufacturers, producers, and exporters of chrome-plated lug nuts as defined in the "Scope of Investigation" section of this notice, that are entered, or withdrawn from warehouse, for consumption on or after the date of publication of this notice in the Federal Register. The U.S. Customs Service shall require a cash deposit equal to the estimated amount by which the foreign market value of chrome-plated lug nuts exceeds the United States price as shown below. This suspension of liquidation will remain in effect until further notice.

Manufacturer/producer/exporter	Weight- ed- average margin percent- age
CMEC Jiangsu and all other manufacturers, producers and exporters	4.24

#### ITC Notification

In accordance with section 735(d) of the Act, we have notified 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 that the ITC confirms in writing that it will not disclose such information, either publicly or under administrative protective order, without the written consent of the Deputy Assistant Secretary for Investigations, Import Administration.

This determination is published pursuant to section 735(d) of the Act (19 U.S.C. 1673d(d)) and 19 CFR 353.20(a) (4).

Dated: September 3, 1991.

Eric I. Garfinkel,

*Assistant Secretary for Import Administration.*

[FR Doc. 91-21899 Filed 9-9-91; 8:45 am]

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**International Trade Administration****(A-583-810)****Final Determination of Sales at Less Than Fair Value: Chrome-Plated Lug Nuts From Taiwan****AGENCY:** Import Administration, International Trade Administration, Commerce.**EFFECTIVE DATE:** July 31, 1991.**FOR FURTHER INFORMATION CONTACT:** Roy A. Malmrose, Office of Countervailing Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230; telephone (202) 377-5414.**Final Determination**

We determine that chrome-plated lug nuts from Taiwan are being, or are likely to be, sold in the United States at less than fair value, as provided in section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act). The estimated margins are shown in the "Suspension of Liquidation" section of this notice.

**Case History**

Since the notice of preliminary determination on April 18, 1991 (56 FR 15860), the following events have occurred. Verification of the questionnaire responses was conducted in Taiwan from April 28 through May 3, 1991. On May 29, 1991, Gourmet requested that the final determination in this investigation be postponed until not later than 135 days from the date of publication of the preliminary notice. On June 4, 1991, petitioner opposed the extension. On June 24, 1991, we published a notice postponing our final determination until not later than July 25, 1991 (56 FR 28739). Petitioner and respondents filed case and rebuttal briefs on July 1 and July 8, 1991, respectively. On July 12, 1991, we also received comments from San Shing. A public hearing was held on July 15, 1991.

**Scope of Investigation**

The merchandise covered by this investigation is one-piece and two-piece chrome-plated lug nuts, finished or unfinished. The subject merchandise includes chrome-plated lug nuts, finished or unfinished, which are more than  $1\frac{1}{4}$  inches (17.45 millimeters) in height and which have a hexagonal (hex) size of at least  $\frac{3}{4}$  inches (19.05 millimeters) but not over one inch (25.4 millimeters). The term "unfinished" refers to unplated and/or unassembled chrome-plated lug nuts. The subject merchandise is used for securing wheels to cars, vans, trucks, utility vehicles, and trailers. Zinc-plated lug nuts, finished or unfinished, and stainless-steel capped lug nuts are not in the scope of this investigation. Chrome-plated lock nuts are also not subject to this investigation.

Chrome-plated lug nuts are currently provided for under subheading 7318.16.00.00 of the Harmonized Tariff Schedule (HTS). Although the HTS subheading is provided for convenience and customs purposes, our written description of the scope of the investigation is dispositive.

**Period of Investigation**

The period of investigation (POI) is May 1, 1990 through October 31, 1990.

**Such or Similar Comparisons**

For both respondent companies, in accordance with section 771(16) of the Act, we established two such or similar categories of merchandise: One-piece chrome-plated lug nuts and two-piece chrome-plated lug nuts.

**Fair Value Comparisons**

To determine whether sales of chrome-plated lug nuts from Taiwan to the United States were made at less than fair value, we compared the United States price to the foreign market value, as specified in the "United States Price" and "Foreign Market Value" sections of this notice.

**United States Price**

For both San Shing Hardware Works Co., Ltd. (San Shing) and Gourmet Equipment (Taiwan) Corporation (Gourmet), we based the United States price on purchase price, in accordance with section 772(b) of the Act, both because the chrome-plated lug nuts were sold to unrelated purchasers in the United States prior to importation into the United States and because exporter's sales price methodology was not indicated by other circumstances.

**A. San Shing**

We calculated purchase price based on packed, FOB Taiwan port prices to unrelated customers in the United States. We made deductions, where appropriate, for foreign brokerage and handling expenses, foreign inland freight, and containerization, in accordance with section 772(d)(2) of the Act.

**B. Gourmet**

We calculated purchase price based on packed, FOB Taiwan port, FOR Taiwan port, or CIF prices to unrelated customers in the United States. We made deductions, where appropriate, for foreign inland freight, foreign brokerage, harbor tax, ocean freight, and marine insurance, in accordance with section 772(d)(2) of the Act. We also deducted a discount given as a result of earlier sales of defective merchandise.

**Foreign Market Value****A. San Shing**

Because San Shing had no home market or third country sales of lugnuts, we calculated foreign market value based on constructed value, in accordance with section 773(e)(1) of the Act. Constructed value includes materials, fabrication, general expenses, profit, and packing. In all cases: (1) Actual general expenses were used, since these exceeded the statutory minimum requirement of ten percent of materials and fabrication; (2) actual profit was applied as it exceeded the statutory minimum of eight percent; and (3) since selling expenses included credit, the interest expense reflected on the company's books was reduced for a portion of the expense related to these costs in order to avoid double counting.

We made an adjustment to constructed value, in accordance with § 353.56(a) of the Department's regulations, for differences in circumstances of sale. This adjustment was made for differences in credit expenses, bank handling charges, and commissions.

**B. Gourmet**

For those lugnuts where Gourmet had home market sales, we based foreign market value on those sales. Otherwise, we calculated the foreign market value based on constructed value, in accordance with section 773(e)(1) of the Act.

Where foreign market value was based on home market sales, we added U.S. packing costs. We also made a circumstances of sale adjustment for credit expenses, pursuant to 19 CFR 353.56(a). Where foreign market value

was based on constructed value, we included materials, fabrication, general expenses, profit, and packing in the constructed value. As described in more detail in the comments below, best information available was used for certain elements of the cost. In all cases: (1) Actual general expenses were used, since these exceeded the statutory minimum of ten percent of materials and fabrication and (2) the statutory eight percent minimum profit was applied.

We made an adjustment to constructed value and home market price in accordance with section 353.56 of the Department's regulations for differences in circumstances of sale. This adjustment was made for differences in credit expenses.

**Currency Conversion**

We made currency conversions in accordance with section 353.60(a) of the Department's regulations. All currency conversions were made at the rates certified by the Federal Reserve Bank.

**Verification**

As provided in section 776(b) of the Act, we verified all information used in reaching the final determination in this investigation.

We used standard verification procedures including examination of relevant accounting records and original source documents of the respondents.

Public versions of our verification reports are on file in the Central Records Unit (Room B-099) of the Main Commerce Building.

**Interested Party Comments**

**Comment 1:** The petitioner states that Gourmet's costs could not be verified and, thus, should not be used to calculate the foreign market value. Petitioner states that there were numerous discrepancies between what was reported by Gourmet and what was traced to the general ledger and then to the financial statement. There were also discrepancies between Gourmet's general ledger and its audited financial statement. Therefore, the Department must base foreign market value on best information available for purposes of the final determination.

Gourmet maintains that its costs were fully verified, with the possible exception of steel material costs for the caps. Thus, the Department should calculate the foreign market value based on the verified information.

**DOC position:** During verification the Department encountered discrepancies between Gourmet's response and its accounting records. However, in general, the Department was able to verify the most significant elements

needed in calculating the foreign market value. In those few instances where we were unable to verify the correct information, we have used the best information available.

**Comment 2:** Petitioner argues that because Gourmet subcontracts most of its production processes and purchases inputs, such as basenuts, which are themselves subject to the proceeding, it should not be considered the "producer" of the subject merchandise.

**DOC position:** We disagree. Although Gourmet subcontracts certain processes and purchases major inputs, it does perform processing, e.g., tumbling and welding, and it produces caps. Therefore, we consider Gourmet to be the manufacturer of the merchandise under investigation. Moreover, even if Gourmet purchases inputs which may be considered as unfinished lug nuts, Gourmet uses those inputs to produce the merchandise which is being sold to the United States. Those sales are the subject of this investigation and Gourmet is the seller.

**Comment 3:** Petitioner argues that for product type 9A, Gourmet was supplied the base nut by its customer and simply performed a tolling function. In addition, retail sales packaging for this lug nut states that it was "made by the customer in Taiwan." Therefore, this type of lugnut should not be considered made by Gourmet and the Department should disregard sales of type 9A.

Gourmet argues that it substantially transforms the basenuts before they are exported to the United States. Thus, Gourmet is the producer of type 9A lug nuts. Furthermore, Gourmet argues that there is no legal authority to exclude these sales and that the Department uses tolled sales in calculating antidumping margins.

**DOC position:** Regardless of the claims on the package, these are tolled sales which the Department routinely includes in its analysis. See, e.g., Final Determination of Sales at Less Than Fair Value: Brass Sheet and Strip from France (52 FR 812, January 9, 1987). U.S. price was based on the tolling charge.

**Comment 4:** Gourmet argues that since the Department could not confirm its steel costs for the production of caps, the Department should use the price at which Gourmet purchased caps from an unrelated subcontractor during the POI. Gourmet states that it would be appropriate to use the price of the caps it bought even though the cost of producing the caps in-house is lower, as best information available.

Petitioner argues that even if the Department uses the cap price in lieu of actual steel cost, the Department should

adjust upward the cost to reflect the reject rate in the welding operation, sorting, and inspecting. Petitioner also contends that the Department should use the price that San Shing paid for caps, adjusted upward to reflect the fact that it costs Gourmet more to produce the caps for larger sized lug nuts.

**DOC position:** We agree with Gourmet in part. We were not able to verify Gourmet's steel input costs or labor for producing caps. However, we did verify that Gourmet purchased caps from an unrelated supplier. This verified price of caps is the best information available for determining Gourmet's costs with respect to caps. We do not see any reason to accept petitioner's suggestion that we use the prices paid by San Shing for caps, with an adjustment for size.

At the same time, we agree with petitioner that this cost must be adjusted upward to reflect yields at the welding stage, i.e., when the caps are welded onto the basement, and have made such an adjustment.

**Comment 5:** Gourmet argues that the Department should not increase direct labor costs to correct for what it believes is an omission of overtime. Gourmet states that since the payroll already included overtime, the increase is not warranted. Moreover, there is no evidence in the verification exhibits to support or explain this increase. Finally, Gourmet states that sales volume rather than sales value should be used to allocate the direct labor cost.

Petitioner argues that the direct labor cost should be increased. In addition, petitioner argues that, contrary to Gourmet's assertion, direct labor costs in producing lug nuts approximate sales values rather than sales volume. Thus, the Department should allocate direct labor cost on the basis of sales value and not sales volume.

**DOC position:** The direct labor cost reported by Gourmet could not be verified. In the process of trying to demonstrate the correct cost of direct labor, Gourmet company officials stated that their payroll records only list straight time. In an attempt to verify the correct total direct labor cost, we examined Gourmet's general ledger which showed that direct labor costs were significantly higher than the cost shown in the payroll. Therefore, we increased the direct labor cost by a percentage represented by the ratio of verified labor costs as reported in the payroll to those reflected in the general ledger.

With respect to the allocation issue, Gourmet has argued that labor costs should be allocated among products based on volume. We note that a value

based allocation results in higher costs being assigned to lugnuts. Because we were not able to verify labor costs reported in the response, we have used the more adverse, value-based allocation methodology.

**Comment 6:** Gourmet argues that the total electricity and other variable expenses should be added together and allocated to lug nuts based on the ratio of the volume of lug nuts sold to the volume of all products sold to arrive at the total variable production overhead costs.

Petitioner argues that variable production overhead should be allocated based on sales value and not sales volume.

**DOC position:** For the same reasons discussed in response to Comment 5, we have allocated these variable expenses on the basis of value rather than volume.

**Comment 7:** Petitioner states that Gourmet should have reported the cost of pallets as part of packing material cost. Also, where lug nuts are packed in clam shells, the packing cost should include the cost of clam shells and packing labor. Finally, petitioner argues that packing labor costs should be allocated based on sales value rather than sales volume.

Gourmet states that in calculating the packing expense, although packing materials relates only to those materials used in packing lug nuts, packing labor relates to all products packed by Gourmet. Therefore, only a portion of packing labor is attributable to lug nuts and that portion should be determined by the ratio of sales volume of lug nuts to the sales volume of all products sold.

**DOC position:** Gourmet claims that its merchandise is not shipped on pallets and we saw no evidence at verification that pallets were used. Therefore, we have not included a cost for pallets.

With respect to packing the lug nuts in clam shells, Gourmet typically does not do this. Instead, the lug nuts and empty clam shells are packed separately in the same carton. On one invoice, however, there is an indication that the lug nuts were pre-packed in clam shells. This invoice also carries a higher unit value in comparison with the other invoices to the same customer. To account for this, we have increased the constructed value to include the extra packing element.

We have allocated the portion of packing labor attributable to lug nuts based on the value of lug nuts and other products sold for the reasons discussed in response to comment 5.

**Comment 8:** Gourmet argues that the Department should calculate the profit based on the POL. Additionally, the cost of manufacture used in calculating the

profit should include the cost of purchasing the caps, consistent with the treatment of purchases from other subcontractors.

Petitioner argues that the Department should use the profit calculated on a semi-annual basis, excluding the cost of purchasing the cap.

**DOC position:** The Department used the eight percent statutory minimum as best information available.

**Comment 9:** Petitioner contends that the Department should have examined the sale of the trading companies because (1) Gourmet was not identified as the manufacturer of the subject merchandise until after the trading company received a questionnaire from the Department; (2) Gourmet incurs no direct selling expenses, no short-term bank financing, and no R&D expenses, and (3) most sales are made through the trading companies.

Gourmet argues that the use of sales by trading companies would be contrary to long-standing precedent. The Department uses sales by trading companies only when the ultimate destination of the merchandise is not known by the trading company's supplier. However, in this investigation, Gourmet knew the destination of all exported merchandise, including merchandise sold to trading companies.

**DOC position:** We agree with Gourmet. It is longstanding Department practice to look at the prices charged by the manufacturer, as opposed to the trading company, where the manufacturer knows the destination of the merchandise (see, *Electrolytic Manganese Dioxide from Japan*, 54 FR 6778, March 2, 1989). On occasion, the Department has been asked to examine whether trading companies are engaged in "middleman dumping," but petitioner has made no such claim.

**Comment 10:** Petitioner argues that the number of entries on reports supplied by Customs, compiled for purposes of analyzing the critical circumstances issue pursuant to petitioner's request, does not match the number of entries reported by Gourmet. Additionally, petitioner argues that for direct sales, the unit price in the Customs report is lower than the unit price reported in the response. For indirect sales, i.e., sales through trading companies, the unit price in the Customs report is higher than the unit price reported in the response.

Gourmet argues that the Customs report is inaccurate and should not be relied upon by the Department. In addition, the entered value of indirect sales should be higher on the Customs report, since these sales were made to

trading companies and the entered value ostensibly includes the profit and expenses of the trading companies. The entered value of direct sales should be lower on the Customs report than the response because the Customs report has the invoice price and the invoice price reflects the allowance for defective goods given for these sales.

**DOC position:** The Customs report referred to by petitioner was compiled solely for purposes of analyzing the critical circumstances issue. All the sales information used in this final determination was verified. The Department generally will not use any information in place of verified information absent compelling reasons to do so. Gourmet has provided a plausible explanation as to why there are slight discrepancies between the Customs report and the verified information, and we have no compelling reason to disregard the verified information.

**Comment 11:** Petitioner argues that Gourmet did not account for the cost of sorting and inspection. Gourmet maintains that the costs of sorting and inspection are included in the packing labor costs.

**DOC position:** Based on our observation during the plant tour at verification, we conclude that the verified packing cost includes the cost of sorting and inspecting.

**Comment 12:** With respect to the discount given on current sales for defective units sold prior to the POI, petitioner argues that the Department should use the discounted price as U.S. price. Additionally, the constructed value should be increased proportionally to reflect the cost of replacing the defective lug nuts.

Gourmet states that it incurred no loss on the sale of the defective lug nuts. Gourmet was paid in full by its customer in 1989 for the defective merchandise and the allowance is a method of reimbursing the customer. Gourmet asserts that the amount of this allowance was verified, and must be added to the unit price on the invoice to arrive at the gross U.S. price. Gourmet contends that this allowance has nothing to do with the cost of producing the merchandise during the POI.

**DOC position:** In the Department's judgment, the price reduction at issue appears to be a normal price discount. Therefore, we have treated it as such and deducted it from the United States price. We have not increased the cost of producing the subject merchandise by the amount of the price reduction, in addition to treating the reduction as a price discount, because to do so would be double counting.

**Comment 13:** Petitioner argues that the interest portion of constructed value should not be adjusted for imputed credit. No adjustment is needed to avoid double counting of interest expense since Gourmet incurred no interest expenses during the POI. Since home market sales were made for cash, the only credit expenses reported by Gourmet were those on its U.S. sales of the covered merchandise.

Gourmet asserts that the Department should not abandon its long-standing practice of reducing the interest expense reflected in a company's books by the amount of imputed credit. Gourmet states that the Department's rationale is that the failure to reduce the interest expense in a company's books would result in double counting. Gourmet further maintains that it does not matter that home market sales were made on a cash basis.

**DOC position:** We agree with petitioner. As Gourmet did not incur any interest expense, no adjustment was necessary to reduce interest expense for the amount related to imputed credit expense.

**Comment 14:** Petitioner argues that San Shing's interest rate should be used, as best information available, to calculate Gourmet's imputed interest expense. Petitioner maintains that since Gourmet did not incur any interest expenses from which its own rate could be derived, the information based on the actual experience of another producer should be used.

Gourmet argues that the Department should not use the credit experience of another company with an unknown credit experience and rating to calculate its imputed credit expense. Instead, Gourmet suggests that the Department use the interest rate of its trading company obtained during verification.

**DOC position:** We have used the weighted-average short-term interest rate (the thirty- to ninety-day rate) for the POI published in the Monthly Statistics by the Central Bank of China to calculate Gourmet's imputed interest expense. We used the thirty- to ninety-day rate because this time period approximates the average amount of time between the date of shipment and the date of payment for Gourmet. We do not believe it is appropriate to apply an interest rate to Gourmet which applies to some other company not similarly situated to Gourmet.

**Comment 15:** In the Department's preliminary determination, petitioner states that the costs were calculated on the date of exportation and not the date of sale. This treatment, petitioner maintains, is inconsistent with the Department's regulations in relation to

calculating constructed value in a purchase price situation. Petitioner states that the cost of producing the subject merchandise is incurred up to 45 days before the merchandise is shipped. Because of production lead times, the exchange rate for the cost of production should reflect a similar lag.

**DOC position:** We found during verification that Gourmet records its expenses in its general ledger one month after the expenses are actually incurred. Therefore the costs used in this determination reflect the actual costs incurred during the POI.

Additionally, we have no reason to believe that the costs incurred in the period preceding the POI should differ from the costs incurred during the POI. Therefore, we have used the POI costs as a reasonable surrogate.

Section 353.60(a) of our regulations directs us to make currency conversion as of the date of the U.S. sale. We have determined that the invoice date is the date of sale and have made currency conversions as of that date.

**Comment 16:** Petitioner argues that movement charges were improperly allocated. Petitioner argues that the freight charges should be allocated based on weight and marine insurance and harbor tax by value.

Gourmet states that its allocations, based on volume, more closely approximate the manner in which the charges were incurred.

**DOC position:** We have allocated all movement charges according to the manner in which the cost was incurred. Therefore, we have allocated freight on the basis of volume and the other charges on the basis of value.

**Comment 17:** Petitioner argues that information on sales of open-end chrome-plated lug nuts should have been provided.

Gourmet asserts that the number of open-end chrome-plated lug nuts sold during the period of investigation was so small that it can have no material impact on this investigation and should be ignored. Gourmet contends that this small quantity was overlooked because chrome-plated open-end lug nuts are an anomaly since a lug nut that exposes the bolt does not serve a decorative purpose. Moreover, most open-end lug nuts sold by Gourmet during the POI were zinc-plated and not chrome-plated. The Department verified over 95.5 percent of Gourmet's sales, and these sales are sufficiently representative of the 0.05 percent inadvertently omitted and disregarded for purposes of the Department's analysis.

**DOC position:** Due to the insignificant value of sales during the POI

represented by open-ended chrome-plated lug nuts, the Department has not analyzed these sales for purposes of calculating United States price.

*Comment 18:* Petitioner argues that fixed production overhead should be allocated based on sales value and not sales volume.

*DOC position:* For the reasons stated in response to comment 5, we have allocated fixed overhead among products based on their respective value.

*Comment 19:* Petitioner argues that "other material" costs are not accurate because the Department did not examine purchases prior to June 1990, which reflect purchases and costs incurred on the covered products sold during the period of investigation.

*DOC position:* See Comment 15.

*Comment 20:* Petitioner argues that Gourmet's SG&A should be recalculated based on Gourmet's audited financial statement.

Gourmet does not necessarily agree with the SG&A amount verified by the Department, but argues that recalculation of this amount is not warranted. Because Gourmet's SG&A is less than ten percent, the statutory minimum should be used.

*DOC position:* We have calculated Gourmet's SG&A based on its annual audited financial statement, since G&A and actual selling expenses would not be verified.

*Comment 21:* Petitioner argues that San Shing received an export subsidy on its steel input purchases from a state-owned steel supplier.

San Shing argues that the steel company, from which San Shing purchases most of its steel materials, merely sets its prices based on its marketing strategy in promoting its products. The price treatment given by this steel company to its customer should not be viewed as a countervailable subsidy.

*DOC position:* Consistent with past practice, we have deducted the rebate received by San Shing in calculating the cost of the company's steel costs (see, *United States v. European Trading Co.*, 27 CCPA 289). We have not made any adjustments to our calculations to reflect this alleged subsidy.

*Comment 22:* Petitioner argues that San Shing did not account for the cost of pickling and drawing.

San Shing maintains that all costs associated with pickling and drawing are accounted for in the fixed and variable production overhead.

*DOC position:* We verified the total cost of producing the subject merchandise. Included within the total cost is the cost of pickling and drawing.

*Comment 23:* Petitioner argues that San Shing did not account for all waste inherent in each stage of the production process. Accordingly, petitioner argues, the steel cost must be increased to reflect the production of defective nuts (exclusive of cap), with the revenue generated from sale of scrap used to offset production overhead costs only when the scrap is sold.

San Shing asserts that the waste incurred during the manufacturing process is limited, and was accounted for in its calculation of constructed value. In addition, the revenue generated from the sale of scrap was used to offset the cost of production.

*DOC position:* We agree with San Shing. We verified that all waste experienced during the manufacturing process was accounted for by San Shing. Additionally, we have determined that revenue from scrap should be used to offset cost of manufacture since scrap is generated during the manufacturing process. We have offset the cost of manufacture by the revenue earned by the sale of scrap.

*Comment 24:* Petitioner argues that packing is unique to the subject merchandise and should be allocated over the subject merchandise only.

*DOC position:* We verified that San Shing does not keep separate accounting records for each of its several products. We determined that San Shing's methodology for allocating packing cost is reasonable and have accepted its methodology of allocating the packing cost over all products, including the subject merchandise, packed by the packing department.

*Comment 25:* Petitioner argues that the R&D expense incurred by the "Tooling Department" should not be deducted from the fixed production overhead. Petitioner maintains that the benefit derived from this R&D can be attributable to the subject merchandise since San Shing uses the products produced by the Tooling Department to produce the subject merchandise. San Shing argues that its R&D expense is not related to the production of lug nuts. San Shing explained that the R&D expenses related to the production of the basenut were incurred prior to the period of investigation. San Shing maintains that there were no further R&D expenses related to the subject merchandise.

*DOC position:* We agree with petitioner. San Shing uses the machinery and tools produced by the Tooling Department to produce the subject merchandise. Therefore, research and development in the Tooling Department will benefit the production of the subject merchandise.

*Comment 26:* Petitioner maintains that R&D expenses attributable to other products and departments should not be deducted from San Shing's G&A expense.

*DOC position:* We agree with petitioner. We used the audited financial statement in calculating G&A expenses and have not deducted R&D expenses attributable to other products and departments in this calculation.

*Comment 27:* Petitioner argues that where payment has not been received for a sale, the days for which credit was outstanding should be increased regardless of the terms of the sale.

*DOC position:* The actual payment dates for each sale were obtained at verification and were used in our final determination.

#### Critical Circumstances

Petitioner alleges that imports of chrome-plated lug nuts from Taiwan present "critical circumstances." Under section 735(a)(3) (A) and (B) of the Act, critical circumstances exist if we determine that (1) there is history of dumping in the United States or elsewhere of the class or kind of merchandise which is the subject of the investigation, or the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than its fair value, and (2) there have been massive imports of the class or kind of merchandise that is the subject of the investigation over a relatively short period.

It is our standard practice to impute knowledge of dumping under section 735(a)(3)(A)(ii) of the Act when the estimated margins in our determinations are of such a magnitude that the importer should realize that dumping exists with regard to the subject merchandise. Normally we consider estimated margins of 25 percent or greater to be sufficient. See e.g., *Final Determinations of Sales at Less than Fair Value: Antifiction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof From the Federal Republic of Germany* (54 FR 16992, May 3, 1989). The estimated margins in this final determination do not meet the requirements to impute knowledge of dumping under section 735(a)(3)(A)(ii) of the Act. We also examined recent antidumping duty cases and found that there are currently no findings of dumping in the United States or elsewhere of the subject merchandise by Taiwanese manufacturers, producers, and exporters of the subject merchandise.

On this basis, we find that the requirements of section 735(a)(3)(A) are not met with regard to imports of the subject merchandise. Therefore, we determine that critical circumstances do not exist.

#### Suspension of Liquidation

We are directing the U.S. Customs Service to suspend liquidation on entries from Gourment and to continue to suspend liquidation of all other entries of chrome-plated lug nuts, as defined in the "Scope of Investigation" section of this notice, that are entered, or withdrawn from warehouse for consumption, on or after the date of publication of this notice in the Federal Register. The U.S. Customs Service shall require a cash deposit equal to the estimated amounts by which the foreign market value of chrome-plated lug nuts exceeds the United States price as shown below. This suspension of liquidation will remain in effect until further notice. The margins are as follows:

Manufacturer/producer/exporter	Weighted-average margin percentage
San Shing Hardware Works Co., Ltd.	11.57
Gourmet Equipment (Taiwan) Corp. (Gourmet)	6.57
All Others	7.12

#### ITC Notification

In accordance with section 735(d) of the Act, we have notified 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 administrative protective order, without the written consent of the Deputy Assistant Secretary for Investigations, Import Administration.

This determination is published pursuant to section 735(d) of the Act and 19 CFR 353.20(a)(4).

Dated: July 25, 1991.

Francis J. Sailer,

Acting Assistant Secretary for Import Administration.

[FR Doc. 91-18136 Filed 7-30-91; 8:45 am]

GILLING CODE 3516-06-18

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**APPENDIX B**

**CALANDAR OF WITNESSES**

## CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the U. S. International Trade Commission's hearing:

Subject	:	CHROME-PLATED LUG NUTS FROM THE PEOPLE'S REPUBLIC OF CHINA AND TAIWAN
Inv. No.	:	731-TA-474 and 475 (Finals)
Date and Time	:	August 1, 1991 - 9:30 a.m.

Sessions were held in connection with the investigations in the Main Hearing Room 101 of the U. S. International Trade Commission, 500 E St., S.W., Washington, D.C.

**In Support of Imposition of  
Antidumping Duties**

**Politis, Pollack & Doram  
Washington, D.C.  
On behalf of**

**Consolidated International Automotive, Inc.**

**Mr. Mark Plumer, President  
Consolidated International Automotive, Inc.  
Los Angeles, CA**

**Mr. Durham McCauley, Executive Vice President  
McGard, Inc.  
Orchard Park, NY**

**Mr. Richard Guillod, Vice President for  
Marketing and Sales  
Key Manufacturing Group  
Royal Oak, MI**

**Robert T. Hume )--OF COUNSEL**



**In Opposition to the Imposition of  
Antidumping Duties**

**Reed Smith Shaw & McClay  
Washington, D.C.  
On behalf of**

**China National Machinery & Equipment  
Import & Export Corporation;  
Jiangsu Company, Ltd. (CMEC Jiangsu)**

**Mr. Jun Wang, President, SUMEC International,  
U.S. Subsidiary of CMEC Jiangsu**

**Jing Wang                    )  
                                  )-OF COUNSEL  
James K. Kearney        )**

**- END -**



**APPENDIX C**

**COMMENTS RECEIVED FROM U.S. PRODUCERS ON THE IMPACT OF IMPORTS OF CHROME-  
PLATED LUG NUTS FROM CHINA AND TAIWAN ON THEIR GROWTH, INVESTMENT,  
ABILITY TO RAISE CAPITAL, AND EXISTING DEVELOPMENT EFFORTS**

COMMENTS RECEIVED FROM U.S. PRODUCERS ON THE IMPACT OF IMPORTS OF CHROME-  
PLATED LUG NUTS FROM CHINA AND TAIWAN ON THEIR GROWTH, INVESTMENT,  
ABILITY TO RAISE CAPITAL, AND EXISTING DEVELOPMENT EFFORTS

The Commission requested U.S. producers to describe and explain the actual and anticipated negative effects, if any, of imports of chrome-plated lug nuts from China and Taiwan on their investment, ability to raise capital, or existing development and production efforts (including efforts to develop a derivative or improved version of chrome-plated lug nuts). Producers were also asked whether the scale of capital investments undertaken has been influenced by the presence of imports of chrome-plated lug nuts from China and Taiwan. Responses are presented below:

\* \* \* \* \*

**APPENDIX D**

**PURCHASER PRICE TRENDS AND COMPARISONS**

## PURCHASER PRICE TRENDS AND COMPARISONS

Price Trends<sup>1</sup>

Purchasers were requested to provide pricing data for their purchases of both bulk and packaged quantities of products 1, 2, and 3 from the United States, China, and Taiwan. Pricing data were requested for the period January 1989-March 1991 (tables D-1 through D-3).

Table D-1

Weighted-average delivered prices for lug nut product 1, as reported by U.S. aftermarket purchasers for bulk and packaged purchases, by quarters, January 1989-March 1991

\* \* \* \* \*

Table D-2

Weighted-average delivered prices for lug nut product 2, as reported by U.S. aftermarket for bulk and packaged purchases, by quarters, January 1989-March 1991

\* \* \* \* \*

Table D-3

Weighted-average delivered prices for lug nut product 3, as reported by U.S. aftermarket purchasers for bulk and packaged purchases, by quarters, January 1989-March 1991

\* \* \* \* \*

Weighted-average delivered purchase prices from U.S. producers were reported for all quarters for both bulk and packaged purchases of chrome-plated product 1 and for bulk purchases of chrome-plated products 2 and 3. Packaged purchases of chrome-plated products 2 and 3 were reported for 7 of the 9 quarters. Only 1 purchaser reported purchases of U.S. packaged chrome-plated products 1, 2, and 3.

Purchase prices generally remained constant or fell for reported purchases of all domestic products. Purchase prices remained relatively constant for both packaged and bulk purchases of product 1, with both showing a decline and then subsequent rise in the 3rd and 4th quarters of 1989 before returning to their previously reported levels. Domestic prices of packaged product 2 remained constant throughout the reporting period while purchase prices for bulk purchases of product 2 fell. Bulk purchase prices of product 2 remained constant at \*\*\* cents throughout 1989 and the first quarter of

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<sup>1</sup> Only one purchaser reported purchases of stainless steel lug nuts. Prices fluctuated with no apparent trend, with prices ranging between \*\*\* cents and \*\*\* cents.

1990, and then fluctuated between \*\*\* cents and \*\*\* cents for the remainder of the reporting period. Prices of packaged domestic product 3 generally remained constant throughout the reporting period, while bulk purchase prices for product 3 remained constant at \*\*\* cents throughout 1989 and then fluctuated between \*\*\* cents and \*\*\* cents for the remainder of the reporting period.

Only one purchaser reported purchases of lug nuts from China. Prices were reported only for bulk purchases of product 2. The weighted average prices for this product remained constant throughout the reporting period.

Purchases from Taiwan were reported for all quarters for bulk purchases of products 1, 2, and 3, and packaged purchases of products 1 and 3 were reported for 8 of the 9 periods. Only one purchaser reported purchases of Taiwan bulk product 2 and packaged purchases of products 1 and 3. No price data were reported for packaged purchases of product 2. Packaged purchases of product 1 remained constant at \*\*\* cents throughout 1989, increased to \*\*\* cents in the first quarter of 1990, and remained at that level throughout 1990. Bulk purchase prices of product 1 fluctuated with no apparent trend, with reported weighted-average purchase prices ranging between \*\*\* cents and \*\*\* cents. Reported bulk purchases of product 2 from Taiwan remained constant at their first quarter 1989 level of \*\*\* cents throughout 1990 and the first quarter of 1991, after having risen to \*\*\* cents in the second quarter of 1989 and then fallen to \*\*\* cents in the second half of the year. Prices of both packaged and bulk product 3 remained relatively constant. Packaged purchase prices remained constant at \*\*\* cents throughout 1989, increased to \*\*\* cents in the first quarter of 1990, and then remained at that level. Bulk purchase prices for product 3 fluctuated with no apparent trend, with reported weighted-average purchase prices ranging between \*\*\* cents and \*\*\* cents.

#### Price Comparisons

Direct comparisons of prices between U.S. and Chinese lug nuts were available only for bulk purchases of product 2 (table D-4). Underselling occurred in all quarters, with the margins ranging from 5.9 percent to 20.3 percent. Price comparisons between U.S. and Taiwanese lug nuts were available for bulk and packaged purchases of products 1 and 3, and for bulk purchases of product 2 (table D-4). Margins of overselling were reported in all quarters for packaged and bulk purchases of product 1, with margins of overselling ranging from 42.4 percent to 80.3 percent for packaged product 1, and from 21.8 percent to 69 percent for bulk product 1. Margins of underselling were reported for 8 of 9 quarters for bulk product 2, with margins of underselling ranging from 3.4 percent to 20.3 percent. Packaged purchases of product 3 resulted in overselling for each of the 6 quarters where price comparisons were available, with margins of overselling ranging from 70.8 percent to 85.3 percent. Margins of overselling were reported for 8 of the 9 quarters for bulk product 3, with margins ranging from 0.2 percent to 27.1 percent.

Table D-4

Margins of under(over)selling in the aftermarket for lug nuts imported from China and Taiwan, reported by purchasers, by quarters, January 1989-March 1991

(In percent)						
Period	<u>Bulk</u>				<u>Packaged</u>	
	<u>China</u>	<u>Taiwan</u>			<u>Taiwan</u>	
	Product 2	Product 1	Product 2	Product 3	Product 1	Product 3
1989:						
Jan.-Mar.....	20.3	(48.5)	20.3	(0.2)	(56.1)	(78.4)
Apr.-June.....	20.3	(49.8)	(7.8)	(1.9)	(56.2)	(70.8)
July-Sept.....	20.3	(69.0)	9.5	(7.4)	(80.3)	( <sup>1</sup> )
Oct.-Dec.....	20.3	(21.8)	9.5	(15.2)	(42.4)	( <sup>1</sup> )
1990:						
Jan.-Mar.....	20.3	(24.8)	18.1	2.8	(63.1)	(84.7)
Apr.-June.....	5.9	(27.2)	3.4	(5.0)	(62.9)	(84.6)
July-Sept.....	15.2	(37.7)	12.9	(21.7)	(62.0)	(85.3)
Oct.-Dec.....	9.5	(41.9)	7.1	(22.3)	(62.5)	(85.3)
1991:						
Jan.-Mar.....	9.9	(31.7)	7.4	(27.1)	( <sup>1</sup> )	( <sup>1</sup> )

<sup>1</sup> No price data were supplied.

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the tables.

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