Drill Pipe and Drill Collars from China

Investigation Nos. 701-TA-474 and 731-TA-1176 (Preliminary)

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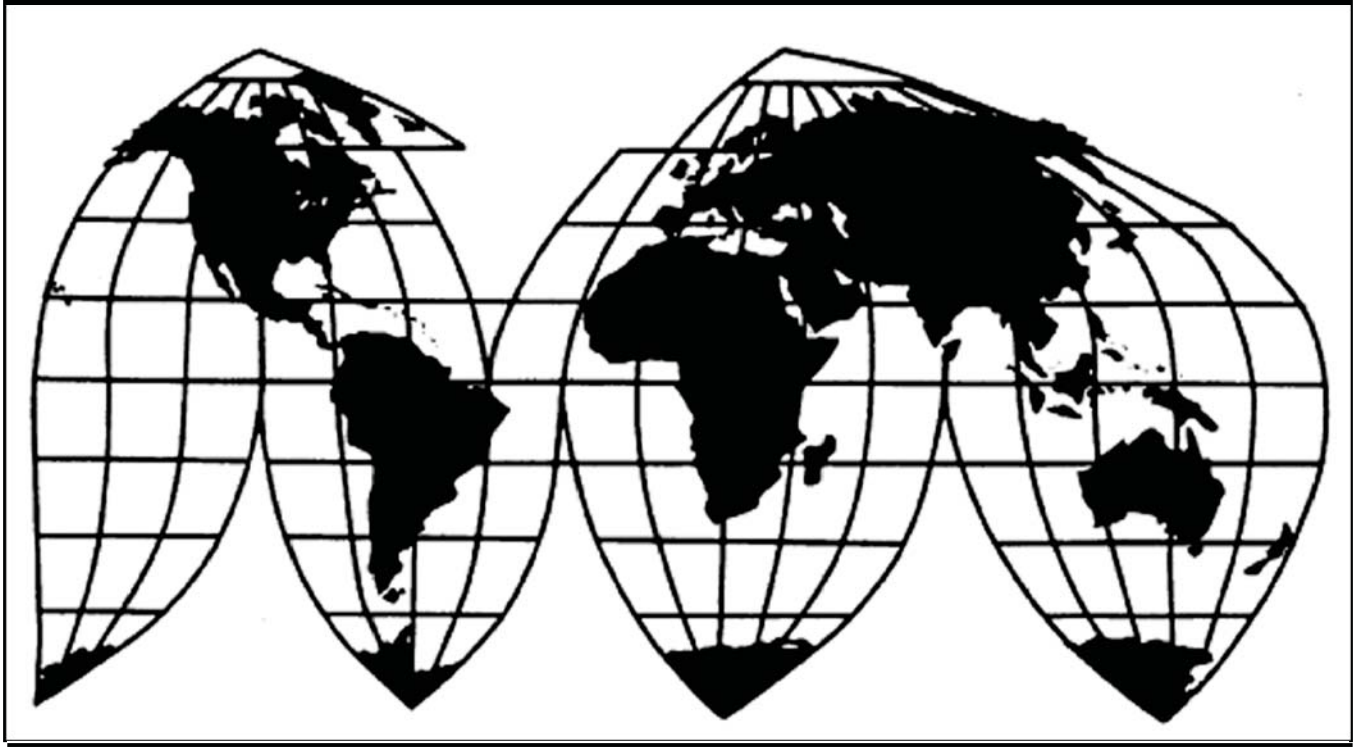
U.S. International Trade Commission



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Nancy Bryan, Economist
David Boyland, Accountant
Elizabeth Duall, Attorney
Douglas Corkran, Supervisory Investigator

Special assistance from

Steven Hudgens, Senior Statistician
Mary Jane Alves, Attorney

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. 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Note.–Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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 astericks.

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation Nos. 701-TA-474 and 731-TA-1176 (Preliminary)

DRILL PIPE AND DRILL COLLARS FROM CHINA

DETERMINATIONS

On the basis of the record[1] developed in the subject investigations, the United States International Trade Commission (Commission) determines, pursuant to sections 703(a) and 733(a) of the Tariff Act of 1930 (19 U.S.C. §§ 1671b(a) and 1673b(a)) (the Act), that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of imports from China of drill pipe and drill collars, provided for in subheadings 7304.22.00, 7304.23.30, 7304.23.60, and 8431.43.80 of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value (LTFV) and subsidized by the Government of China.[2]

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigations. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission's rules, upon notice from the Department of Commerce (Commerce) of affirmative preliminary determinations in the investigations under sections 703(b) or 733(b) of the Act, or, if the preliminary determinations are negative, upon notice of affirmative final determinations in those investigations under sections 705(a) or 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigations need not enter a separate appearance for the final phase of the investigations. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigations.

BACKGROUND

Effective December 31, 2009, a petition was filed with the Commission and Commerce by VAM Drilling USA Inc., Houston, TX; Rotary Drilling Tools, Beasley, TX; Texas Steel Conversions, Inc., Houston, TX; TMK IPSCO, Downers Grove, IL; and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC, Pittsburgh, PA, alleging that an industry in the United States is threatened with material injury by reason of LTFV and subsidized imports of drill pipe and drill collars from China. Accordingly, effective December 31, 2009, the Commission instituted countervailing duty investigation No. 701-TA-474 and antidumping duty investigation No. 731-TA-1176 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of January 6, 2010 (75 FR 877). The conference was held in Washington, DC, on January 21, 2010, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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

[2] Chairman Shara L. Aranoff, Vice Chairman Daniel R. Pearson, and Commissioner Deanna Tanner Okun dissenting.

VIEWS OF THE COMMISSION

Based on the record in the preliminary phase of these investigations, we find that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of imports of certain drill pipe and drill collars from China that are allegedly sold in the United States at less than fair value and subsidized by the Government of China.[1]

I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.[2] In applying this standard, the Commission weighs the evidence before it and determines whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation."[3]

II. BACKGROUND

The petitions in these investigations were filed effective December 31, 2009, by domestic producers VAM Drilling USA, Inc. ("VAM"), Texas Steel Conversions, Inc. ("Texas Steel"), Rotary Drilling Tools ("RDT"), and TMK IPSCO ("TMK"), as well as the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC (collectively, "Petitioners"). Petitioners appeared at the staff conference and filed a postconference brief. Eight firms accounting for almost all U.S. production of the product under investigation submitted usable questionnaire responses.[4]

Witnesses for two respondent importers appeared at the preliminary staff conference: Command Energy Services, Ltd. ("Command") and Downhole Pipe and Equipment, L.P. ("Downhole"). These two respondent importers also filed a joint postconference brief ("Respondents' Postconf. Br."). Weatherford International, Inc. ("Weatherford"), an importer of subject merchandise that did not appear at the staff conference, also filed a postconference brief ("Weatherford's Postconf. Br."). Twenty-two companies that are believed to account for more than 80 percent of U.S. imports of drill pipe and drill collars

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[1] Chairman Aranoff, Vice Chairman Pearson, and Commissioner Okun find no reasonable indication that the domestic industry is materially injured or threatened with material injury by reason of subject imports from China. They join sections I-V.B of these views.

[2] 19 U.S.C. §§ 1671b(a), 1673b(a) (2000); see also American Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); Aristech Chem. Corp. v. United States, 20 CIT 353, 354-55 (1996).

[3] American Lamb Co., 785 F.2d at 1001; see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

[4] See, e.g., Confidential Staff Report, Memorandum INV-HH-011 (Feb. 12, 2010) ("CR") at I-5; Public Staff Report, Drill Pipe and Drill Collars from China, Invs. Nos. 701-TA-474 and 731-TA-1176 (Prelim.), USITC Pub. 4127 (Feb. 2010) ("PR") at I-3. These firms are RDT, Texas Steel, National Oilwell Varco Grant Prideco ("NOV Grant Prideco"), The Timken Company ("Timken"), U.S. Steel Corporation ("U.S. Steel"), Smith International, Inc. ("Smith"), VAM, and TMK. See, e.g., CR/PR at Table III-1. ***. See, e.g., CR at I-4, n.3; PR at I-3, n.3.

submitted usable questionnaire responses.[5] The Commission also received usable questionnaire responses from five manufacturers/exporters in China.[6]

III. DOMESTIC LIKE PRODUCT

A. In General

In determining whether an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the "domestic like product" and the "industry."[7] Section 771(4)(A) of the Tariff Act of 1930, as amended ("the Tariff Act"), defines the relevant domestic industry as the "producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[8] In turn, the Tariff Act defines "domestic like product" as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation ... ."[9]

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis.[10] No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.[11] The Commission looks for clear dividing lines among possible like products and disregards minor variations.[12] Although the Commission must accept the U.S. Department of Commerce's ("Commerce") determination as to the scope of the imported merchandise that is subsidized or sold at less than fair value,[13] the Commission determines what domestic product is like the imported articles Commerce has

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[5] See, e.g., CR at IV-1; PR at IV-1; CR/PR at Table IV-1.

[6] See, e.g., CR/PR at Table VII-2. *** also submitted a questionnaire response; however it did not provide usable data. See, e.g., CR/PR at Table VII-2, note.

[7] 19 U.S.C. § 1677(4)(A).

[8] 19 U.S.C. § 1677(4)(A).

[9] 19 U.S.C. § 1677(10).

[10] See, e.g., Cleo, Inc. v. United States, 501 F.3d 1291, 1299 (Fed. Cir. 2007); NEC Corp. v. Department of Commerce, 36 F. Supp. 2d 380, 383 (Ct. Int'l Trade 1998); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Torrington Co. v. United States, 747 F. Supp. 744, 749 n.3 (Ct. Int'l Trade 1990), aff'd, 938 F.2d 1278 (Fed. Cir. 1991) ("every like product determination 'must be made on the particular record at issue' and the 'unique facts of each case'"). The Commission generally considers a number of factors including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See Nippon, 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int'l Trade 1996).

[11] See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

[12] Nippon, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49; see also S. Rep. No. 96-249 at 90-91 (1979) (Congress has indicated that the like product standard should not be interpreted in "such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.").

[13] See, e.g., USEC, Inc. v. United States, 34 Fed. Appx. 725, 730 (Fed. Cir. 2002) ("The ITC may not modify the class or kind of imported merchandise examined by Commerce."); Algoma Steel Corp. v. United States, 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), aff'd, 865 F.3d 240 (Fed. Cir.), cert. denied, 492 U.S. 919 (1989).

identified.[14] The Commission must base its domestic like product determination on the record in these investigations. The Commission is not bound by prior determinations, even those pertaining to the same imported products, but may draw upon previous determinations in addressing pertinent domestic like product issues.[15]

B. Product Description and Comparison to Scope of Other Investigations

Oil country tubular goods ("OCTG") is one of six steel pipe and tube end-use categories defined by the American Iron and Steel Institute ("AISI"). OCTG encompasses steel pipes and tubes used to drill oil and gas wells in addition to steel pipes and tubes used to convey oil and gas.[16] Whereas casing and tubing products are used to convey oil and gas from within the well to ground level, various components comprising a drill string are used to drill oil and gas wells.[17] The drill string is used to transmit power from the drilling motor above ground to the drill bit, and to conduct drilling fluid (mud) down to the drill bit to flush drill cuttings to the surface for removal.[18] The majority of the drill string consists of standard-weight drill pipe.[19] Normally, a drill string has drill collars at the bottom that are connected to heavy-weight drill pipe and then standard-weight drill pipe at the upper end.[20] These investigations predominantly concern drill pipe (both heavy-weight and standard-weight) and drill collars.

Commerce's notices of initiation define the imported merchandise within the scope of these investigations as follows:

> steel drill pipe, and steel drill collars, whether or not conforming to American Petroleum Institute (API) or non-API specifications, whether finished or unfinished (including green tubes suitable for drill pipe), without regard to the specific chemistry of the steel (i.e., carbon, stainless steel, or other alloy steel), and without regard to length or outer diameter. The scope does not include tool joints not attached to the drill pipe, nor does it include unfinished tubes for casing or tubing covered by any other antidumping or countervailing duty order.[21]

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[14] Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (the Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); Cleo, 501 F.3d at 1298 n.1 ("Commerce's {scope} finding does not control the Commission's {like product} determination."); Torrington, 747 F. Supp. at 748-52 (affirming the Commission's determination defining six like products in investigations where Commerce found five classes or kinds).

[15] See, e.g., Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp. 2d 1298, 1304-05 (Ct. Int'l Trade 2000); Nippon, 19 CIT at 455; Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n.5 (Ct. Int'l Trade 1988); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int'l Trade 1988).

[16] See, e.g., CR at I-9 to I-10 & n.14; PR at I-7 & n.14.

[17] See, e.g., CR/PR at Figures I-1 and I-2.

[18] See, e.g., CR at I-10; PR at I-7.

[19] See, e.g., Petitions, Vol. I, at 8.

[20] See, e.g., Petitions, Vol. I, at 8. Other elements of a drill string include pup joints, reamers, stabilizers, shock subs, crossover subs, and other accessories that are attached to the drill string. See, e.g., CR at I-10, n.17; PR at I-7, n.17.

[21] See 75 Fed. Reg. 4531 (Jan. 28, 2010).

The Commission has conducted several prior investigations of OCTG products, most recently on the basis of a petition filed in April 2009, but these are the first that have this precise scope (i.e., they do not include casing and tubing and they include drill collars).[22]

C. The Inclusion of Green Tubes in the Scope of These Investigations

Respondents Downhole and Command argue that the scope of these investigations wrongly includes green tubes, which are intermediate products from which finished drill pipe is manufactured. According to them, green tubes used to make drill pipe are indistinguishable from those used to make casing/tubing.[23] Downhole and Command ask the Commission to disregard imports of green tubes from China when evaluating injury in these investigations; they allege that the Commission already considered the effect of these imports on U.S. firms in the context of the recent and ongoing investigations of casing/tubing from China.[24]

The Commission must accept Commerce's determination as to the scope of the imported merchandise alleged to be subsidized or sold at less than fair value.[25] Commerce's definition of the scope in its notices initiating these investigations includes "green tubes suitable for drill pipe," but expressly does not include "unfinished tubes for casing or tubing covered by any other antidumping or countervailing duty order." Thus, based on the language of Commerce's scope, green tubes suitable for drill pipe that are imported from China are included in these investigations.

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[22] Certain OCTG from China, Inv. No. 701-TA-463 (Final), USITC Pub. 4124 (Jan. 2010). See also, OCTG from Brazil, Korea, and Spain, Invs. Nos. 701-TA-215 to 217 (Final), USITC Pub. 1633 at 3-10 (Jan. 1985) (separately analyzing the casing/tubing and drill pipe industries); OCTG from Austria, Romania and Venezuela, Invs. Nos. 701-TA-240 and 241 and 731-TA-249-251, USITC Pub.1679 (Prelim.) at 4-5 (Apr. 1985) (finding drill pipe to be separate domestic like product from casing/tubing, but analyzing single industry because the majority of domestic producers could not break out drill pipe data); OCTG from Argentina and Spain, Invs. Nos. 731-TA-191 and 195 (Final), USITC Pub. 1694 at 3-6 (May 1985) (finding drill pipe and casing/tubing were separate like products but examining data for a single OCTG industry because the majority of the domestic industry did not submit separate drill pipe data); OCTG from Canada and Taiwan, Invs. Nos. 701-TA-255 and 731-TA-276-277 (Final), USITC Pub. 1865 at 3-5 (June 1986); OCTG from Israel, Inv. No. 701-TA-271 (Final), USITC Pub. 1952 at 4-5 (Feb. 1987) (even though drill pipe was not in the scope of these investigations, two Commissioners found drill pipe and casing/tubing were separate like products, two found a single domestic like product that included both, and one did not participate): OCTG from Argentina, Austria, Italy, Japan, Korea, Mexico, and Spain, Invs. Nos. 701-TA-363 to 364 and 731-TA-711 to 717 (Final), USITC Pub. 2911 at I-7 to I-10 (Aug. 1995); OCTG from Argentina, Italy, Japan, Korea, and Mexico, Invs. Nos. 701-TA-364, 731-TA-711, 713-716 (Review), USITC Pub. 3434 (June 2001); OCTG from Argentina, Italy, Japan, Korea, and Mexico, Invs. Nos. 731-TA-711 and 713-716 (Second Review), USITC Pub. 3923 (June 2007); OCTG from Austria, Brazil, China, France, Germany, India, Indonesia, Romania, South Africa, Spain, Turkey, Ukraine, and Venezuela, Invs. Nos. 701-TA-428 and 731-TA-992 to 994 and 996-1005 (Prelim.), USITC Pub. 3511 (May 2002) (the Commission defined a single domestic like product coextensive with the scope that included both casing/tubing and drill pipe (but not finished drill pipe with tool joints attached), although it recognized "some merit" to arguments that casing/tubing and drill pipe were separate like products).

[23] See, e.g., Postconference Brief of Downhole and Command ("Respondents' Postconf. Br.") at 5-7.

[24] See, e.g., Respondents' Postconf. Br. at 4-10; Confer. Tr. at 11-12 (Chen).

[25] See, e.g., USEC, Inc. v. United States, 34 Fed. Appx. 725, 730 (Fed. Cir. Apr. 25, 2005) ("The ITC may not modify the class or kind of imported merchandise examined by Commerce."); Softwood Lumber from Canada, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Pub. 3509 at 28-29 (May 2002) (the Commission cannot alter the scope of investigation determined by Commerce, citing, inter alia, Algoma Steel Corp. v. United States, 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), aff'd, 865 F.3d 240 (Fed. Cir.), cert. denied, 492 US. 919 (1989); Sandvik Steel Co. v. United States, 164 F.3d 595, 600 (Fed. Cir. 1998); Mitsubishi Elec. Corp. v. United States, 898 F.2d 1577, 1582 (Fed. Cir. 1990).

D. Domestic Like Product Issues in These Investigations

In these investigations, there are two issues concerning the definition of the domestic like product: first, whether green tubes are a separate domestic like product from finished drill pipe, and second, whether the Commission should find that drill collars are a separate domestic like product from drill pipe.

1. Whether Green Tubes are a Separate Domestic Like Product

Respondents Downhole and Command ask the Commission to find that green tubes are a separate domestic like product.[26] They apply the Commission's traditional six-factor like product analysis to argue that green tubes and finished drill pipe are wholly different products.[27] Petitioners disagree, asserting that unfinished drill pipe (green tubes) and finished drill pipe are part of a continuum and should be part of a single domestic like product.[28]

Unlike Respondents, we have analyzed this issue using our semi-finished product analysis.[29] Because green tubes and finished drill pipe are articles at different stages of processing, with green tubes being upstream products that are further processed into downstream finished drill pipe, use of the semi-finished product analysis is more appropriate than application of the Commission's six-factor analysis.[30]

Significance and extent of the processes used to transform the upstream into the downstream articles. In the United States, green tubes are formed from round or square solid steel billets or bars in seamless pipe mills.[31] These mills use either rotary piercing or hot extrusion to form a central cavity and then roll the hollow shell with either a fixed plug or a continuous mandrel to reduce the wall thickness and thereby increase the length.[32] Finally, they roll the shell to size in a sizing or stretch-reducing mill.[33] Processors making drill pipe take the formed product, heat the ends of the green tubes, and send the pipe through a special forging press or upsetter to form a thicker wall at the end of the pipe in order to attach a

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[26] See, e.g., Respondents' Postconf. Br. at 10-15.

[27] See, e.g., Respondents' Postconf. Br. at 10-15.

[28] See, e.g., Petitioners' Postconf. Br. at 6-12.

[29] In a semi-finished products analysis, the Commission examines the following: (1) the significance and extent of the processes used to transform the upstream into the downstream articles; (2) whether the upstream article is dedicated to the production of the downstream article or has independent uses; (3) differences in the physical characteristics and functions of the upstream and downstream articles; (4) whether there are perceived to be separate markets for the upstream and downstream articles; and (5) differences in the costs or value of the vertically differentiated articles. See, e.g., Glycine from India, Japan, and Korea, Invs. Nos. 731-TA-1111 to 1113 (Prelim.), USITC Pub. 3921 at 7 (May 2007); Artists' Canvas from China, Inv. No. 731-TA-1091 (Final), USITC Pub. 3853 at 6 (May 2006); Live Swine from Canada, Inv. No. 731-TA-1076 (Final), USITC Pub. 3766 at 8, n.40 (Apr. 2005); Certain Frozen Fish Fillets from Vietnam, Inv. No. 731-TA-1012 (Prelim.), USITC Pub. 3533 at 7 (Aug. 2002).

[30] See, e.g., Carbazole Violet Pigment 23 from China and India, Invs. Nos. 701-TA-437 and 731-TA-1060 and 1061 (Final), USITC Pub. 3744 (Dec. 2004); see also Outboard Engines from Japan, Inv. No. 731-TA-1069 (Final), USITC Pub. 3752 at 7 (Feb. 2005); Mussels from Canada, Inv. No. 731-TA-924 (Prelim.), USITC Pub. 3416 (May 2001) ("In considering whether to expand the domestic like product to include an upstream product such as unprocessed mussels, the Commission generally utilizes the finished/semifinished product analysis.").

[31] See, e.g., CR at I-14 to I-15; PR at I-11; Petitions, Vol. I at 9. U.S. producer *** reports hot-piercing bars to produce both green tubes and drill collar blanks using the same equipment. See, e.g., CR at App. D-6; PR at App. D-3.

[32] See, e.g., CR at I-15; PR at I-11.

[33] See, e.g., CR at I-15; PR at I-11.

tool joint.[34] After being heat treated by one of several possible methods to meet the desired API grade,[35] the pipes go through a finishing phase, in which they are heat-treated, inspected, and straightened.[36] Processors next weld separately manufactured tool joints to each end of the pipes by rotational friction or friction welding.[37] Drill pipe (with tool joints attached) subsequently will undergo an additional heat treatment with a polymer quenching agent so that it cools gradually.[38] The pipe then undergoes an additional finishing process where it is machined smooth and inspected.[39] As a share of the finished drill pipe by weight, the unfinished product accounts for approximately two-thirds of the weight, with the tool joints accounting for approximately one-third of the weight.[40]

Drill collars are manufactured using a somewhat different process. They are produced from drill collar "blanks," which are solid round steel bars that undergo a heat treatment process before being bored or trepanned.[41] No tool joints are attached to the ends of drill collars to attach them to other drill string components. Instead, because the wall of the collar is very thick, threads are cut directly into each end of the drill collar so that it can be connected to other collars.[42]

Whether the upstream article is dedicated to the production of the downstream article. The parties disagree as to whether green tubes suitable for drill pipe are used to produce products other than drill pipe, such as casing/tubing.[43] The current record contains limited direct information on the extent to which green tubes suitable for drill pipe are used only for that purpose.

At present, three U.S. mills produce unfinished drill pipe domestically. U.S. producers do report using some of the same equipment to produce green tubes used for both drill pipe and for casing/tubing, and they acknowledge that the chemistries do overlap slightly.[44] Timken, the ***, is not believed to

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[34] See, e.g., Petitions, Vol. I, at 10; USITC Pub. 3434 at I-19. The various pipe sizes and upset configurations are subject to specific API dimensional tolerances. See, e.g., Petitions, Vol. I, at 10.

[35] See, e.g., Petitions, Vol. I, at 10.

[36] See, e.g., CR at I-15; PR at I-11.

[37] See, e.g., CR at I-15 to I-16; PR at I-11 to I-12; Petitions, Vol. I, at 10-11. Tool joints are heavy coupling steel components with robust tapered threads and a rotary shoulder connection. Tool joints are designed to sustain the weight of the drill stem, withstand the strain of repeated connection and disconnection, and provide a leak-proof seal. The male tool joint section (or pin, with threads cut on the outside) is attached to one end of the length of drill pipe and the female tool joint section (or box, with threads cut on the inside) is attached to the other end. See, e.g., CR at I-15; PR at I-11; Petitions, Vol. I, at 10. Tool joints usually are permanently welded to the pipe, but may also be screwed onto the pipe or a combination of screwed on and welded. See, e.g., Petitions, Vol. I, at 11.

[38] See, e.g., CR at I-16; PR at I-12.

[39] See, e.g., CR at I-16; PR at I-12; CR/PR at Figure I-3.

[40] See, e.g., Conf. Tr. at 101 (Schagrin).

[41] See, e.g., CR at I-17; PR at I-12; Email from *** (Jan. 25, 2010).

[42] See, e.g., CR at I-17; PR at I-12.

[43] Downhole and Command assert that green tubes can be used to produce either drill pipe or OCTG casing/tubing based on testimony by U.S. Steel officials at the staff conference in the 2002 OCTG casing/tubing investigations. See, e.g., Respondents' Postconf. Br. at 8, citing, OCTG from Austria, Brazil, China, Colombia, France, Germany, India, Indonesia, Romania, South Africa, Spain, Turkey, Ukraine, and Venezuela, Invs. Nos. 701-TA-428 and 731-TA-992 to 994 and 996-1005 (Prelim.), USITC Pub. 3511 (May 2002). Petitioners argue that there is no use for unfinished drill pipe, defined as green tubes suitable for manufacture of drill pipe, other than to produce finished drill pipe. They further assert that there is no method of producing finished drill pipe that does not begin with unfinished drill pipe. See, e.g., Petitioners' Postconf. Br. at 7.

[44] See, e.g., Confer. Tr. at 28-29 (Ramsey), 198 (Schagrin).

produce casing or tubing, while TMK and U.S. Steel do produce these products.[45] TMK distinguishes among drill pipe, casing, tubing, and coupling stock, indicating on its website that "{s}emifinished drill pipe is available in carbon and alloy grades ... Our seamless drill pipe can be ordered as green tube or as upset and heat-treated to API 5D grades."[46] From the perspective of at least two leading processors, the green tubes they use are dedicated to finished drill pipe. VAM Drilling, for example, states that "{b}y controlling quality at all stages of product manufacture, from the seamless green tube to finished drill pipe and drill stem components, VAM Drilling ensures a superior product."[47] Similarly, Grant Prideco (prior to its merger with NOV), indicated that it "controlled each facet of the drill pipe process," manufacturing (through Voest-Alpine Tubulars) "the green tube (drill pipe tube that has not been heat-treated or processed), the tool joint, and {itself performing} the finishing and welding operations."[48]

The record in previous investigations contained conflicting evidence on the degree to which casing/tubing and drill pipe green tubes were sufficiently similar as to be interchangeable by end-users.[49] On the one hand, green tubes for drill pipe and green tubes for casing/tubing may share similar chemical compositions, meet overlapping API diameter and wall-thickness requirements, have largely identical dimension and weight tolerances for certain size ranges, and have overlapping mechanical strength requirements.[50] On the other hand, most drill pipe is made of low-alloy steel whereas casing/tubing is primarily made of carbon steel.[51] Drill pipe requires heavier walls and generally shorter lengths than casing/tubing, and the average tensile-strength specifications for drill pipe green tubes are higher than those for casing and tubing.[52] Some of these differences are more noticeable after processing than at the green tube stage.[53] In one prior proceeding, the Commission observed that two U.S. mills reported that unfinished tubing could be used interchangeably with unfinished drill pipe, but found very little record evidence of actual interchangeable use by purchasers.[54]

Differences in physical characteristics and functions of the upstream and downstream articles. To make specific grades of drill pipe, processors need seamless green tubes typically made from low-alloy steel that meet specific requirements (such as chemistries, tensile strength, wall thickness, and length).[55] Thus, the upstream products necessarily impart certain characteristics to the downstream drill pipe. Specifically, unfinished drill pipe in its green stage is produced to the chemistry and dimensional specifications that permit processors to heat treat, upset, and join the tube body with the tool joints. By heat-treating and other such operations, processors do not change the appearance of the product, but they do alter the green tubes' microstructure or mechanical properties to yield finished drill pipe of a specific

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[45] Certain OCTG from China, Inv. No. 701-TA-463 (Final), USITC Pub. 4124 at Table III-1 (Jan. 2010).

[46] Found at http://www.tmk-group.com/ipsco_seamless.php, presented in Respondents' Postconf. Br., Exh. 9.

[47] See, e.g., CR at I-28; PR at I-20.

[48] See, e.g., CR at I-28 to I-29; PR at I-20 citing Grant Prideco, Form 10-k for the year ended December 31, 2007, pp. 1-2 (found at Petition, exhibit 3). The company went on to note that "(W)e are able to meet our customers' demanding product specifications, particularly with respect to the green drill pipe tubes with body wall thickness, wall uniformity, and other features that exceed minimum API standards and are not readily available from third-party mills." Id.

[49] See, e.g., USITC Pub. 3511 at 7-9, II-8.

[50] See, e.g., USITC Pub. 3511 at 7.

[51] See, e.g., USITC Pub. 2911 at I-8.

[52] See, e.g., USITC Pub. 3511 at 7-9; USITC Pub. 2911 at I-8 to I-9.

[53] See, e.g., USITC Pub. 3511 at 7.

[54] See, e.g., USITC Pub. 2911 at I-9 & n.23.

[55] See, e.g., USITC Pub. 3511 at 5, 7-9, II-8; USITC Pub. 2911 at I-8 to I-9, II-7; Petitions, Vol. I, at 10; USITC Pub. 3434 at I-18; USITC Pub. 3923 at I-31.

grade.[56] Prior to these operations, however, unfinished drill pipe cannot be connected to other drill pipe and thus cannot function as a component of a drill string for use in oil and gas drilling. The addition of tool joints alters the appearance of the pipes and provides functionality that green tubes do not possess; finished drill pipe with tool joints can be connected to other drill pipe to form a drill string for use in oil and gas drilling applications.[57]

Whether there are perceived to be separate markets for the upstream and downstream articles. Green tubes are manufactured by seamless tube mills and then manufactured into finished products by processors.[58] No U.S. mills that produce green tubes for drill pipe manufacture finished drill pipe. No U.S. processors that make drill pipe manufacture green tubes for drill pipe, although at least one drill pipe processor, ***, occasionally produces and sells drill pipe that has been upset and heat treated, but not tool joined.[59] Whereas *** unfinished drill pipe was sold to processors to be manufactured into finished products, during the period examined processors sold *** percent of their finished drill pipe to end users and the remainder to distributors.[60]

Differences in costs or value of the vertically differentiated articles. Respondents testified that the attachment of tool joints accounts for approximately 30 percent of the cost of the finished drill pipe.[61] U.S. producers reported average unit values for unfinished drill pipe that ranged from a low of $*** per short ton in 2006 to a peak of $*** per short ton in 2008 whereas reported average unit values for finished drill pipe ranged from a low of $4,686 per short ton in 2006 to a peak of $6,232 per short ton in interim 2009.[62]

Conclusion: We find that the available information on this issue is mixed. Although the processes used to manufacture green tubes are fairly extensive, transforming them into finished drill pipe requires multiple additional processes (such as heat treating, upsetting, and tool joint attaching) that are performed by entirely different U.S. producers. Heat-treating, upsetting, and adding tool joints to green tubes change the overall appearance of the tubes, alter the microstructure and mechanical properties of the end products, and give finished drill pipe the characteristics needed to function as drill string components for use in oil and gas applications. Some green tubes that are produced from the same equipment and have similar chemistries, API minimum diameter and wall thicknesses, could be used to produce either drill pipe or casing/tubing products. The Commission, however, did not previously find much evidence that drill pipe green tubes were used to make casing/tubing products. There is no overlap among seamless tube mills that manufacture green tubes and processors that finish the green tubes into finished drill pipe. Whereas *** unfinished drill pipe was sold to processors to be manufactured into finished products, *** percent of finished drill pipe was sold to end users and the remainder to distributors. Despite differences in their selling prices and the fact that tool joints account for about 30 percent of the cost of the finished products, green tubes account for a not-insubstantial portion of the final weight and cost of the finished drill pipe.[63]

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[56] See, e.g., USITC Pub. 2911 at I-12, II-11.

[57] See, e.g., CR at I-22 to I-23; PR at I-17; CR/PR at Figure I-3 (showing physical attributes of green tubes versus finished drill pipe).

[58] See, e.g., Petitions, Vol. I, at 9; CR at I-23; PR at I-17.

[59] See, e.g., CR at I-24; PR at I-17; CR/PR at Table III-1; Petitions, Vol. I at 9, 10.

[60] See, e.g., CR/PR at Table I-3.

[61] See, e.g., Conf. Tr. at 134 (Garvey), 160 (Chen).

[62] See, e.g., CR/PR at Table I-4.

[63] Finally, as discussed below, the scope of these investigations also includes finished and unfinished drill collars, which have some similarities to drill pipe and also some similarities to green tubes, including the fact that

(continued...)

For purposes of the preliminary phase of these investigations, we do not find that green tubes as defined in the scope are a separate domestic like product for the reasons discussed above. We intend to reexamine this issue in any final phase investigations after seeking more information on the relevant factors, as well as comments on whether this issue is affected by the inclusion of drill collars in the scope of these investigations.

2. Whether Drill Collars are a Separate Domestic Like Product

Although no party raised this issue,[64] we also consider whether drill collars are a separate domestic like product, in part because these are the first investigations in which drill collars were included in the scope.[65] A drill string typically includes, among other features, standard-weight drill pipe, heavy-weight drill pipe, and drill collars. The drill string transmits rotational power to the drill bit and conducts fluids downward that flush drill cuttings to the surface. Drill collars are designed to guide, stabilize, provide stiffness, and add weight to the drill bit in order to drill a more vertical hole.[66] A drill string usually contains standard-weight drill pipe in the upper portion, drill collars at the bottom, and heavy-weight drill pipe in between as a transition from standard-weight drill pipe to drill collars.[67]

Consistent with their common roles but the specific additional purpose of drill collars, drill pipe and drill collars have similarities and differences in physical characteristics. Drill pipe and drill collars are both hollow, seamless, heat-treated, and generally of circular cross-section.[68] Drill collars are thicker than heavy-weight drill pipe, which in turn is thicker than standard-weight drill pipe.[69] Lengths of standard- and heavy-weight drill pipe are connected by threaded tool joints, whereas the thickness of drill collars is such that connecting threads are cut directly into the body of the collars.[70] Drill pipe and drill collars are produced to API specifications, although the specifications for standard-weight drill pipe are generally different from the usual specification for both heavy-weight drill pipe and drill collars.[71]

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[63] (...continued)
they are hollow OCTG products, with drill collars often being produced by hot piercing bars just as green tubes are produced by hot piercing billets.

[64] Petitioners request that the Commission find one domestic like product that includes drill collars, coextensive with the scope of these investigations. See, e.g., Petitioners' Postconf. Br. at 8-9. Downhole and Command do not ask the Commission to treat drill collars as a separate domestic like product. See, e.g., Confer. Tr. at 157 (Chen).

[65] As indicated above, the Commission generally considers a number of factors, including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See Nippon, 19 CIT at 455 n.4; Timken, 913 F. Supp. at 584.

[66] See, e.g., CR at I-14, I-22; PR at I-10, I-16; Confer. Tr. at 51-52 (Morris) (describing how drill collars sometimes are used in place of heavy-weight drill pipe in unconventional set-ups).

[67] See, e.g., CR at I-13-14; PR at I-10. The transition help reduce drill pipe stress and permits higher-speed drilling operations.

[68] Drill collars may also be produced in a square cross section.

[69] The typical wall thicknesses of drill pipe is are less than 1 inch. CR-at I-13, PR at I-10. The wall thickness of drill collars generally is greater than the wall thickness of drill pipe. The outside diameter ("OD") of drill pipe ranges from 2.375 to 6.625 inches. For drill collars, the inside diameter ranges from 2 to 3 inches and the OD ranges from 4 to 11 inches.

[70] Heavy-weight drill pipe has an integral wear pad in the middle and longer tool joints than standard-weight drill pipe. Drill collars' surface may be spirally grooved.

[71] Standard-weight drill pipe is generally produced to API specification 5D, 5DP, or BSEN ISO 11961. Heavy-weight drill pipe and drill collars are normally produced to API specification 7. See, e.g., Petitions, Vol. I, at 8.
(continued...)

Although they are not interchangeable,[72] drill pipe and drill collars are used in a complementary manner in the drill string and both are necessary components of the drill string.[73]

Companies that produce drill pipe often produce drill collars. Some of the same employees are involved in producing drill pipe and drill collars.[74] Both products undergo certain similar manufacturing processes, although tool joints are attached only to drill pipe and not drill collars.[75] Heavy-weight drill pipe can be made either in the same manner as standard-weight drill pipe or in the same manner as drill collar.[76]

U.S. producers report little or no difference in the sales or marketing of finished drill pipe and drill collars, with the same marketing personnel typically handling sales of both products to the same types of customers. The two products are typically marketed and sold as part of a drilling package, although priced separately.[77] Drill pipe and drill collars are distributed through identical channels of distribution to drilling contractors and rental companies.[78] According to questionnaire respondents, finished drill pipe was priced 50-100 percent higher than finished drill collars during the period examined. In contrast, one producer reported that drill pipe is slightly higher priced per ton than drill collars[79] and some questionnaire respondents reported that any price differentials may be attributable to the fact that drill collars are sold in much smaller quantities than drill pipe.

Based on the evidence on this record showing some overlapping physical characteristics and similar uses (but not interchangeability), overlapping channels of distribution, some commonality in

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[71] (...continued)
Producers may also manufacture drill pipes to non-API or ISO specifications for certain applications, such as sour-service applications. In addition, producers may manufacture proprietary grades that meet or exceed API specifications. See, e.g., Petitions, Vol. I, at 8-9.

[72] See, e.g., CR at I-24, App. D-4 to D-5; PR at I-18, App. D-3.

[73] See, e.g., Petitioners' Postconf. Br. at 8-9; Petitions, Vol. I at 13.

[74] See, e.g., Petitioners' Postconf. Br. at 9; Confer. Tr. at 15, 43 (Fields), 53-54 (Williamson).

[75] Timken produces pierced tubes for drill pipe and drill collars on the same equipment but uses certain boring equipment only for drill collars, whereas TMK and U.S. Steel, which also produce unfinished drill pipe, do not produce drill collars. See, e.g., CR at I-23; PR at I-17. Timken reported that it ***. See, e.g., Email from ***, January 25, 2010. Timken ***. Whereas U.S. processors generally purchase green tubes to produce drill pipe but trepan or drill their own drill collars from bar, some produce heavy-weight drill pipe from drill collar material. Some processors use common processes (such as heat treating, machining, threading, hardbanding, and inspection) on both drill pipe and drill collar products, but they need to use specialized welding equipment to attach tool joints to drill pipe. See, e.g., CR at I-23, App. D-5 to D-6; PR at I-17, App. D-3; Confer. Tr. at 53 (Williamson), 56 (Schagrin).

[76] Drill pipe generally is manufactured from seamless green tubes that are produced by hot-piercing round or square solid steel billets, although some heavy-weight drill pipe may be produced from drill collars, and drill collars may also be used to produce other drill string components, such as pup joints. See, e.g., Confer. Tr. at 46 (Morris), 55-56 (Williamson). Drill collars typically are manufactured from solid round steel bars that are hot-pierced, bored, or trepanned into a continuous seamless product. See, e.g., CR at I-17, App. D-5 to D-6; PR at I-12, App. D-3. Both drill pipe and drill collars undergo special heat-treating operations, but tool joints are only attached to drill pipe to enable them to connect to other components of the drill string. See, e.g., CR at I-14 to I-17, App. D-5 to D-6; PR at I-11 to I-12, App D-3. In addition, spiral grooves may be formed and hardbanding applied onto the outside of the drill collars; since the wall of the collar is very thick, treads are cut directly into each end of the drill collar so that it can be connected to other collars. See, e.g., CR at I-17; PR at I-12. Occasionally, heavy-weight drill pipe is also spiraled. See, e.g., Confer. Tr. at 54-55 (Williamson).

[77] See, e.g., CR at I-24, App. D-8; PR at I-18; Confer. Tr. at 50 (Schagrin), 68-69 (Parks); Petitioners' Postconf. Br. at 11.

[78] See, e.g., CR/PR at Table I-3; CR at App. D-7; PR at App. D-3; Petitioners' Postconf. Br. at 10; Confer Tr. at 39-41 (Schagrin).

[79] See, e.g., CR/PR at Table I-4; CR at App. D-9 to D-10; PR at App. D-3.

manufacturers, manufacturing processes, and labor -- but differences in prices -- we do not find that drill collars are a separate domestic like product.[80]

E. Conclusion

For all of these reasons, we define a single domestic like product that includes drill pipe and drill collars, whether in finished or unfinished forms, including green tubes, in a manner that is coextensive with the scope of these investigations.

IV. DOMESTIC INDUSTRY

A. In General

The domestic industry is defined as the domestic "producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[81] In defining the domestic industry, the Commission's general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

There are two sets of domestic industry issues in these preliminary phase investigations: (1) whether U.S. processors that manufacture finished drill pipe from unfinished drill pipe or green tubes engage in sufficient production-related activities to be considered domestic producers, and (2) whether appropriate circumstances exist pursuant to the related parties provision of the statute to exclude from the domestic industry producers that are related to foreign producers and that import and/or purchase subject merchandise.

B. Sufficient Production-Related Activities

Parties appear to agree that U.S. operations turning green tubes into finished drill pipe constitute sufficient production-related activities to treat those engaging in these finishing operations as part of the domestic industry.[82] In deciding whether a firm qualifies as a domestic producer, the Commission generally has analyzed the overall nature of a firm's production-related activities in the United States, although production-related activity at minimum levels could be insufficient to constitute domestic production. The Commission generally considers six factors: (1) source and extent of the firm's capital investment; (2) technical expertise involved in U.S. production activities; (3) value added to the product in the United States; (4) employment levels; (5) quantity and type of parts sourced in the United States; and (6) any other costs and activities in the United States directly leading to production of the like product. No single factor is determinative and the Commission may consider any other factors it deems relevant in light of the specific facts of any investigation.[83]

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[80] In joining the majority in defining a single domestic like product, Chairman Aranoff, Vice Chairman Pearson, and Commissioner Okun note that the record as a whole contains clear and convincing evidence that there are no clear dividing lines between the types and forms of drill pipes/collars and no likelihood exists that contrary evidence will arise in a final investigation.

[81] 19 U.S.C. § 1677(4)(A).

[82] See, e.g., Petitioners' Postconf. Br. at 2-6; Confer. Tr. at 100-103 (Schagrin), 160 (Chen). The parties did not discuss the issue of finishing operations on unfinished drill collars.

[83] See, e.g., Diamond Sawblades and Parts Thereof from China and Korea, Invs. Nos. 731-TA-1092-1093 (Final), USITC Pub. 3862 at 8-11 (July 2006) (assemblers included in the industry); Artists' Canvas from China,

(continued...)

Source and extent of the firm's capital investment. Domestic producers of finished drill pipe reported capital expenditures of $*** in 2006, $*** in 2007, $*** in 2008, $*** in interim 2008, and $*** in interim 2009.[84] These expenditures *** expenditures by domestic producers of unfinished drill pipe products.[85]

Technical expertise involved in U.S. production activities. According to Petitioners, ***.[86] In addition, Petitioners identify elements of the ***.[87]

Value added to the product in the United States. Petitioners contend that drill pipe finishing, which involves numerous steps, is generally more than double the cost of the green tube.[88] Questionnaire respondents reported average U.S. commercial shipment unit values for unfinished drill pipe that ranged from a low of $*** per short ton in 2006 to a peak of $*** per short ton in 2008, whereas reported average U.S. commercial shipment unit values for finished drill pipe ranged from a low of $4,686 per short ton in 2006 to a peak of $6,232 per short ton in interim 2009.[89] Likewise, average cost of goods sold for unfinished drill pipe ranged from a low of $*** per short ton in 2006 to a peak of $*** per short ton in interim 2009,[90] whereas average cost of goods sold for finished drill pipe ranged from a low of $3,189 per short ton in 2006 to a high of $5,368 per short ton in interim 2009.[91]

Employment levels. Questionnaire responses reflect that producers of finished drill pipe employ *** production and related workers than producers of unfinished drill pipe.[92]

Quantity and type of parts sourced in the United States. Petitioners allege that most equipment used in the production of finished drill pipe is sourced in the United States.[93] On the other hand, *** of unfinished pipe used to make finished drill pipe in the United States was produced in the United States; *** of unfinished pipe consumed in the United States during the period examined was imported from nonsubject countries, and the remainder was imported from China.[94]

Conclusion: Based on the record evidence, we find that U.S. operations turning green tubes into finished drill pipe constitute sufficient production-related activities to treat those engaging in these finishing operations as part of the domestic industry (and their finished products as shipments of the domestic like product). Drill pipe finishers have substantial capital investments and use significant technical expertise and a large number of employees in the production of drill pipe. Moreover, parties agree that finishing operations add significant value to green tubes processed into drill pipe.

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[83] (...continued)
Inv. No. 731-TA-1091 (Final), USITC Pub. 3853 at 13, n.85 (May 2006) (value added not determinative); DRAMs and DRAM Modules from Korea, Inv. No. 701-TA-431 (Final), USITC Pub. 3616 at 11 (Aug. 2003) ("The Commission has never given determinative weight to an individual factor") (assembly operations were production in that case); see also, e.g., International Imaging Materials, Inc. v. United States, 30 CIT 1181, 1188-89 (2006) (affirming the Commission's finding that "slitters" engaged in sufficient product-related activities in transforming jumbo rolls into finished thermal transfer ribbons to constitute domestic production).

[84] See, e.g., CR/PR at Table VI-4.

[85] See, e.g., CR/PR at Table VI-4.

[86] See, e.g., Petitioners' Postconf. Br. at 4.

[87] See, e.g., Petitioners' Postconf. Br. at 4.

[88] See, e.g., Petitioners' Postconf. Br. at 4-5.

[89] See, e.g., CR/PR at Table I-4.

[90] See, e.g., CR/PR at Table VI-1a.

[91] See, e.g., CR/PR at Table VI-1b.

[92] See, e.g., CR/PR at Table III-8a (unfinished drill pipe), Table III-8b (finished drill pipe).

[93] See, e.g., Petitioners' Postconf. Br. at 5.

[94] See, e.g., CR/PR at Table C-1.

C. Related Parties

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to section 19 U.S.C. § 1677(4)(B). Subsection 1677(4)(B) allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers.[95] Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.[96] [97]

1. Parties' Arguments

Petitioners argue that the Commission ***.[98] They assert that ***.[99] Petitioners also argue that ***.[100] Respondents Downhole and Command make no arguments concerning related party issues.

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[95] 19 U.S.C. § 1677(4)(B).

[96] The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party are as follows: (1) the percentage of domestic production attributable to the importing producer; (2) the reason the U.S. producer has decided to import the product subject to investigation, *i.e.*, whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market, and (3) the position of the related producer vis-a-vis the rest of the industry, *i.e.*, whether inclusion or exclusion of the related party will skew the data for the rest of the industry. See, e.g., Torrington Co. v. United States, 790 F. Supp. 1161 (Ct. Int'l Trade 1992), aff'd mem., 991 F.2d 809 (Fed. Cir. 1993). The Commission has also considered the ratio of import shipments to U.S. production for related producers and whether the primary interest of the related producer lies in domestic production or importation. These latter two considerations were cited as appropriate factors in Allied Mineral Products, Inc. v. United States, 28 CIT 1861, 1862 (2004) ("The most significant factor considered by the Commission in making the 'appropriate circumstances' determination is whether the domestic producer accrued a substantial benefit from its importation of the subject merchandise."); USEC, Inc. v. United States, 132 F. Supp. 2d 1, 12 (Ct. Int'l Trade 2001) ("the provision's purpose is to exclude from the industry headcount domestic producers substantially benefitting from their relationships with foreign exporters."), aff'd, 34 Fed. Appx. 725 (Fed. Cir. Apr. 25, 2002); S. Rep. No. 249, 96th Cong. 1st Sess. at 83 (1979) ("where a U.S. producer is related to a foreign exporter and the foreign exporter directs his exports to the United States so as not to compete with his related U.S. producer, this should be a case where the ITC would not consider the related U.S. producer to be a part of the domestic industry").

[97] The Commission has concluded that a domestic producer that does not itself import subject merchandise, or does not share corporate affiliation with an importer, may nonetheless be deemed a related party if it controls large volumes of imports. The Commission has found such control to exist where the domestic producer was responsible for a predominant proportion of an importer's purchases and the importer's purchases were substantial. See, e.g., Electrolytic Manganese Dioxide from Australia and China, Inv. Nos. 731-TA-1124-1125 (Final), USITC Pub. 4036 (September 2008) at 6, fn.26 (finding the firm's purchases not to be sufficient for it to be considered a related party); Foundry Coke from China, Inv. No. 731-TA-891 (Final), USITC Pub. 3449 (September 2001) at 8-9. See also SAA at 858.

[98] See, e.g., Petitioners' Postconf. Br. at 12-16.

[99] See, e.g., Petitioners' Postconf. Br. at 12.

[100] See, e.g., Petitioners' Postconf. Br. at 12.

2. Analysis

We find that *** is a related party,[101] because ***.[102] While it is unclear whether these corporate relationships amount to direct or indirect control on the part of ***, we need not decide that issue because ***'s status as an importer of subject merchandise is sufficient to warrant treating it as a related party. The company ***.[103]

*** reported importing *** from China in order to ***.[104] It also imports *** that it sells to its customers.[105] Its imports of the subject merchandise from China were equivalent to *** percent of its domestic production in 2006, *** percent in 2007, *** percent in 2008, and *** percent in interim 2009 compared to *** percent in interim 2008.[106] The ***.[107] *** is *** producer of finished drill pipe in the United States, accounting for *** percent of domestic production in 2008.[108] It is the ***, accounting for *** percent of reported *** in 2008.[109] The company *** in the United States.[110] The record does not show that the domestic operations of *** derive a significant benefit from its importation of relatively limited quantities of subject merchandise from China.[111] [112]

We do not exclude *** from the domestic industry as a related party because its ***, and its imports of subject merchandise ***.

D. Conclusion

Based on the reasons discussed above and consistent with our definition of the domestic like product, we define the domestic industry as all domestic producers of the domestic like product.

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[101] The record also reflects that two U.S. producers purchased subject merchandise imported from China during the period examined, ***. See, e.g., CR at III-15; PR at III-10. The purchases made by *** were quite small relative to its U.S. production, equivalent to *** percent of its production in the one year in which they occurred. See, e.g., CR/PR at Table III-7a. The purchases made by *** were larger relative to its U.S. production, equivalent to *** percent of its U.S. production in 2007 and *** percent of its U.S. production in 2008. See, e.g., CR/PR at Table III-7a. There is no information on the current record concerning the identity of the firm from which *** made its purchases or the identity of the manufacturer of the subject merchandise in China. We do not find that either *** or *** is a related party in the absence of any indication that either firm controls large volumes of subject imports via its purchases.

[102] See, e.g., CR at III-3; PR at III-2; CR/PR at Table III-1, n.1.

[103] See, e.g., CR/PR at Table III-1.

[104] See, e.g., CR at III-15; PR at III-10.

[105] See, e.g., CR at III-15; PR at III-10.

[106] See, e.g., CR/PR at Table III-7a.

[107] See, e.g., CR/PR at Table III-7a.

[108] See, e.g., CR/PR at Table III-1.

[109] See, e.g., CR/PR at Table III-1.

[110] See, e.g., CR/PR at Table III-1.

[111] See, e.g., CR at VI-2 & n.5; PR at V-1 & n.5 (noting that a number of U.S. producers reported input purchases from related parties). ***.

[112] Consistent with her practice in past investigations and reviews, Chairman Aranoff does not rely on individual-company operating income margins, which reflect a domestic producer's financial operations related to production of the domestic like product, in assessing whether a related party has benefitted from importation of subject merchandise. Rather, she determines whether to exclude a related party based principally on its ratio of subject imports to domestic production and whether its primary interests lie in domestic production or importation.

V. REASONABLE INDICATION OF MATERIAL INJURY OR THREAT OF MATERIAL INJURY BY REASON OF SUBJECT IMPORTS FROM CHINA[113]

A. Legal Standards

In the preliminary phase of antidumping or countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of the imports under investigation.[114] In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.[115] The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."[116] In assessing whether there is a reasonable indication that the domestic industry is materially injured or threatened with material injury by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.[117] No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[118]

Although the statute requires the Commission to determine whether there is a reasonable indication that the domestic industry is materially injured or threatened with material injury "by reason of" unfairly traded imports,[119] it does not define the phrase "by reason of," indicating that this aspect of the injury analysis is left to the Commission's reasonable exercise of its discretion.[120] In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation under the "by reason of" standard must ensure that subject imports are more than a minimal or tangential cause of injury and that there is a sufficient causal, not merely a temporal, nexus between subject imports and material injury.[121]

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[113] Negligibility under 19 U.S.C. § 1677(24) is not an issue in these investigations. During the most recent 12-month period preceding the filing of the petition for which data are available, subject imports from China accounted for 42.8 percent by quantity of total imports of drill pipe and drill collars. See, e.g., CR at IV-8; PR at IV-5. The volume of subject imports is thus well above the statute's three percent negligibility level.

[114] 19 U.S.C. §§ 1671b(a), 1673b(a).

[115] 19 U.S.C. § 1677(7)(B)(i). The Commission "may consider such other economic factors as are relevant to the determination" but shall "identify each {such} factor ... {a}nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B).

[116] 19 U.S.C. § 1677(7)(A).

[117] 19 U.S.C. § 1677(7)(C)(iii).

[118] 19 U.S.C. § 1677(7)(C)(iii).

[119] 19 U.S.C. §§ 1671b(a), 1673b(a).

[120] Angus Chemical Co. v. United States, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) ("{T}he statute does not 'compel the commissioners' to employ {a particular methodology}."), aff'g 944 F. Supp. 943, 951 (Ct. Int'l Trade 1996).

[121] The Federal Circuit, in addressing the causation standard of the statute, observed that "{a}s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement." Nippon Steel Corp. v. USITC, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was further ratified in Mittal Steel Point Lisas Ltd. v. United States, 542 F.3d 867, 873 (Fed. Cir. 2008), where the Federal Circuit, quoting Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997), stated that "this court requires evidence in the record 'to show that the harm occurred "by reason of" the LTFV imports, not by reason of a minimal or

(continued...)

In many investigations, there are other economic factors at work, some or all of which may also be having adverse effects on the domestic industry. Such economic factors might include nonsubject imports; changes in technology, demand, or consumer tastes; competition among domestic producers; or management decisions by domestic producers. The legislative history explains that the Commission must examine factors other than subject imports to ensure that it is not attributing injury from other factors to the subject imports, thereby inflating an otherwise tangential cause of injury into one that satisfies the statutory material injury threshold.[122] In performing its examination, however, the Commission need not isolate the injury caused by other factors from injury caused by unfairly traded imports.[123] Nor does the "by reason of" standard require that unfairly traded imports be the "principal" cause of injury or contemplate that injury from unfairly traded imports be weighed against other factors, such as nonsubject imports, which may be contributing to overall injury to an industry.[124] It is clear that the existence of injury caused by other factors does not compel a negative determination.[125]

Assessment of whether material injury or threat of material injury to the domestic industry is "by reason of" subject imports "does not require the Commission to address the causation issue in any particular way" as long as "the injury to the domestic industry can reasonably be attributed to the subject imports" and the Commission "ensure{s} that it is not attributing injury from other sources to the subject

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[121] (...continued)
tangential contribution to material harm caused by LTFV goods.'" See also Nippon Steel Corp. v. United States, 458 F.3d 1345, 1357 (Fed. Cir. 2006); Taiwan Semiconductor Industry Ass'n v. USITC, 266 F.3d 1339, 1345 (Fed. Cir. 2001).

[122] Statement of Administrative Action ("SAA") on Uruguay Round Agreements Act ("URAA"), H.R. Rep. 103-316, Vol. I at 851-52 (1994) ("{T}he Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports."); S. Rep. 96-249 at 75 (1979) (the Commission "will consider information which indicates that harm is caused by factors other than less-than-fair-value imports."); H.R. Rep. 96-317 at 47 (1979) ("in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or dumped imports is attributable to such other factors;" those factors include "the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry"); accord Mittal Steel, 542 F.3d at 877.

[123] SAA at 851-52 ("{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports."); Taiwan Semiconductor Industry Ass'n v. USITC, 266 F.3d 1339, 1345 (Fed. Cir. 2001) ("{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports ... . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports." (emphasis in original)); Asociacion de Productores de Salmon y Trucha de Chile AG v. United States, 180 F. Supp. 2d 1360, 1375 (Ct. Int'l Trade 2002) ("{t}he Commission is not required to isolate the effects of subject imports from other factors contributing to injury" or make "bright-line distinctions" between the effects of subject imports and other causes.); see also Softwood Lumber from Canada, Inv. Nos. 701-TA-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that "{i}f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, i.e., it is not an 'other causal factor,' then there is nothing to further examine regarding attribution to injury"), citing Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997) (the statute "does not suggest that an importer of LTFV goods can escape countervailing duties by finding some tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.").

[124] S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47.

[125] See Nippon Steel Corp., 345 F.3d at 1381 ("an affirmative material-injury determination under the statute requires no more than a substantial-factor showing. That is, the 'dumping' need not be the sole or principal cause of injury.").

imports."[126] [127] Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed "rigid adherence to a specific formula."[128]

The Federal Circuit's decisions in Gerald Metals, Bratsk, and Mittal Steel all involved cases where the relevant "other" factor was the presence in the market of significant volumes of price-competitive nonsubject imports. The Commission interpreted the Federal Circuit's guidance in Bratsk as requiring it to apply a particular additional methodology following its finding of material injury in cases involving commodity products and a significant market presence of price-competitive nonsubject imports.[129] The additional "replacement/benefit" test looked at whether nonsubject imports might have replaced subject imports without any benefit to the U.S. industry. The Commission applied that specific additional test in subsequent cases, including the Carbon and Certain Alloy Steel Wire Rod from Trinidad and Tobago determination that underlies the Mittal Steel litigation.

Mittal Steel clarifies that the Commission's interpretation of Bratsk was too rigid and makes clear that the Federal Circuit does not require the Commission to apply an additional test nor any one specific methodology; instead, the court requires the Commission to have "evidence in the record 'to show that the harm occurred 'by reason of' the LTFV imports,'" and requires that the Commission not attribute injury from nonsubject imports or other factors to subject imports.[130] Accordingly, we do not consider ourselves required to apply the replacement/benefit test that was included in Commission opinions subsequent to Bratsk.

The progression of Gerald Metals, Bratsk, and Mittal Steel clarifies that, in cases involving commodity products where price-competitive nonsubject imports are a significant factor in the U.S.

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[126] Mittal Steel, 542 F.3d at 877-78; see also id. at 873 ("While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured 'by reason of' subject imports, the Commission is not required to follow a single methodology for making that determination ... . {and has} broad discretion with respect to its choice of methodology.") citing United States Steel Group v. United States, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75.

[127] Commissioner Pinkert does not join this paragraph or the following four paragraphs. He points out that the Federal Circuit, in Bratsk, 444 F.3d 1369, and Mittal, held that the Commission is required, in certain circumstances relating to present material injury, to undertake a particular kind of analysis of nonsubject imports. Mittal explains as follows:

> What Bratsk held is that "where commodity products are at issue and fairly traded, price-competitive, non-subject imports are in the market," the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether non-subject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1369. Under those circumstances, Bratsk requires the Commission to consider whether replacement of the LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.

542 F.3d at 878.

[128] Nucor Corp. v. United States, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005); see also Mittal Steel, 542 F.3d at 879 ("Bratsk did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was 'by reason' of subject imports.").

[129] Mittal Steel, 542 F.3d at 875-79.

[130] Mittal Steel, 542 F.3d at 873 (quoting from Gerald Metals, 132 F.3d at 722), 875-79 & n.2 (recognizing the Commission's alternative interpretation of Bratsk as a reminder to conduct a non-attribution analysis).

market, the Court will require the Commission to give full consideration, with adequate explanation, to non-attribution issues when it performs its causation analysis.[131] [132]

The question of whether the material injury threshold for subject imports is satisfied notwithstanding any injury from other factors is factual, subject to review under the substantial evidence standard. Congress has delegated this factual finding to the Commission because of the agency's institutional expertise in resolving injury issues.[133] [134]

Section 771(7)(F) of the Tariff Act directs the Commission to determine whether the U.S. industry is threatened with material injury by reason of the subject imports by analyzing whether "further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted."[135] The Commission may not make such a determination "on the basis of mere conjecture or supposition," and considers the threat factors "as a whole" in making its determination whether dumped or subsidized imports are imminent and whether material injury by reason of subject imports would occur unless an order is issued.[136] In making our determination, we consider all statutory threat factors that are relevant to these investigations.[137]

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[131] Commissioner Lane also refers to her dissenting views in Polyethylene Terephthalate Film, Sheet, and Strip from Brazil, China, Thailand, and the United Arab Emirates, Inv. Nos. 731-TA-1131-1134 (Final), USITC Pub. 4040 (Oct. 2008), for further discussion of Mittal Steel.

[132] To that end, after the Federal Circuit issued its decision in Bratsk, the Commission began to present published information or send out information requests in final phase investigations to producers in nonsubject countries that accounted for substantial shares of U.S. imports of subject merchandise (if, in fact, there were large nonsubject import suppliers). In order to provide a more complete record for the Commission's causation analysis, these requests typically seek information on capacity, production, and shipments of the product under investigation in the major source countries that export to the United States. The Commission plans to continue utilizing published or requested information in final phase investigations in which there are substantial levels of nonsubject imports.

[133] Mittal Steel, 542 F.3d at 873; Nippon Steel Corp., 458 F.3d at 1350, citing U.S. Steel Group, 96 F.3d at 1357; S. Rep. 96-249 at 75 ("The determination of the ITC with respect to causation is ... complex and difficult, and is a matter for the judgment of the ITC.").

[134] We provide in the discussion of impact in section V.E. below an analysis of other factors alleged to cause any threat of material injury that likely would be experienced by the domestic industry.

[135] 19 U.S.C. § 1677(7)(F)(ii).

[136] 19 U.S.C. § 1677(7)(F)(ii).

[137] These factors are as follows:

> (I) if a countervailable 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 countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement) and whether imports of the subject merchandise are likely to increase,
>
> (II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,
>
> (III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,
>
> (IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices and are likely to increase demand for further imports,

(continued...)

B. Conditions of Competition and the Business Cycle

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury or threat of material injury by reason of subject imports.

1. Data Considerations

According to Customs data and official import statistics, certain importers accounting for a large portion of imports did not submit importer questionnaire responses or reported data that were inconsistent with the import statistics. In response to further inquiries by Commission staff, these importers certified that they did not import as much, and in some cases, any, drill pipe as reported in the official import statistics.[138] Because of these inconsistencies, which resulted in an overstatement of the volume of imports captured by the official import statistics, the Commission determined that the questionnaire responses were a more accurate reflection of the volume of imports and therefore relied on importer questionnaire responses to measure imports.[139]

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[137] (...continued)

(V) inventories of the subject merchandise,

(VI) the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products.

* * *

(IX) any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).

19 U.S.C. § 1677(7)(F)(i). To organize our analysis, we discuss the applicable statutory threat factors using the same volume/price/impact framework that applies to our material injury analysis. Statutory threat factors (I), (II), (III), (V), and (VI) are discussed in the analysis of subject import volume. Statutory threat factor (IV) is discussed in the price effects analysis, and statutory threat factor (IX) is discussed in the impact analysis. Statutory threat factor (VII) is inapplicable, as no imports of agricultural products are involved in these investigations. No argument was made that the domestic industry is currently engaging or will imminently engage in any efforts to develop a derivative or more advanced version of the domestic like product, which would implicate statutory threat factor (VIII).

[138] See, e.g., CR at I-5, n.6; PR at I-3, n.6.

[139] Because the domestic like product includes both unfinished and finished articles, we are mindful that simply aggregating data in a single table would result in some double-counting. Accordingly, most of our data compilations are limited to either finished or unfinished product. In our analysis, we rely mainly on Table C-5, which contains aggregate data for finished drill pipe and drill collars. Table C-5 treats all drill pipe and drill collar products finished in the United States by processors as shipments of the domestic like product rather than as shipments from the country where the upstream product was produced. We have also considered other data compilations to ensure that we have considered the entire U.S. industry. These include Table C-6, which contains data for both finished and unfinished product with respect to those factors for which double-counting is not a concern, Table C-1, which contains data for unfinished drill pipe, and Table C-3, which contains data for unfinished drill collars.

2. Demand Conditions

Because drill pipe and drill collars are used in the extraction of oil and natural gas, U.S. demand for drill pipe is closely linked to demand for those products.[140] Industry participants reported tracking demand using the number of active rigs drilling for oil and natural gas in the United States and the footage being drilled.[141] Demand for drill pipe and drill collars, like demand for other OCTG products, is cyclical and has experienced sharp and frequent fluctuations over the past two decades.[142] Consistent with trends reported in questionnaire responses, demand for drill pipe and drill collars has fluctuated since January 2006, increasing from 2006 to mid-2008, and decreasing sharply thereafter.[143] During the period examined in the preliminary phase of these investigations, the number of operating rigs increased steadily from about 1,500 rigs at the beginning of 2006 to a peak of about 2,000 rigs in mid-2008.[144] Rig count thereafter declined steeply, to about 1,100 rigs in March 2009.[145] Even though rig count has increased in 12 of the last 13 weeks for which data are available, the rig count in the United States at the end of the period was still lower than it was at the same time last year and 783 rigs less than its peak in August 2008.[146]

Oil prices, which are another indicator of demand, increased from $60 per barrel at the beginning of the period examined to $130 per barrel in July 2008, before falling to $70 per barrel by September 30, 2009.[147]

Another factor influencing demand is the long useful life of drill pipe and drill collars. Drill pipe has an average useful life of three to five years and can often be refurbished and reused.[148] Drill collars typically last five to seven years and can also be repaired or refurbished unless they become too short after the connections are re-cut or they are lost downhole, in which case they must be replaced.[149] Moreover, drill pipe and drill collars on idled rigs can be transferred to active rigs.[150] Thus, when rig activity declines, large contractors and rental companies end up with large inventories of drill pipe, thus lowering their demand for replacement drill pipe.[151] In part reflecting the long useful life of drill pipe and drill collars, U.S. producers' order books, which are a sign of the domestic industry's health and future activity, peaked in the second and third quarters of 2008, before falling to their lowest point in the third and fourth quarters of 2009.[152]

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[140] See, e.g., CR at II-10 to II-12; PR at II-6.

[141] See, e.g., Confer. Tr. at 106-107 (Fields, Morris, Williamson)

[142] See, e.g., CR at II-15; PR at II-9; CR/PR at Figure II-6.

[143] See, e.g., CR at II-14; PR at II-9.

[144] See, e.g., CR at II-12; PR at II-9; CR/PR at Figures II-3, II-4, and II-6; see also CR/PR at Table VII-6.

[145] See, e.g., CR/PR at Figures II-3, II-4, and II-6.

[146] See, e.g., Confer. Tr. at 143 (Lesco).

[147] See, e.g., Confer. Tr. at 150-151 (Malashevich); see also, e.g., CR/PR at Figure II-3.

[148] See, e.g., Confer. Tr. at 65-66 (Schagrin). Petitioners also contend that the trend towards horizontal drilling in shale areas has increased demand for drill pipe, and drilling in difficult environments has meant that drill pipe will wear out faster than in the traditional vertical drilling. See, e.g., Confer. Tr. at 22-23 (Morris).

[149] See, e.g., Confer. Tr. at 104 (Williamson, Morris).

[150] See, e.g., Confer. Tr. at 66-67 (Schagrin, Fields).

[151] See, e.g., Confer. Tr. at 67 (Fields), 73-74 (Morris), 110-112 (Schagrin, Brand, and Morris), 124 (Chen), and 146-147 (Lesco).

[152] See, e.g., CR at II-12; PR at II-6; CR/PR at Table III-5; Confer. Tr. at 16 (Fields), 20 (Brand), and 28 (Ramsey).

When measured by apparent U.S. consumption, U.S. demand for finished drill pipe and drill collars, by quantity, increased from 186,777 short tons in 2006 to 239,484 short tons in 2007, before decreasing to 185,561 in 2008 for an overall decrease of 0.7 percent between 2006 and 2008.[153] Consumption was 22.5 percent lower in 2008 than in 2007.[154] Apparent U.S. consumption was 80,419 short tons in interim (January - September) 2009, 37.5 percent lower than in interim 2008.[155] Although record evidence suggests that demand in the imminent future is not likely to continue to deteriorate, demand remains lower than it was a year ago.[156] In any final phase investigations, we intend to further examine demand conditions and projections.

3. Supply Conditions

During the period examined, the U.S. market was supplied by the domestic industry, subject imports from China, and imports from nonsubject sources. *** imports from China and nonsubject countries of unfinished drill pipe, finished drill pipe, and finished drill collars, but there are believed to have been *** imports of unfinished drill collars.[157] Nonsubject imports of finished drill pipe and drill collars were not a significant factor during the period examined,[158] but the volume of nonsubject imports of unfinished drill pipe was quite large in the U.S. market throughout the period examined.[159]

The leading U.S. producer of finished drill pipe is NOV Grant Prideco, followed by Smith, Texas Steel, and VAM. The leading U.S. producer of finished drill collars is Smith followed by NOV Grant Prideco. The leading U.S. producer of unfinished drill pipe is Timken, followed by U.S. Steel and TMK. The only U.S. producer of unfinished drill collars is Timken.[160]

Evidence on the record shows that U.S. producers generally produce drill pipe to order.[161] Chinese imports, in contrast, are sold both to order and from inventories held by importers and distributors in the United States.[162]

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[153] See, e.g., CR/PR at Table C-5.

[154] See, e.g., CR/PR at Table C-5.

[155] See, e.g., CR/PR at Table C-5.

[156] See, e.g., CR at II-10 to II-15; PR at II-6 to II-10; CR/PR at Figures II-1 to II-6.

[157] See, e.g., CR/PR at Table IV-2a, Table IV-2b, and Table IV-2d.

[158] See, e.g., CR/PR at Table C-5. The market share of nonsubject imports of finished drill pipe and drill collars fell from 2.1 percent of apparent U.S. consumption in 2006 to 1.5 percent in 2008.

[159] See, e.g., CR/PR at Table C-1. The market share of nonsubject imports of unfinished drill pipe was *** percent of apparent U.S. consumption in 2006, *** percent in 2007, and *** percent in 2008.

[160] See, e.g., CR at I-3; PR at I-3; CR/PR at Table III-1.

[161] Seven of nine responding U.S. mills and processors producing drill pipe reported that all of their drill pipe is produced to order, with lead times ranging from four weeks to over seven months. Four of six responding U.S. mills and processors producing drill collar reported that all of their drill collar is produced to order, with lead times ranging from four weeks to over five months. See, e.g., CR at II-1; PR at II-1.

[162] Six of twelve responding importers of drill pipe from China reported that all or virtually all of their drill pipe is produced to order, with lead times ranging from four weeks to over seven months. Four importers reported that all or nearly all of their drill pipe is sold from inventory, with lead times ranging from immediate delivery to 15 days. Two importers reported a mixture of sales produced to order and sales from inventory. Four of 10 responding importers of drill collar from China reported that all or nearly all of their drill collar is produced to order, with lead times ranging from four weeks to six months. Four importers reported that all of their drill collar is sold from inventory, with lead times ranging from immediate delivery to six months. Two importers reported a mixture of sales of product produced to order and sales from inventory. See, e.g., CR at II-1; PR at II-1.

Conditions in the industry changed over the period examined. As explained above, demand for drill pipe and drill collars increased from 2006 to mid-2008, but decreased sharply thereafter. Following the decrease in demand, U.S. producers' inventories of drill pipe and drill collars have been building, increasing from an ending inventory quantity of 27,813 short tons in 2006 to an ending inventory of 44,132 short tons in 2008.[163] In interim 2009, inventories were equivalent to 36.1 percent of total shipments.[164] Domestic producers' shipments by quantity also fluctuated during the period examined, reflecting changes in demand, and declined by 10.7 percent between 2006 and 2008.[165] Domestic producers' shipments in interim 2009 were 43.6 percent lower than in interim 2008.[166]

Parties differ with respect to whether U.S. producers were able to meet demand at its peak in 2008. Respondent importers, Downhole and Command, assert that, as demand rose, U.S. producers' production capacity reached its limit and U.S. producers could no longer supply the needs of drilling companies.[167] They argue that they sold primarily to small drilling contractors, and sourced product from China because of U.S. producers' price increases and long delivery times (up to 15 months).[168] Petitioners contend, however, that even during the period of high demand in 2008, U.S. producers were able to supply the needs of the domestic industry.[169] We intend to explore this issue further in any final phase investigations.

Throughout the period examined, domestic production capacity for finished drill pipe and drill collars exceeded apparent U.S. consumption.[170] Domestic production capacity increased by 27.2 percent from 2006 to 2008, and was slightly higher (by 2.0 percent) in interim 2009 than in interim 2008.[171] The domestic industry's capacity utilization decreased from 93.2 percent in 2006 to 79.6 percent in 2008, and was 75.2 percent in interim 2008 and 45.9 percent in interim 2009.[172]

4. Raw Material Costs

Raw materials constitute a significant share of industry costs. Raw materials (as a share of cost of goods sold) for domestic producers of drill pipe and drill collars increased from *** percent in 2006 to *** percent in 2008, and were *** percent in interim 2008 and *** percent in interim 2009.[173]

There is mixed evidence on the extent to which prices of drill pipe track the prices of the raw materials used to produce drill pipe.[174] One producer reported that the sales prices of drill pipe and drill collars are not set by raw material costs, but instead are set by supply and demand in the market.[175] Other

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[163] See, e.g., CR/PR at Table C-5.

[164] See, e.g., CR/PR at Table C-5.

[165] See, e.g. CR/PR at Table C-5.

[166] See, e.g. CR/PR at Table C-5.

[167] See, e.g., Confer. Tr. at 131 (Garvey).

[168] See, e.g., Confer. Tr. at 132 (Garvey).

[169] See, e.g., Confer. Tr. at 94-96 (Brand, Fields, Schagrin).

[170] See, e.g., CR/PR at Table C-5.

[171] See, e.g., CR/PR at Table C-5.

[172] See, e.g., CR/PR at Table C-5.

[173] See, e.g., CR at V-1, PR at V-1 (derived from Table 6-1(b) and 6-1(d)).

[174] See, e.g., CR at V-1, n.1; PR at V-1, n.1; Confer. Tr. at 68 (Fields).

[175] See, e.g., CR at V-1, n.1; PR at V-1, n.1.

producer representatives reported that, prior to the collapse in demand in 2009, raw material costs affected their final input costs and prices.[176]

5. Interchangeability

There is a high degree of interchangeability among the domestic like product, subject imports, and nonsubject imports for products of the same type. Six of nine U.S. producers (when comparing drill pipe) and three of six producers (when comparing drill collars) reported that U.S.-produced drill pipe and drill collars and imports from China are always interchangeable.[177] A majority of importers that compared drill pipe and drill collars from China with those from the United States reported that they are always or frequently interchangeable.[178]

There is evidence on the record that most drill pipe imported from China is finished drill pipe manufactured to API specifications that competes directly with drill pipe produced in the United States, which is most commonly produced to API specifications, but is also sold in other grades for specific applications.[179] Evidence also indicates that U.S. producers' product mix has shifted toward a higher share of premium grades since 2006.[180] Petitioners testified at the staff conference that premium grades of drill pipe account for approximately 15 percent of the total U.S. market for drill pipe and that Chinese producers currently do not produce many premium or patented products, but are increasing their efforts to do so.[181]

C. Likely Volume of Subject Imports from China[182] [183]

In considering the likely volume of cumulated subject imports, we first examined volume trends during the period examined. In absolute terms, the volume of subject imports of finished drill pipe and drill collars increased from 21,561 short tons in 2006 to 27,773 short tons in 2007, and then to 38,694

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[176] See, e.g., Confer. Tr. at 78 (Fields, Brand).

[177] See, e.g., CR at II-16; PR at II-10; CR/PR at Table II-2.

[178] See, e.g., CR at II-17; PR at II-10; CR/PR at Table II-2.

[179] See, e.g., Petitions, Vol. I, at 17.

[180] See, e.g., Confer. Tr. at 78 (Schagrin).

[181] See, e.g., CR at II-18; PR at II-11 to II-12; Confer. Tr. at 8 (Schagrin), 59 (Parks), and 61-62 (Schagrin).

[182] Relevant to the likely volume of subject imports (19 U.S.C. § 1677(7)(F)(i)(I)), Commerce initiated its countervailing duty investigation on subject imports from China and indicated its intention to investigate six preferential loan and interest-rate programs, two programs of debt-to-equity swaps and loan forgiveness, eight programs of government provision of goods or services for less than adequate remuneration, two income and other direct tax benefit programs, three indirect tax and tariff exemption programs, four preferential income tax subsidies for foreign-invested enterprises, five direct grant programs, and four programs of subsidies to producers located in Economic Development Zones. See, e.g., 75 Fed. Reg. 4345, 4347 (Jan. 27, 2010); CR at I-7; PR at I-5.

[183] For purposes of these preliminary determinations, we cumulate the allegedly dumped subject imports from China with the allegedly subsidized imports of subject merchandise from China. Cross cumulation is the cumulation of subsidized imports with dumped imports and includes the situation in which the dumped and subsidized imports are one and the same as well as situations in which they differ to some extent. See, e.g., Bingham & Taylor v. United States, 815 F.2d 1482 (Fed. Cir. 1987); Softwood Lumber from Canada, Invs. Nos. 701-TA-414 (Final) and 731-TA-928 (Final), USITC Pub. 3509 at 29 (May 2002); Circular Welded Carbon Quality Steel Line Pipe from China, Inv. No. 731-TA-1149 (Final), USITC Pub. 4075 at 4 (May 2009). We note that the cumulated subject imports alleged to be subsidized and sold at less than fair value are the subject of investigations that resulted from petitions filed the same day, none of the exceptions to cumulation apply, and there is no dispute that the identical dumped and subsidized imports compete with each other and the domestic like product.

short tons in 2008, an increase of 79.5 percent from 2006-2008.[184] Subject imports of finished goods were 11.2 percent lower in interim 2009, at 18,434 short tons, than in interim 2008, at 20,750 short tons.[185]

From 2006 to 2007, the rate of increase of imports of finished drill pipe and drill collars (28.8 percent) was slightly higher than the increase in apparent U.S. consumption (28.2 percent).[186] From 2007 to 2008, however, the absolute volume of subject merchandise imported from China increased by 39.3 percent, while apparent U.S. consumption decreased by 22.5 percent in this same period.[187] Apparent U.S. consumption was 37.5 percent lower in interim 2009 than in interim 2008, but the absolute volume of subject imports of finished drill pipe and drill collars from China was only 11.2 percent lower in interim 2009 than in interim 2008.[188]

Imports of finished drill pipe and drill collars from China increased their market share throughout the period examined, from 11.5 percent in 2006 to 20.9 percent in 2008.[189] It was higher at 22.9 percent in interim 2009 than it was in interim 2008 at 16.1 percent.[190] As the market share for subject imports of finished drill pipe and drill collars rose, U.S. producers' market share declined overall from 86.4 percent in 2006 to 77.7 percent in 2008.[191] Domestic producers' market share in interim 2009 (74.4 percent) was also lower than their share in interim 2008 (82.3 percent).[192]

In absolute terms, the volume of subject unfinished drill pipe increased from *** short tons in 2006 to *** short tons in 2007, and then decreased to *** short tons in 2008.[193] Imports of unfinished drill pipe were *** percent lower in interim 2009, at *** short tons, than in interim 2008, at *** short tons.[194] As was the case for finished drill pipe and drill collars, the market share for Chinese imports of unfinished drill pipe increased over the period examined, from *** percent in 2006 to *** percent in 2008.[195] It was *** percent in interim 2008 and *** percent in interim 2009.[196] [197] Domestic producers' market share in interim 2009 (***) was considerably lower than in interim 2008 (*** percent).[198]

Thus, despite their relatively recent entry into the U.S. market, subject imports from China obtained a fairly secure foothold in the U.S. market, and continued to increase their presence even when demand, as measured by apparent U.S. consumption, declined. The combination of increased volume of subject imports and decreased demand led to higher inventories held by importers. Subject inventories of

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[184] See, e.g., CR/PR at Table C-5.

[185] See, e.g., CR/PR at Table C-5.

[186] See, e.g., CR/PR at Table C-5.

[187] See, e.g., CR/PR at Table C-5.

[188] See, e.g., CR/PR at Table C-5.

[189] See, e.g., CR/PR at Table C-5.

[190] See, e.g., CR/PR at Table C-5.

[191] See, e.g., CR/PR at Table C-5.

[192] See, e.g., CR/PR at Table C-5.

[193] See, e.g., CR/PR at Table C-1.

[194] See, e.g., CR/PR at Table C-1.

[195] See, e.g., CR/PR at Table C-1.

[196] See, e.g., CR/PR at Table C-1.

[197] Commissioner Pinkert notes that, when the domestic industry's production of unfinished drill pipe *** between interim 2008 and interim 2009, the volume of subject imports of unfinished drill pipe expressed as a ratio to U.S. production *** from *** percent in interim 2008 to *** percent in interim 2009. See, e.g., CR/PR at Table IV-5a.

[198] See, e.g., CR/PR at Table C-1.

finished drill pipe and drill collars increased by 149.7 percent from 2006 to 2008.[199] In addition, despite lower subject import volumes of finished drill pipe and drill collars in interim 2009 than in interim 2008, importers' inventories were 183.3 percent higher at the end of interim 2009 at 15,414 short tons.[200]

The industry in China is large and growing. The limited data reported in questionnaire responses by subject producers/exporters in China indicate that capacity to produce drill pipe in China increased by *** percent from *** short tons in 2006 to *** short tons in 2008.[201] Responding producers of drill pipe in China operated at fairly high but declining capacity utilization levels from 2006 (*** percent) through 2008 (*** percent).[202] In interim 2009, however, reported capacity utilization was only *** percent, compared to *** percent in interim 2008.[203] Reported unused capacity in interim 2009 is *** the volume of total subject drill pipe imports in 2008.[204] Thus, even the limited reported data suggest large drill pipe production capacity and large available unused capacity in China in the imminent future.[205]

Questionnaire data likely understate significantly the total available Chinese capacity to produce and export drill pipe and drill collars to the United States. Although the response by Chinese producers was not insubstantial, the responding producers nevertheless accounted for *** of subject imports during the period examined.[206] Thus, there appears to be a very large additional segment of the Chinese industry that participates in the U.S. market, but is unaccounted for in the data that we have before us in these preliminary phase investigations. We conclude that available capacity in China is large and supports a finding that the likely imminent volume of subject imports will be significant.[207]

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[199] See, e.g., CR/PR at Table C-5.

[200] See, e.g., CR/PR at Table C-5. In any final phase investigations, we intend to seek information regarding inventories of finished drill pipe and drill collars held by contractors and rental companies, which the parties believed to be at relatively high levels given recent declines in rig activity. We also intend to seek additional information concerning the market for used/refurbished products, as both of these are factors that are relevant to our analysis of this issue.

[201] See, e.g., CR/PR at Table VII-3a. Chinese producers/exporters project *** production capacity for full-year 2009 (*** short tons) and 2010 (*** short tons). In the absence of an explanation for the future decline, which is an abrupt departure from recent trends, we do not place much weight on these projections.

[202] See, e.g., CR/PR at Table VII-3a.

[203] See, e.g., CR/PR at Table VII-3a. Reporting drill pipe producers in China projected operating at *** percent capacity utilization in full-year 2009 and *** percent capacity utilization in 2010.

[204] Compare CR/PR at Table VII-3a (*** tons available capacity in interim 2009) with CR/PR at Table IV-2a, IV-2b (subject drill pipe imports of *** tons in 2008).

[205] Responding producers/exporters of drill collars in China also reported increasing drill collar production capacity during the period examined from a *** and project further increases in 2009 and 2010. See, e.g., CR/PR at Table VII-3b. Their capacity utilization for drill collars increased from *** percent in 2007 to *** percent in 2008, but was *** percent in interim 2009 compared to *** percent in interim 2008. They project increasing full-year capacity utilization from *** percent in 2009 to *** percent in 2010. See, e.g., CR/PR at Table VII-3b.

[206] Compare CR/PR at Table VII-3a (reported Chinese exports of *** short tons in 2006, *** short tons in 2007, *** short tons in 2008, and *** short tons in interim 2009) with CR/PR at Tables IV-2a, IV-2b (subject imports of *** short tons in 2006, *** short tons in 2007, *** short tons in 2008, and *** short tons in interim 2009).

[207] Petitioners provide some information tending to indicate that uncaptured capacity may be even larger. Petitioners report that producers in China have excess capacity to produce seamless pipe products, a category that includes unfinished drill pipe. We intend to seek more information on the Chinese production and shipments of unfinished drill pipe in any final phase investigations. Petitioners further report that *** catalogues the existence of *** producers with at least *** friction welding lines (each with a capacity of *** tons). See, e.g., CR at VII-4; PR at VII-3; Petitions, Vol. I, at 21; Petitioners' Postconf. Br. at 41. Despite these estimates, only five manufacturers/exporters of drill pipe and/or drill collars in China submitted questionnaire response to the Commission in the preliminary phase of these investigations. Estimates provided in the questionnaire responses of

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The parties disagree about the size of the home market in China for drill pipe and drill collars.[208] In any final phase investigations, we intend to seek more information on this issue. The current record indicates that Chinese producers are export-oriented. For example, the responding Chinese manufacturers/exporters' total exports of drill pipe, as a percent of their total shipments, increased from *** percent in 2006 to *** percent in 2007 and *** percent in 2008.[209] The percentage of their total shipments that was exported was higher in interim 2009 (*** percent) than in interim 2008 (*** percent).[210] Exports to the United States, as a percent of their total shipments, followed similar trends during the period examined, increasing from *** percent in 2006 to *** percent in 2008 and were *** percent in interim 2008 and *** percent in interim 2009.[211] [212] The responding Chinese manufacturers'/exporters' inventories of drill pipe, which could be utilized for exports of subject merchandise to the United States, increased from *** short tons in 2006, to *** short tons in 2007, and to *** short tons in 2008.[213]

As discussed above, some of the same equipment and facilities used to produce drill pipe and drill collars (particularly unfinished drill pipe and unfinished drill collars) may also be used to produce other products. The ability of Chinese producers to shift their equipment and facilities from other products to the subject merchandise becomes particularly relevant to our analysis when the existing orders and pending trade relief investigations worldwide are taken into account. The United States recently imposed a countervailing duty order on imports of other OCTG products (i.e., casing and tubing) from China[214] and a companion antidumping duty investigation is nearing completion. The tonnage of imports of Chinese seamless casing and tubing affected by those proceedings is many times greater than the total tons of drill pipe sold in the U.S. market. The current order and pending investigation provide an incentive for Chinese seamless pipe producers to shift to greater production of unfinished drill pipe, which they could then export to the United States or provide at favorable terms to Chinese drill pipe processors for conversion into finished drill pipe.

Additionally, antidumping duty orders have been imposed or proposed on seamless pipe products in some of China's other major export markets. In October 2009, the European Union imposed definitive antidumping duties ranging from 17 to 39 percent on seamless pipe (including drill pipe) from China.[215] Russian authorities reportedly proposed antidumping duty measures on seamless steel pipe from China, also in October 2009.[216] These prior and ongoing orders and investigations involving the same and related products encourage Chinese producers to shift production from other products to the subject

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[207] (...continued)
the responding manufacturers/exporters in China also indicate substantial unreported capacity to make the subject product. See, e .g., CR/PR at Table VII-2, nn.1-5.

[208] See, e.g., CR at VII-4; PR at VII-3.

[209] See, e.g., CR/PR at Table VII-3a.

[210] See, e.g., CR/PR at Table VII-3a. Responding producers project high percentages of exports in full-year 2009 (*** percent) and 2010 (*** percent).

[211] See, e.g., CR/PR at Table VII-3a. Responding Chinese manufacturers/exporters projected declines in the percentage of their shipments destined to the U.S. market in full-year 2009 (*** percent) and 2010 (*** percent).

[212] See, e.g., CR/PR at Table VII-3a. Responding producers/exporters of drill collars in China reported exporting *** of their drill collar production, but exports to the United States accounted for ***. See, e.g., CR/PR at Table VII-3b.

[213] See, e.g., CR at VII-6; PR at VII-4; CR/PR at Table VII-3a.

[214] See 74 Fed. Reg. 64045 (Nov. 24, 2009) (countervailing duty order on certain OCTG from China).

[215] See. e.g., CR at VII-10 to VII-11; PR at VII-5 to VII-6.

[216] See, e.g., CR at VII-11; PR at VII-5.

merchandise and/or to shift their exports of drill pipe and/or drill collars from other countries to the U.S. market.

We also analyzed the likely future volume of imports in the context of expected U.S. market demand for the imminent future. As noted previously, demand for drill pipe and drill collars fell abruptly late in the period examined. Rig activity is projected to increase gradually in the coming months, but is unlikely to return to recent robust levels. This means that U.S. market demand for drill pipe and drill collars likely will remain at lower levels for the imminent future. Thus, despite the large and increasing supply of subject merchandise and Chinese producers' incentive and ability to ship larger quantities, due to lower demand and high inventory levels in the U.S. market the likely absolute volume of subject imports from China in the imminent future will be lower than the peak levels recorded during the period examined. Nonetheless, relative to domestic consumption and production, subject imports likely will increase substantially in the imminent future.

Thus, for purposes of the preliminary phase of these investigations, we find a reasonable indication that subject imports from China have had and will likely continue to have a substantial presence in the U.S. market. We further find that the volume of subject imports will be significant in the imminent future, particularly relative to consumption in the United States.

D. Likely Price Effects of the Subject Imports

In assessing the likely price effects of the subject imports, we consider pricing developments during the period examined and likely developments in the imminent future in light of key conditions of competition in the U.S. market.

Drill pipe and drill collars are used as components of drill strings in oil and gas drilling applications, as indicated above, but they represent a relatively low share of overall drilling costs.[217] Questionnaire respondents reported only limited, if any, ability to substitute other products for the products under investigation.[218] These factors indicate that changes in the price of drill pipe and drill collars do not significantly affect overall demand for these products.

A majority of questionnaire respondents reported drill pipe and drill collars produced in China and in the United States are highly interchangeable among products of the same type.[219] There is mixed evidence on the degree to which factors other than price are important in purchasing decisions for drill pipe and drill collars.[220] We intend to further investigate any non-price differences between subject imports from China and the domestic like product in any final phase investigations.

*** the U.S. producers reported setting prices through transaction-by-transaction negotiations, *** reported also using contracts, and one reported also using price lists.[221] Virtually all responding importers of drill pipe and drill collars from China reported using transaction-by-transaction negotiations,

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[217] See, e.g., CR at II-10, II-15; PR at II-6, II-10.

[218] See, e.g., CR II-15; PR at II-10.

[219] See, e.g., CR/PR at Table II-2.

[220] Roughly half of responding U.S. producers reported that differences other than price between drill pipe produced in the United States and drill pipe produced in China are frequently or sometimes a significant factor in their sales, while the other half reported that they are never a significant factor. A majority of responding importers reported that differences other than price between U.S.-produced drill pipe and subject imports are always or frequently a significant factor. With respect to drill collars, a majority of producers reported that differences other than price between U.S.-produced drill collars and subject imports are sometimes a significant factor in their sales, while a majority of importers reported that such differences are at least sometimes a significant factor. See, e.g., CR/PR at Table II-3.

[221] See, e.g., CR/PR at V-2 to V-3; PR at V-2.

although two reported using contracts, and one reported also using price lists.[222] Most importers of subject merchandise from China reported making sales on a spot basis,[223] whereas U.S. producers' sales were more mixed.[224]

Although there are some differences in lead times between subject imports from China and the domestic like product, discussed above, products from both sources are sold in overlapping geographical regions.[225] The record contains conflicting information regarding the extent to which subject imports from China are sold in the same channels of distribution and/or to the same customers as drill pipe and drill collar products manufactured in the United States.[226] We intend to explore this question further in any final phase investigations, including whether and how differences between domestic producers and importers in terms of transaction quantities should be taken into account in evaluating price comparisons.

The Commission collected quarterly pricing data for four products for the period January 2006 through September 2009.[227] Usable pricing data were provided by *** domestic producers and *** importers of products from China.[228] Overall, subject imports undersold the domestic like product in only

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[222] See, e.g., CR at V-3; PR at V-2.

[223] Among the importers that reported sales of drill pipe from China, all but one reported that all of their sales are made on a spot basis. All but one of the responding importers of drill collars from China reported that their sales are made on a spot basis. See, e.g., CR at V-3; PR at V-3.

[224] Six of nine U.S. drill pipe producers reported that all of their sales of drill pipe were spot sales; two reported that *** of their sales are on a short-term contract basis, with the remainder being spot sales, and one reported an even split between short-term contracts and spot sales. Three of six U.S. producers of drill collars reported that all of their sales are spot sales; two reported that *** of their sales are on a short-term contract basis, with the remainder being spot sales; and one reported the slight majority of short-term contracts relative to spot sales. These producers' short-term contracts typically last from one month up to one year, may or may not fix price, and mostly contain meet-or-release provisions. See, e.g., CR at V-3; PR at V-3.

[225] See, e.g., CR at II-1 to II-2; PR at II-1.

[226] Respondents Downhole and Command argue that the domestic industry dominates sales to the five or six large drilling contractors that account for about three-quarters of the U.S. market. They assert that these sales are tied up under long-term contracts with beneficial pricing, the flexibility to adjust terms monthly, and preferred delivery terms that subject producers cannot meet. Instead, Respondents contend, subject imports were sold to smaller drilling contractors that did not have the resources to carry extensive inventories and that had short-term needs due to booming demand that the domestic industry was incapable of supplying beginning as early as 2005, unless customers were willing to wait as long as fifteen months for delivery. See, e.g., Confer. Tr. at 125-26 (Chen), 129-133 (Garvey), 136-139 (Mostoway), 141-143 (Lesco), 166, 172-173 (Garvey). Petitioners assert that any imports of subject merchandise from China by "distributors" still compete against the domestic industry for sales to the same drilling contractors, rental companies, and national oil companies. See, e.g., Confer. Tr. at 15 (Fields), 22 (Morris), 40-41 (Schagrin), 74-75 (Schagrin). Respondents report that the importers of subject merchandise do act as distributors of these products, and acknowledge that they do sell products to rental companies and small quantities to large contractors, in addition to small contractors. See, e.g., Confer. Tr. at 168-69 (Mostoway), 171-73 (Garvey, Lesco).

[227] These products were as follows: (1) drill pipe, finished, 5" (.D., 19.5 lbs/ft., grade G-105 with tool joints attached; (2) drill pipe, finished, 4 ½" O.D., 16.6 obs./ft., grade G-105 with tool joints attached; (3) heavy-weight drill pipe, 5" O.D., 50.1 lbs./ft., with tool joints attached; (4) drill collars, 6 ½" O.D., x 2 13/16" ID with connections attached. See, e.g., CR at V-4; PR at V-3. In any final phase investigations, we also intend to collect pricing data on an unfinished product such as unfinished drill pipe.

[228] See, e.g., CR at V-4; PR at V-3. Pricing data on drill pipe products (products 1-3) reported by these firms accounted for approximately *** percent of the quantity of U.S. shipments of drill pipe and *** percent of the quantity of U.S. imports of drill pipe from China. Pricing data on the drill collar product (product 4) reported by these firms accounted for approximately *** percent of the quantity of U.S. producers' U.S. shipments of drill collars and *** percent of the quantity of U.S. imports of drill collars from China during the reporting period. See,

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16 out of 51 quarterly comparisons, by margins ranging from 0.1 percent to 49.3 percent.[229] The prices of imports from China were higher than U.S. producers' prices in 35 quarterly comparisons, by margins ranging from 0.1 to 103.3 percent.[230] However, while subject imports undersold the domestic like product in only 24 percent of quarterly comparisons in 2006 and 2007, in 2008 and interim 2009 – the periods in which virtually all of the subject imports' increase in U.S. market share took place – underselling occurred in 33 percent and 45 percent of quarterly comparisons, respectively.[231] Thus, while subject imports oversold the domestic like product in the majority of comparisons, subject imports did begin underselling more frequently in the second half of the period examined.

For each of the three drill pipe products, the prices of both the Chinese and domestic products fluctuated and were higher at the end of the period examined than at the beginning.[232] The prices of U.S.-produced product 4 decreased over the same period and Chinese prices for product 4 increased, although there were limited reported sales of product 4 imported from China.[233] Thus, domestic prices have not been depressed over the period examined.

The domestic industry's cost of goods sold ("COGS") as a ratio to net sales decreased from 66.7 percent in 2006 to 61.2 percent in 2007 before increasing somewhat to 61.6 percent in 2008. The COGS-to-net-sales ratio was considerably higher (79.0 percent) in interim 2009 than in interim 2008 (59.1 percent).[234] Accordingly, there are some indications from data later in the period examined that a cost/price squeeze may be beginning. We intend to examine this issue further in any final phase investigations.

Thus, notwithstanding significant volumes and significant increases in the volume of subject imports from China, U.S. sales prices generally increased and prices of Chinese producers were more often than not higher than prices of the U.S. producers. This would tend to support Respondents' claim

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[228] (...continued)
e.g., CR at V-5, PR at V-3.

[229] See, e.g., CR/PR at Tables V-2 to V-6.

[230] See, e.g., CR/PR at Tables V-2 to V-6.

[231] See, e.g., CR/PR at Tables V-2 to V-6.

[232] See, e.g., CR/PR at Tables V-2 to V-5. The weighted-average sales prices of U.S.-produced product 1 increased overall by *** percent, fluctuating but generally increasing over the entire period and increasing dramatically at the end of the period, by *** percent from the first quarter of 2009 to the third quarter of 2009. The weighted-average sales prices of Chinese-produced product 1 increased overall by *** percent, fluctuating but generally increasing over the entire period and increasing dramatically at the end of the period, by *** percent from the first quarter of 2009 to the third quarter of 2009. See, e.g., CR/PR at Table V-2; CR at V-14; PR at V-5.

The weighted-average sales prices of U.S. produced product 2 increased overall by *** percent between January 2006 and September 2009, fluctuating over the entire period to their lowest point in the *** quarter of ***, after which they increased by *** percent to the third quarter of 2009. The weighted-average sales prices of Chinese produced product 2 increased overall by *** percent between January 2006 and September 2009, fluctuating but remaining stable over the entire period. See, e.g., CR/PR at Table V-3; CR at V-14; PR at V-5.

The weighted-average sales prices of U.S. produced product 3 increased overall by *** percent between January 2006 and September 2009, with most of the increase being accounted for by an increase of *** percent from *** quarter of *** to the *** quarter of ***,after which prices remained relatively flat ***. The weighted-average sales prices of Chinese produced product 3 increased overall by *** percent over the entire period, remaining relatively stable ***, when ***. See, e.g., CR/PR at Table V-4; CR at V-14; PR at V-5.

[233] See, e.g., CR/PR at Table V-5; CR at V-14; PR at V-5. The weighted-average sales prices of U.S.-produced product 4 decreased overall by *** percent from January 2006 to September 2009, fluctuating but remaining relatively flat over most of the period before decreasing by *** percent in ***. The weighted-average sales prices of Chinese produced product 4 increased overall by *** percent from the *** (the first period for which data were reported) to the ***. See, e.g., CR/PR at Table V-5; CR at V-14; PR at V-5.

[234] See, e.g., CR/PR at Table C-5.

that subject imports captured sales on the basis of non-price factors such as shorter lead times or greater willingness to accommodate how purchasers wish to structure the transactions.[235]

In contrast to the pricing data, lost sales and revenues information provides some support for the importance of price in sales of Chinese drill pipe and drill collars. Several purchasers indicated that they purchased subject imports instead of domestic product because of lower prices, and that domestic producers reduced prices in the face of subject import competition.[236]

In any final phase investigations, we intend to explore the extent to which subject imports from China have achieved, or are likely to achieve, higher sales volumes at the expense of the domestic industry through lower prices, or through other factors such as more flexible sales terms or shorter lead times.

In sum, we do not find significant current price effects by subject imports from China. We also find that there are issues regarding the price competition of Chinese producers in the U.S. market that warrant closer examination in any final phase investigations.

E. Likely Impact Of The Subject Imports On The Domestic Industry[237]

Between 2006 and 2008, the domestic drill pipe and drill collars industry registered strong performance in many indicators, including production, financial data, and employment.[238] Production was 220,666 short tons in 2006, 267,930 short tons in 2007, and 238,002 short tons in 2008.[239] Production-related workers totaled 1,300 in 2006, 1,539 in 2007, and 1,584 in 2008. Hours worked totaled 3.4 million in 2006, 4.1 million in 2007, and 4.1 million in 2008. Wages paid were 55.4 million in 2006, 70.9 million in 2007, and 76.5 million in 2008. Productivity (tons per 1,000 hours) was 64.4 in 2006, 65.2 in 2007, and 57.4 in 2008. The domestic industry's net sales by quantity increased 6.7 percent from 2006 to 2008,[240] capital expenditures increased from $*** in 2006 to $*** in 2007, but declined to $*** in 2008.[241] The industry was profitable in each year from 2006 to 2008.[242]

Although the domestic industry generally performed very well through 2008, many key indicators indicated that it is unlikely to return to such a strong performance in the imminent future. As described above, U.S. market demand for drill pipe and drill collars declined steeply in the latter part of 2008, and remained weak through interim 2009. After increasing 28.2 percent between 2006 and 2007, apparent U.S. consumption decreased 22.5 percent between 2007 and 2008, for an overall decline of 0.7

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[235] See, e.g., Confer. Tr. at 131-132, 133 (Garvey), 138-139 (Mostoway), 173, 176 (Garvey); Respondents' Postconf. Br. at 17; CR at V-20 to V-21, PR at V-7.

[236] See, e.g., CR/PR at Table V-8; CR at V-19 to V-21; PR at V-7. For example, *** reported that U.S. producers have reduced their prices in order to compete with subject imports. Domestic producer *** reported that it ***. ***.

[237] Commerce initiated its antidumping duty investigations based on estimated dumping margins ranging from 429.53 percent to 496.93 percent for subject imports from China. See, e.g., CR at I-7; PR at I-5.

[238] See, e.g., CR/PR at Table C-5.

[239] See, e.g., CR/PR at Table C-5.

[240] See, e.g., CR/PR at Table C-5. The domestic industry's net sales increased from 212,442 short tons in 2006 to 263,383 short tons in 2007, and then decreased to 226,630 short tons in 2008. See, e.g., CR/PR at Table C-5.

[241] See, e.g., CR/PR at Table C-5.

[242] The domestic industry reported operating income of 30.0 percent in 2006, 36.0 percent in 2007, and 34.4 percent in 2008. In interim 2009, the domestic industry's operating income of 14.3 percent of sales was considerably lower than in interim 2008 (37.0 percent). See, e.g., CR/PR at Table C-5.

percent from 2006 to 2008.[243] Subject imports of finished drill pipe and drill collars increased their presence dramatically, increasing their market share by 9.3 percentage points from 11.5 percent in 2006 to 20.9 percent in 2008, with virtually all of the increase occurring between 2007 and 2008.[244] In interim 2009, despite the much lower apparent U.S. consumption, the U.S. market share of Chinese finished drill pipe and drill collars was somewhat higher, at 22.9 percent.[245]

The increase in market share of Chinese subject imports was accompanied by a parallel decline in the domestic industry's market share by 8.7 percentage points from 86.4 percent in 2006 to 77.7 percent in 2008, with virtually all of the decrease occurring between 2007 and 2008. The domestic industry's 74.4 percent market share in interim 2009 was 7.9 percentage points less than its 82.3 percent market share in interim 2008.[246]

The decline in domestic industry market share between the interim periods coincided with declines in several domestic industry indicators. Domestic production by quantity was 37.7 percent lower, capacity utilization was 29.3 percentage points lower, U.S. shipments by quantity were 43.6 percent lower, net sales by quantity were 38.0 percent lower, and productivity was 16.3 percent lower. Significantly, the number of production related workers was 23.2 percent lower, hours worked were 25.6 percent lower, and wages paid were 33.0 percent lower in interim 2009 than in interim 2008.[247] [248]

Domestic industry operating profits were 75.3 percent lower in interim 2009 than in interim 2008, although operating income as a percentage of sales was a positive 14.3 percent in interim 2009. Producers of unfinished drill pipe saw their operating income ratio fall from 26.9 percent in interim 2008 to a negative 23.3 percent in interim 2009, based on a much lower sales volume. The domestic industry's capital expenditures were $*** in interim 2008 and $*** in interim 2009.[249]

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[243] See, e.g., CR/PR at Table C-5.

[244] See, e,g., CR/PR at Table C-5. The market share of Chinese imports of unfinished drill pipe increased from *** percent to *** percent in 2007, and was *** percent in 2008. It was *** percent in interim 2008 and *** percent in interim 2009. The domestic industry's market share for unfinished drill pipe was *** percent in 2006, *** percent in 2007, and *** percent in 2008. It was *** percent in interim 2008 and *** percent in interim 2009. See, e.g., CR/PR at Table C-1.

[245] See, e.g., CR/PR at Table C-5.

[246] See, e.g., CR/PR at Table C-5.

[247] Although we are mindful that the domestic industry's performance indicators for unfinished drill collars, where the current record shows that there were *** subject imports during the period examined, declined, we note that the domestic industry's performance with respect to unfinished drill pipe, finished drill pipe, and finished drill collars, where *** subject import competition, declined even further. For example, for unfinished drill pipe, the domestic industry's operating income ratio was 24.0 percent in 2006, but was negative 23.3 percent in interim 2009. U.S. production quantity was 88,383 short tons in 2006, 75,724 short tons in 2007, and 90,830 short tons in 2008, but was sharply lower in interim 2009, at 5,016 short tons. Capacity utilization was 53.0 percent in 2006, 44.0 percent in 2007, and 57.4 percent in 2008, but was considerably lower in interim 2009, at 4.8 percent. From interim 2008 to interim 2009, U.S. shipments by quantity were *** percent lower, net sales by quantity were *** percent lower, the number of production-related workers was 78.4 percent lower, hours worked were 81.4 percent lower, wages paid were 82.5 percent lower, and productivity was 61.2 percent lower. See, e.g., CR/PR at Table C-1.

[248] Table C-6 provides data for certain performance indicators for the whole domestic industry as defined in these investigations (i.e., it includes drill pipe and drill collars, both unfinished and finished). For the domestic industry as a whole, production related workers totaled *** in 2006, *** in 2007, *** in 2008, and *** for interim 2009, as compared to *** in interim 2008. Hours worked totaled *** in 2006, *** in 2007, and *** in 2008. In interim 2008, hours worked were *** and in interim 2009 they were ***. Wages paid for the domestic industry as a whole were *** in 2006, *** in 2007, and *** in 2008. In interim 2008, wages paid were *** and in interim 2009 they were ***. See, e.g., CR/PR at Table C-6.

[249] See, e.g., CR/PR at Table C-5. See also CR/PR at Table C-1.

Most telling, the volume of drill pipe and drill collars on domestic producers' order books fell to its lowest level of the period examined in the third and fourth quarters of 2009. Order quantities in those most recent quarters were less than *** as large as in any previous quarter from 2006 through 2008.[250] Given Petitioners' testimony that their customers order their products as much as 12-18 months in advance,[251] it appears that the industry will have only limited near-term business regardless of any increase in the presence of subject imports. Furthermore, U.S. producers' inventories of finished drill pipe and drill collars, as well as inventories of subject imports in the United States, were at their highest at the end of the period examined.[252]

In sum, even though the domestic industry generally performed well through 2008, we find that the domestic industry is in a weakened state and, therefore, is vulnerable based on these more recent performance indicators and current and projected demand forecasts.[253] [254]

For purposes of these preliminary phase investigations, we find that there is a causal nexus between the subject imports and a likely imminent adverse impact on the domestic industry. This conclusion is based mainly on the sharp declines in the industry's trade, employment, and order book data, and our findings discussed above that the volume of subject imports is likely to increase significantly in relative terms in an imminent time frame.

We have considered whether there are other factors that likely will have an imminent impact on the domestic industry. We recognize that the decline in demand for drill pipe and drill collars played a role in the downturn of the domestic industry's performance near the end of the period examined and that demand is likely to remain at suppressed levels in the imminent future. We intend to explore this issue further in any final phase investigations.

We also note that nonsubject imports of finished drill pipe and drill collars were not a significant factor during the period examined. The volume of nonsubject imports was less than three percent during the period examined, including interim 2009.[255] In contrast, the volume of nonsubject imports of unfinished drill pipe was quite large. Most of the imports of nonsubject unfinished drill pipe were imported by ***. We note that such imports, ***.[256] We intend to examine the effect of the domestic

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[250] See, e.g., CR at III-12; PR at III-9. Petitioners also stated at the staff conference that their order books plummeted over the last year. See, e.g., Confer. Tr. at 20 (Brand), 16 (Fields), and 28 (Ramsey). ***. See, e.g., CR/PR at Table III-5.

[251] See, e.g., CR at II-12; PR at II-6; Confer. Tr. at 71-72 (Schagrin).

[252] See, e.g., CR/PR at Table C-5.

[253] Commissioner Pinkert finds that the data are mixed regarding whether the domestic industry is currently vulnerable. He notes that, although financial performance across the entire domestic industry -- as evidenced by operating margins, operating income, and the ratio of COGs to sales -- deteriorated between the interim periods, the interim 2009 financial data for the finished products show signs of both strength and weakness, which is in contrast to clearly weak interim 2009 financial performance with respect to the unfinished products. See, e.g., CR/PR at Tables C-1, C-3, and C-5. He notes also that, although production, shipments, and capacity utilization for finished drill pipe/drill collars and unfinished drill pipe were lower in interim 2009 than in interim 2008, the decline between the interim periods was much more dramatic for unfinished drill pipe than for the finished products. See, e.g., CR/PR at Tables C-1 and C-5.

[254] Respondents Downhole and Command argued that the Commission should weight-average the financial performance of the industry over the period examined. Such an approach is inconsistent with the Commission's practice. Moreover, using an averaging methodology as requested by Downhole and Command would tend to reduce the weight given to the most recent data which are often the most probative, particularly in considering threat of material injury.

[255] See, e.g., CR at Table C-5.

[256] See, e.g., *** Questionnaire Response at 15 (response to question II-10a).

industry's own imports of unfinished drill pipe on the overall U.S. industry in any final phase of these investigations.

Consequently, we conclude that the subject imports are likely to have an imminent adverse impact on the domestic industry, which demonstrates a reasonable indication that the domestic industry is threatened with material injury.

CONCLUSION

For the foregoing reasons, we have determined, based on the record in the preliminary phase of these investigations, that there is a reasonable indication that the domestic drill pipe and drill collar industry is threatened with material injury by reason of subject imports from China.[257]

[257] Chairman Aranoff, Vice Chairman Pearson, and Commissioner Okun find no reasonable indication that the domestic industry is materially injured or threatened with material injury by reason of subject imports from China.

DISSENTING VIEWS OF CHAIRMAN SHARA L. ARANOFF, VICE CHAIRMAN DANIEL R. PEARSON, AND COMMISSIONER DEANNA TANNER OKUN

Based on the record in the preliminary phase of these investigations, we find that there is no reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of drill pipe and drill collars from China that are allegedly subsidized by the Government of China and sold in the United States at less than fair value ("LTFV").[1]

We join the Commission's Views with respect to background, domestic like product, domestic industry, legal standards, and conditions of competition. We write separately, however, with respect to our analysis of reasonable indication of material injury and threat of material injury by reason of the subject imports. For the reasons discussed below, we find that there is no reasonable indication that an industry in the United States producing drill pipe and drill collars is materially injured or threatened with material injury by reason of subject imports from China.

I. NO REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF SUBJECT IMPORTS FROM CHINA[2]

A. Volume of Subject Imports

In evaluating the volume of subject imports, section 771(7)(C)(I) of the Tariff Act provides that the "Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant."[3]

During a period of rising demand, aggregate subject import volume increased by *** percent between 2006 and 2007, from *** short tons to *** short tons.[4] Because of a large increase in apparent U.S. consumption of finished goods between 2006 and 2007 (28.2 percent), subject imports as a share of apparent U.S. consumption of finished drill pipe and drill collars remained relatively flat at 11.5 percent in 2006 and 11.6 percent in 2007.[5] Subject imports registered a smaller increase in volume between 2007 and 2008 (*** percent), from *** short tons in 2007 to *** short tons in 2008.[6] As apparent U.S. consumption, however, declined by 22.5 percent from 2007 to 2008, subject imports increased their share of the U.S. market to 20.9 percent in 2008.[7]

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[1] Material retardation is not an issue in these investigations. 19 U.S.C. §§ 1671b(a), 1673b(a) (2000); see also American Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); Chem. Corp. v. United States, 20 CIT 353, 354-55 (1996).

[2] Negligibility under 19 U.S.C. § 1677(24) is not an issue in these investigations. Questionnaire data indicate that during the most recent 12-month period, imports from China accounted for *** percent of total U.S. imports of drill pipe and drill collars by quantity. The volume of subject imports is thus well above the statute's three percent negligibility level. CR at IV-8, PR at IV-5.

[3] 19 U.S.C. § 1677(7)(C)(i).

[4] The value of these subject imports increased from $*** in 2006 to $*** in 2007. CR/PR at table C-6.

[5] CR/PR at table C-5.

[6] From 2007 to 2008, the value of these subject imports increased from $*** to $***. CR/PR at table C-6.

[7] CR/PR at table C-5.

Apparent U.S. consumption of drill pipe and drill collars began to cool in mid-2008 and continued to decline in 2009.[8] Apparent U.S. consumption was 37.5 percent lower in interim 2009 compared with interim 2008.[9] While subject imports were *** percent lower in interim 2009 compared to interim 2008, with the decline in apparent U.S. consumption subject import share of the U.S. market was higher at 22.9 percent in interim 2009, compared with 16.1 percent in interim 2008.[10] The ratio of subject imports to domestic production also increased overall from 2006 to 2008 and was higher in interim 2009 compared to interim 2008.[11] Throughout the period examined, nonsubject imports were the largest source of import supply to the United States.[12] The volume of nonsubject imports fluctuated but declined overall as a share of the U.S. market.

We find the increase in volume of the subject imports, both absolutely and relative to domestic consumption, to be significant. This increase, however, must be viewed in the context of prevailing market conditions. Subject imports began their increase during a period characterized by expanding demand, high rates of capacity utilization for domestic producers,[13] and long lead times for domestic production.[14] In light of these facts, coupled with our findings of a lack of significant adverse price

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[8] This decline in apparent U.S. consumption was associated with the economic downturn in general and was tied specifically to declines in both the price of oil and the rig count. Oil and gas prices and the number of operating oil and gas rigs in the United States peaked in mid-2008 before declining steeply. The footage drilled of drill pipe and drill collars increased year over year from 2006 to 2008 but was sharply lower in interim 2009 compared to interim 2008. U.S. gas rig permits began to climb in 2007, peaked in mid-2008, and then plummeted in the third quarter of 2008. CR/PR at figures II-2, II-3, II-4, and II-5.

[9] Apparent U.S. consumption was 80,419 short tons in interim 2009 compared with 128,773 short tons in interim 2008. CR/PR at table C-5.

[10] The quantity of subject imports was *** short tons in interim 2009 with a value of $***, compared to *** short tons with a value of $*** in interim 2008. CR/PR at table C-6.

With regard to the trend in subject import market share when the interim periods are compared, we note that, in part because of the elapsed time between orders of subject imports and their entry into the U.S. market, the reaction of subject imports to the decline in demand was not immediate. In particular, importers of drill pipe from China reported lead times ranging from 4 weeks to over 7 months and importers of drill collars from China reported lead times of 4 weeks to 6 months. CR/PR at table C-5; CR/PR at II-1.

[11] The ratio of subject unfinished drill pipe imports to U.S. production increased from *** percent in 2006 to *** percent in 2007, and then decreased to *** percent in 2008, and was *** percent in interim 2009 compared with *** percent in interim 2008. The ratio of subject finished drill pipe imports to U.S. production increased from *** percent in 2006 to *** percent in 2007, and to *** percent in 2008, and was *** percent in interim 2009 compared with *** percent in interim 2008. The ratio of subject finished drill collar imports to U.S. production initially decreased from *** percent in 2006 to *** percent in 2007, and then increased to *** percent in 2008, and was *** percent in interim 2009 compared with *** percent in interim 2008. CR/PR at tables IV-5a, IV-5b, and IV-5d.

[12] Nonsubject imports were predominantly of unfinished drill pipe. CR/PR at Tables C-1 and C-6. Nonsubject imports totaled *** short tons in 2006, *** short tons in 2007, and *** short tons in 2008. The quantity of nonsubject imports was *** percent lower in interim 2009 (*** short tons) compared to interim 2008 (*** short tons). CR/PR at table C-6.

[13] From 2006 to 2007, demand, as measured by apparent U.S. consumption, increased by 28.2 percent from 186,777 short tons in 2006 to 239,484 short tons in 2007. In 2008, however, apparent U.S. consumption was 185,561 short tons, virtually returning to 2006 levels. CR/PR at table C-5. Domestic producers' capacity utilization for finished drill pipe was 96.4 percent in 2006, 90.7 percent in 2007, and 80.4 percent in 2008. CR/PR at table III-3b. Domestic producers' capacity utilization for finished drill collars was 83.7 percent in 2006, 96.0 percent in 2007, and 76.6 percent in 2008. CR/PR at Table III-3d.

[14] Importer Command Energy Services reported that since 2006 it has experienced backlogs from U.S. producers ranging from 15 to 18 months that peaked in mid-2008. *** other importers of drill pipe and drill collars from China also reported experiencing long lead times and late deliveries during certain periods. Importer Weatherford reported

(continued...)

effects and impact, discussed *infra*, we do not find that the volume of subject imports or any increase in that volume, either absolutely or relative to U.S. production or consumption, warrants an affirmative determination of reasonable indication of material injury by reason of subject imports.

B. Price Effects of the Subject Imports

In evaluating the price effects of the subject imports, section 771(7)(C)(ii) of the Tariff Act provides that the Commission shall consider whether –

> (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and
>
> (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.[15]

As noted by our colleagues, the domestic like product and subject imports are generally interchangeable, although differences between products other than price may often be significant considerations in sales of drill pipe and drill collars.[16]

The Commission collected quarterly pricing data on three finished drill pipe products, one of which was heavy weight drill pipe, and one drill collar product.[17] Pricing data accounted for *** percent of domestic producers' U.S. shipments of drill pipe and *** percent of U.S. imports of drill pipe from January 2006 to September 2009.[18] Pricing data were reported by four domestic producers and seven importers.[19]

These data show a pattern of predominant overselling. For the four products collectively, subject imports of drill pipe and drill collars oversold the domestic like product in 35 of 51 quarterly price comparisons.[20] In particular, with regard to product 3 (heavy weight drill pipe), subject imports consistently oversold domestic product.[21] For the other two drill pipe products, underselling margins, when they occurred, tended to be quite low, particularly late in the period.[22] In light of these considerations, we do not find underselling to be significant.

Moreover, we find no evidence of price depression. For the drill pipe products, domestic prices increased markedly over the period examined. In fact, only for heavy weight drill pipe (product 3) was there any softening of prices at the end of the period, despite the apparent collapse in demand in late

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[14] (...continued)
that although ***. CR at II-6-7, PR at II-3-4. Three purchasers named in lost sales allegations explained that ***. CR at V-19-20, PR at V-7. One U.S. producer of drill pipe, ***, reported that it faced supply constraints in periods of 2008, during which it limited volume to its customers. CR at II-6, PR at II-3.

[15] 19 U.S.C. § 1677(7)(C)(ii).

[16] CR/PR at table II-3.

[17] CR at V-4, PR at V-3. Pricing comparisons for product 4 (drill collars) were very limited.

[18] CR at V-4, PR at V-3.

[19] Id.

[20] CR/PR at table V-7.

[21] CR/PR at table V-4.

[22] CR/PR at tables V-2 & V-3.

2008.[23] Specifically, the price of domestic producers' shipments of product 1 (finished drill pipe) increased from $*** per short ton in the first quarter of 2006 to $*** per short ton in the third quarter of 2009, and the price of domestic shipments of product 2 (finished drill pipe) increased from $*** per ton in the first quarter of 2006 to $*** per ton in the third quarter of 2009.[24] Indeed, prices for both these products reached their highest levels in interim 2009 when subject import volumes attained their peak market share.[25] We are mindful that, after having increased during much of the period, prices for product 3 declined in the final quarter of the period examined (July-September 2009), but we note that in that quarter, subject imports oversold the domestic like product by a considerable margin.

In addition, we do not find that subject imports suppressed prices for domestically produced drill pipe and drill collars to a significant degree. Between 2006 and 2008, as noted, domestic prices increased markedly, and those increased prices more than covered any increase in domestic producers' unit cost of goods sold (COGS), as reflected in a decline in COGS as a share of net sales from 66.7 percent in 2006 to 61.6 percent in 2008.[26] We acknowledge that trends in the interim period data may indicate the beginning of a cost/price squeeze in interim 2009.[27] Nevertheless, these trends coincided with, and appear to have been caused by, a severe slump in demand that was a consequence of conditions in the overall economy. Thus, viewing the record as a whole, we do not find that the subject imports prevented price increases that otherwise would have occurred to any significant degree.[28]

For all of these reasons, we do not find that the subject imports of drill pipe and drill collars had significant adverse effects on prices for the domestic like product.

C. Impact of the Subject Imports[29]

In examining the impact of subject imports, section 771(7)(C)(iii) of the Tariff Act provides that the Commission "shall evaluate all relevant economic factors which have a bearing on the state of the industry."[30] These factors include output, sales, inventories, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors

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[23] CR/PR at figures V-2 through V-4.

[24] CR/PR at tables V-2 & V-3.

[25] CR/PR at tables V-2, V-3, & C-5.

[26] CR/PR at table C-5.

[27] Unit COGS was $3,514 per ton in interim 2008 and $4,849 per ton in interim 2009; average unit sales value was $5,945 per ton in interim 2008 and $6,139 per ton in interim 2009; unit COGS as a share of net sales was 59.1 percent in interim 2008 and 79.0 percent in interim 2009. CR/PR at table C-5.

[28] Petitioners alleged a number of lost sales and lost revenues due to subject imports of drill pipe over the period examined. Some of these allegations were confirmed, but in light of the equally large number of purchasers that cited availability as their reason for switching to Chinese product, we find that the lost sales and lost revenue data are consistent with the data on underselling as demonstrating no widespread or consistent pattern of aggressive pricing by importers of Chinese drill pipe. CR/PR at tables V-8 and V-9. Accordingly, we find the evidence concerning confirmed lost sales and revenues to be insufficient to establish significant price effects.

[29] Commerce initiated an antidumping duty investigation on drill pipe and drill collars based on estimated dumping margins ranging from 429.53 percent to 496.93 percent. Commerce also initiated a countervailing duty investigation on the subject merchandise. CR at I-7; PR at I-5 (citing 75 Fed. Reg. at 4,531 and 75 Fed. Reg. at 4,345, Jan. 28 and Jan. 27, 2010, respectively).

[30] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.").

are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[31]

The domestic industry's production, capacity, sales, and employment all increased between 2006 and 2008, despite the industry's losses in market share over that period.[32] Moreover, the industry earned extremely high profits each year from 2006 to 2008 as highly favorable demand conditions increased the industry's prices faster than the increase in its costs. Notably, the industry's financial performance continued to be very strong in 2008, when subject imports reached their peak volume.[33]

As noted above, U.S. market demand for drill pipe and drill collars plunged starting in the latter part of 2008 and remained weak through interim 2009. The industry's production, shipments, and employment levels were all significantly lower in interim 2009 than they were in interim 2008.[34] In addition, domestic producers' market share was 7.9 percentage points lower in interim 2009, at 74.4 percent, then in interim 2008, at 82.3 percent.[35]

Nonetheless, we do not find a sufficient causal link between subject imports and the current condition of the domestic industry. Given the fact that subject imports predominantly oversold the domestic like product even in the interim 2009 period and that, for the most part, the industry was able to maintain or actually increase its prices in that interim period, a more likely explanation for any volume losses by the industry was the severe decline in demand that began in late 2008.[36] In any event, the industry's performance over the entire period examined does not warrant a finding of present material injury by reason of subject imports. In particular, despite the increased presence of subject imports, favorable demand conditions permitted the industry to increase prices and profits very substantially in 2006 through 2008. During interim 2009, subject imports gained significant market share, but given that (1) the absolute level of such imports was lower in interim 2009 compared to interim 2008, (2) subject imports continued generally to oversell the domestic like product; and, (3) the interim 2009 data do not reflect the trends during 2006-2008 (when subject imports increased), we cannot conclude that subject imports had a significant adverse impact on the domestic industry. Rather, the data show that the industry enjoyed very favorable financial returns during the three calendar years and that the industry's prices

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[31] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Publication 3155 at 25 n.148 (Feb. 1999).

[32] From 2006 to 2008, the domestic industry's share of the finished drill pipe and drill collars market declined by 8.7 percentage points, from 86.4 percent in 2006 to 77.7 percent in 2008, yet its production of those products increased by 7.9 percent, its production capacity increased by 27.2 percent, its sales quantity increased by 6.7 percent, and the number of production and related workers producing those products increased by 21.8 percent. CR/PR at table C-5.

[33] Operating profit for the industry producing finished drill pipe and drill collars was $288 million in 2006, $504 million in 2007 and $469 million in 2008. The domestic industry's ratio of operating income to net sales was 30.0 percent in 2006, 36.0 percent in 2007, and 34.4 percent in 2008. CR/PR at table C-5.

[34] Production of finished drill pipe and drill collars was 172,727 short tons in interim 2008 and 107,565 short tons in interim 2009. U.S. shipments were 106,028 short tons in interim 2008 and 59,844 short tons in interim 2009. CR/PR at table C-5. The number of production and related workers for both unfinished and finished drill pipe and drill collars was *** in interim 2008 and *** in interim 2009. CR/PR at table C-6.

[35] The volume of subject imports of finished drill pipe and drill collars was 20,750 short tons in interim 2008 and 18,434 short tons in interim 2009, but subject import market share increased as domestic demand dropped. CR/PR at table C-5.

[36] The Commission's pricing data show that during interim 2009, prices of subject imports of product 1 were virtually identical to the prices of the domestic like product, subject imports of product 2 undersold the domestic like product, but by small margins, and subject imports of product 3 substantially oversold the domestic like product. Moreover, the unit value of domestic producers' shipments of finished drill pipe and drill collars was $5,745 per ton in interim 2009 compared with $5,597 per ton in interim 2008. CR/PR at tables V-2 through V-4; CR/PR at table C-5.

more than held their own throughout the period, even after market conditions deteriorated in late 2008 and interim 2009. In considering the role of declining demand late in the period examined, we find that these downward trends in demand have caused injury to the domestic industry.

Moreover, we have considered the role of additional other factors, such as nonsubject imports, in the market. Nonsubject imports were present in the market in significant quantities.[37] On the other hand, nonsubject imports were generally priced higher than similar merchandise from China.[38]

For the above reasons, we do not find that there is a reasonable indication that subject imports are having an adverse impact on the domestic industry. We find that the record as a whole contains clear and convincing evidence that there is no reasonable indication of material injury by reason of subject imports of drill pipe and drill collars and no likelihood exists that contrary evidence will arise in a final investigation.

II. NO REASONABLE INDICATION OF THREAT OF MATERIAL INJURY BY REASON OF SUBJECT IMPORTS FROM CHINA

Section 771(F) of the Act directs the Commission to determine whether there is a reasonable indication that an industry in the United States is threatened with material injury by reason of the subject imports by analyzing whether "further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted."[39] The Commission may not make such a determination "on the basis of mere conjecture or supposition," and considers the threat factors "as a whole."[40] In making our determination, we have considered all factors that are relevant to these investigations.[41] Based on an evaluation of the relevant

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[37] CR/PR at table C-6. We note that domestic producer *** nonsubject imports were *** percent of total reported nonsubject imports of unfinished drill pipe in 2008. CR/PR at tables III-7a and IV-1.

[38] CR/PR at appendix E.

[39] 19 U.S.C. § 1677(7)(F)(ii).

[40] 19 U.S.C. § 1677(7)(F)(ii). An affirmative threat determination must be based upon "positive evidence tending to show an intention to increase the levels of importation." Metallverken Nederland B.V. v. United States, 744 F. Supp. 281, 287 (Ct. Int'l Trade 1990) (citing American Spring Wire Corp. v. United States, 590 F. Supp. 1273, 1280 (Ct. Int'l Trade 1984); see also Calabrian Corp. v. United States, 794 F. Supp. 377, 387-88 (Ct. Int'l Trade 1992) citing H.R. Rep. No. 98-1156 at 174 (1984).

[41] These factors are as follows:

> (I) if a countervailable 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 countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement) and whether imports of the subject merchandise are likely to increase,
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> (II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,
>
> (III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,
>
> (IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices and are likely to increase demand for further imports,

(continued...)

statutory factors, we find that there is no reasonable indication that an industry in the United States is threatened with material injury by reason of subject imports of drill pipe and drill collars from China that are allegedly sold in the United States at less than fair value and allegedly subsidized by the Government of China.

The Commission received questionnaire responses from five Chinese producers/exporters, and 22 U.S. importers accounting for more than 80 percent of U.S. imports of the subject merchandise, including *** percent of U.S. imports of unfinished drill pipe, *** percent of U.S. imports of finished drill pipe, and *** percent of U.S. imports of drill collars.[42] *** was the *** Chinese producer of drill pipe that submitted a questionnaire response and *** was the *** Chinese producer of drill collars that submitted a questionnaire response.[43]

As an initial matter, for purposes of the preliminary phase of these investigations, we do not find that the domestic industry producing drill pipe and drill collars is currently vulnerable. The operating performance of the domestic industry during most of the period examined was extremely strong, and in 2007 the industry achieved period highs in production quantity, U.S. shipment quantity, U.S. shipment value, and operating income (both absolutely and as a ratio to net sales), while experiencing, for the most part, only modest declines from these highs in 2008.[44] For example, despite the growing presence of subject imports in the U.S. market, the industry's operating margin increased from 30.0 percent in 2006 to 36.0 percent in 2007, before declining slightly to 34.4 percent in 2008. It is in the context of the recessionary climate of late 2008 and the first three quarters of 2009, periods that were characterized by rapidly declining demand for drill pipe and drill collars, that the U.S. industry's performance declined.

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[41] (...continued)

(V) inventories of the subject merchandise,

(VI) the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products.

* * *

(IX) any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).

19 U.S.C. § 1677(7)(F)(I). Statutory threat factor (VII) is inapplicable, as no imports of agricultural products are involved in these investigations. No argument was made that the domestic industry is currently engaging or will imminently engage in any efforts to develop a derivative or more advanced version of the domestic like product, which would implicate statutory threat factor (VIII).

[42] CR at I-5, PR at I-3-4; CR at IV-1; PR at IV-1. The five responding Chinese foreign producers/exporters of drill pipe and drill collars are Baoshan, DP Master, Henan, Jiangsu and NOV Grant Prideco. ***. All foreign producers *** reported production of drill pipe and three of the firms *** reported production of drill collars. CR at VII-5-6, PR at VII-4. The record is not clear as to the precise percentage of overall Chinese subject exports to the United States accounted for by these reporting producers, nor does the record indicate whether these producers have a greater propensity to export their production compared with the Chinese industry as a whole. CR/PR at table VII-2.

[43] CR/PR at table IV-2.

[44] The domestic industry's rate of capacity utilization was highest in 2006 at 93.9 percent. The industry increased its production capacity by 27.2 percent from 2006 to 2008, explaining in part the slight reduction in capacity utilization to a still high 91.6 percent in 2007 and 79.6 percent in 2008. It was not until interim 2009 that the domestic industry's capacity utilization fell below 75 percent, to a level of 45.9 percent. CR/PR at table C-5.

According to the World Steel Association (WSA), China was the leading global producer of seamless tubular products in 2007, accounting for nearly 62 percent of global production.[45] With regard to drill pipe specifically, in 2008 China was the largest global exporter of drill pipe.[46] Reporting producers of subject merchandise in China have some unused capacity and export a significant portion (although generally a minority) of their shipments.[47] Reporting producers also project operating at lower capacity utilization levels in 2009 and 2010 than during the period examined.[48] Although the record is not comprehensive concerning the exact size of the Chinese industry (and more specifically as to the size and capabilities of non-reporting producers), it does appear clear that Chinese producers have significant production capacity and appear to be increasingly export-oriented.[49]

Further, we note that in October 2009, as a result of an investigation of seamless pipe (including drill pipe) from China, the European Union imposed antidumping duties on imports of drill pipe from China. Russia has also proposed antidumping duties on steel pipe imported from China, including drill pipe.[50] We note also that certain production facilities in China that make drill pipe also make OCTG casing and tubing, and can make unfinished drill pipe on the same production lines as seamless OCTG.[51] Thus, there is a potential for product shifting, as OCTG from China is currently under a countervailing duty order in the U.S. market and there are also preliminary antidumping duties in place.

Having thus considered China's large seamless tubular production, the apparent moderate export orientation of its industry, the existence of barriers to its drill pipe exports in third-country markets, and the potential in the Chinese industry for product shifting, we nonetheless find that there is no reasonable indication that an industry in the United States is threatened with material injury by reason of the subject imports.

The record in these investigations does not indicate a significant rate of increase in either volume and/or market penetration by subject imports into the United States such as would indicate the likelihood of substantially increased imports in the imminent future. While the volume of subject imports increased significantly during the period examined, and subject imports' market share increased as demand declined in late 2008 and 2009, these increases do not make future gains likely for several reasons.

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[45] CR/PR at VII-1.

[46] CR/PR at VII-3, n. 6.

[47] Among reporting producers, combined capacity utilization for drill pipe decreased from *** percent in 2006 to *** percent in 2007 and again to *** percent in 2008. Capacity utilization was *** percent in interim 2008 and *** percent in interim 2009. CR/PR at Table VII-3a (also showing drill pipe exports accounting for *** percent of subject producers' shipments in 2006, *** percent in 2007, *** percent in 2008, *** percent in interim 2008, and *** percent in interim 2009).

Combined capacity utilization for drill collars increased from *** percent in 2007 to *** percent in 2008 (data were not available for 2006). Capacity utilization was *** percent in interim 2008 and *** percent in interim 2009. CR/PR at Table VII-3b (also showing drill collar exports accounting for *** percent of subject producers' shipments in 2007 (only *** percent of this to the United States), *** percent in 2008 (only *** percent of this to the United States), *** percent in interim 2008 (only *** percent of this to the United States), and *** percent in interim 2009 (only *** percent of this to the United States).

[48] CR/PR at Table VII-3a (projecting *** percent capacity utilization for drill pipe in 2009 and *** percent in 2010 and projecting *** percent capacity utilization for drill collars in 2009 and *** percent in 2010).

[49] Although export-oriented, reporting Chinese producers indicated that most of their exports of drill pipe and drill collars are to markets other than the United States. Moreover, from 2006 through 2008 the absolute volume and rate of increase of Chinese exports of drill pipe to non-U.S. markets were greater than the volume and rate of increase of exports of drill pipe to the U.S. market. CR/PR at table VII-3a.

[50] CR at VII-11, PR at VII-5.

[51] Petitioners' postconference brief at 43.

First, the domestic drill pipe and drill collar industry is currently operating under different demand conditions than during the period examined. Apparent U.S. consumption of finished drill pipe and drill collars reached a peak of 239,484 short tons in 2007 before returning in 2008 to 185,561 short tons, similar to the relatively high level of 2006. In line with the general economic downturn, U.S. demand for drill pipe and drill collar was sharply lower in interim 2009, at 80,419 short tons, than its level in interim 2008 (128,773 short tons).[52]

While subject import volume and market share increased significantly from 2006 to 2008 and subject import market share was higher in interim 2009 than in interim 2008, the record depicts a U.S. industry that during periods of high demand in 2006 to mid-2008 was increasingly unable to meet its customers' needs in a timely fashion.[53] Importantly, it was this inability to satisfy customer demands and not any widespread underselling on the part of subject imports (of which, as discussed below, there is no evidence on the record), that best accounts for the shift of an increasing number of U.S. purchasers to subject imports and the resulting decline in the market share of the U.S. industry in 2008.[54] There are several strong indications that domestic demand may be stabilizing, albeit at a level that is lower than the peak of 2007 and higher than the interim 2009 level. For example, there have been steady increases in the rig count and prices of oil and natural gas are forecast to remain relatively stable to slightly higher in 2010.[55] Nonetheless, the U.S. industry will presumably not experience difficulty in satisfying customer demand in the imminent future, as demand is not likely to return to the high levels experienced from 2006 to 2007, and to some degree in part of 2008, which the record shows adversely affected the industry's ability to meet its supply commitments. The lower level of demand renders a substantial increase in either the volume or market share of subject imports into the United States in the imminent future very unlikely.

Second, a substantial imminent increase in imports is made less likely by several other factors. One is the existence of inventories of finished drill pipe and drill collars held in the United States at the end of interim 2009 (15,414 short tons of U.S. imports from China and 48,673 short tons from U.S. producers).[56] Another is that that drill pipe, unlike other types of tubular products, has a useful life of from three to five years and can be reused by moving it from idle rigs to operating rigs.[57] This unique characteristic of drill pipe will also work to dampen demand, and thus will inhibit a substantial increase in the volume and market share of subject imports in the imminent future. A third factor is that, at the start of the period examined, importers' U.S. shipments of drill pipe from China were sold predominantly to distributors, but over time the percentage sold to end users, including drilling contractors, increased substantially.[58] Indeed, by the end of the period examined, the majority of both U.S. producers' and U.S. importers' U.S. shipments of drill pipe and drill collars were to end users.[59] We find that in this market

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[52] CR/PR at table C-5.

[53] Postconference brief of Weatherford International, Inc. (Weatherford postconference brief) at 2. ***.

[54] As noted above, subject import market share continued to increase in interim 2009 in part due to a considerable lag between order and delivery of subject imports. As Weatherford International explains, *** Weatherford postconference brief at 4.

[55] CR/PR at figures II-3, II-4, and II-5; petitioners' postconference brief at Exhibit 5; respondents' postconference brief at Exhibit 11.

[56] CR/PR at table C-5.

[57] Petitioners' postconference brief at 39.

[58] CR/PR at table II-1.

[59] In January-September 2009, *** percent of U.S. producers' U.S. shipments of drill pipe and *** percent of U.S. producers' shipments of drill collar were to end users, *** percent of U.S. importers' U.S. shipments of drill pipe from China and *** percent of U.S. importers' U.S. shipments of drill collars from China were to end users,

(continued...)

that is currently characterized by a predominance of shipments to end users, rather than to distributors, a rapid increase in subject imports is less likely, inasmuch as purchases by end users such as drilling contractors are likely tied to individual projects and would not be made for speculative purposes.[60]

Third, U.S. prices generally increased during the period examined and were for the most part significantly higher at the end of the period than at the beginning.[61] In many instances U.S. prices reached their peak and U.S. producers sold their greatest volumes during years when subject imports achieved their highest market share.[62] Although lower demand in interim 2009 did cause the average unit values (AUVs) of U.S. shipments generally to decline, in interim 2009 the domestic industry was still able to sell finished drill pipe at prices *** percent higher than in interim 2008, despite subject imports achieving their highest market share during interim 2009.[63] Between 2006 and 2008, generally high prices were combined with an improving ratio of cost of goods sold to net sales, demonstrating that U.S. producers were easily covering higher costs.[64]

Finally, subject imports demonstrated no significant underselling during the period examined. Imports from China oversold the domestic like product in 35 of 51 quarterly comparisons (by margins ranging from 0.1 percent to 103.3 percent).[65] As gains in market share by subject imports during the period examined were not due to aggressive pricing, but rather were due to shortages in domestic supply, we find no basis for concluding that Chinese producers are likely to price aggressively to gain market share in the future. Moreover, inasmuch as shortages in domestic supply have been alleviated, U.S. purchasers do not have the same incentives to seek out Chinese supply as they did during the period examined. Thus, we conclude that the subject imports are not entering the United States at prices that are likely to have a significant depressing or suppressing effect on domestic prices and are likely to increase demand for further imports.

Therefore, we conclude that the record does not indicate a likelihood of a substantial increase in either the volume or market share of subject imports into the United States in the imminent future.[66] The reduced level of demand coupled with the inventories of the subject merchandise (both domestically-produced and imported), ensures that Chinese producers will have substantially less opportunity and incentive to ship drill pipe and drill collars into the U.S. market in the imminent future. Moreover, as subject imports were not attractively priced during much of the period examined, it is unlikely that there will be any substantial increases in subject import volume in the imminent future, as U.S. suppliers will have a price advantage in securing whatever new business may be available.

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[59] (...continued)
while *** percent of U.S. importers' U.S. shipments of drill pipe from all other countries and *** percent of U.S. importers' U.S. shipments of drill collar from all other countries were to end users. CR/PR at table II-1.

[60] We are mindful that, during the period examined, domestic producer ***. CR/PR at Table III-7a; CR at III-15, PR at III-10. We note, however, that notwithstanding ***. CR/PR at table VII-2.

[61] CR/PR at tables V-2-V-5. Moreover, the unit value of U.S. shipments went up consistently every year between 2006 and 2008, regardless of product category. CR/PR at tables C-1-C-4.

[62] CR/PR at tables IV-4, V-3, & V-4.

[63] CR/PR at table C-2.

[64] The ratio of cost of goods sold to net sales for finished drill pipe and drill collars decreased from 66.7 percent in 2006 to 61.6 percent in 2008. CR/PR at table C-5.

[65] CR/PR at table V-7.

[66] We also note that the reporting subject producers project a decreased volume of exports to the United States in 2009 and 2010 compared with 2008. While we place limited weight on these projections, they appear credible in light of subject import trends during the period examined. For example, for the most part, the reporting subject producers intend to direct a relatively similar portion of their total shipments to the U.S. market in 2009 and 2010 as in earlier periods. CR/PR at tables VII-3a and -3b.

In considering whether there are any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports of the subject merchandise, we note that, on the contrary, most trends point to a healthy industry that is simply going through a temporary setback caused by the general economic recession. Indeed, throughout the period examined, U.S. producers invested in greater production capacity, experienced high levels of profitability, and currently remain in a strong position notwithstanding the current economic slowdown.[67]

Accordingly, we find that the record as a whole contains clear and convincing evidence that there is no reasonable indication of a threat of material injury by reason of subject imports from China, and no likelihood exists that contrary evidence will arise in a final investigation. Hence, we determine that there is no reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of subject imports of drill pipe and drill collars from China that are allegedly sold in the United States at less than fair value and allegedly subsidized by the Government of China.

III. CONCLUSION

For the reasons stated above, we find that there is no reasonable indication that the domestic industry producing drill pipe and drill collars is materially injured or threatened with material injury by reason of subject imports from China.

[67] CR/PR at table C-5.

PART I: INTRODUCTION

BACKGROUND

These investigations result from a petition filed with the U.S. Department of Commerce ("Commerce") and the U.S. International Trade Commission ("USITC" or "Commission") by VAM Drilling USA Inc. ("VAM"), Houston, TX; Rotary Drilling Tools ("RDT"), Beasley, TX; Texas Steel Conversions, Inc. ("TSC"), Houston, TX; TMK IPSCO ("TMK"), Downers Grove, IL; and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC ("Union"), Pittsburgh, PA, effective December 31, 2009, alleging that an industry in the United States is materially injured and threatened with material injury by reason of subsidized and less-than-fair-value ("LTFV") imports of drill pipe and drill collars[1] from China. Information relating to the background of the investigation is provided below.[2]

Effective date	Action
December 31, 2009	Petition filed with Commerce and the Commission; institution of Commission investigations (75 FR 877, January 6, 2010)
January 21, 2010	Commission's conference[1]
January 27, 2010	Commerce's notice of initiation of countervailing duty investigations (75 FR 4345)
January 28, 2010	Commerce's notice of initiation of antidumping duty investigations (75 FR 4531)
February 19, 2010	Commission's vote[2]
February 22, 2010	Commission's determination transmitted to Commerce[2]
March 1, 2010	Commission's views transmitted to Commerce[2]

[1] A list of witnesses appearing at the conference is presented in app. B.
[2] Postponed as a result of the closure of the Federal Government.

STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

Statutory Criteria

Section 771(7)(B) of the Tariff Act of 1930 (the "Act") (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission--

> *shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and . . . may consider such other economic factors as are relevant to the*

[1] See the section entitled "The Subject Merchandise" in *Part I* of this report for a complete description of the merchandise subject to these investigations.

[2] *Federal Register* notices cited in the tabulation are presented in app. A.

determination regarding whether there is material injury by reason of imports.

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.
. . .
In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether . . . (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.
. . .
In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to
. . .
(I) actual and potential declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) 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 domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.

Organization of the Report

Part I of this report presents information on the subject merchandise, alleged subsidies and dumping margins, and domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV and V* present the volume of subject imports and pricing of domestic and imported products, respectively. *Part VI* presents information on the financial experience of U.S. producers. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury as well as information regarding nonsubject countries.

U.S. MARKET SUMMARY

Drill pipe and drill collars generally are components of a drill string. The drill string is used to transmit power from the drilling motor above ground to the drill bit, and to conduct drilling mud down to the drill bit to flush drill cuttings to the surface, allowing for the removal of oil and natural gas from the

earth. The leading U.S. producer of finished drill pipe is National Oilwell Varco Grant Prideco ("NOV Grant Prideco"), followed by Smith International, Inc. ("Smith"), TSC, and VAM. The leading U.S. producer of finished drill collars is Smith, followed by NOV Grant Prideco. The leading U.S. producer of unfinished drill pipe is The Timken Company ("Timken"), followed by United States Steel Corporation ("U.S. Steel") and TMK. The only U.S. producer of unfinished drill collars is Timken. The leading producers of drill pipe in China include *** while a leading producer of drill collars in China is ***. The leading U.S. importers of drill pipe from China are Command Energy Services International Ltd. ("Command") and Downhole Pipe & Equipment, L.P. ("Downhole") (collectively referred to as Respondents), while the leading importer of drill collars from China is Command. Leading importers of unfinished drill pipe from nonsubject countries (primarily Austria, Germany, and France) include Benteler Steel & Tube Corporation ("Benteler"), NOV Grant Prideco, and VAM, while the leading importer of finished drill pipe is Soconord Corporation ("Soconord") from ***. The leading importers of drill collars include Schoeller-Bleckmann America, Inc. ("Schoeller-Bleckmann") and VAM from ***.

Apparent U.S. consumption of finished drill pipe totaled approximately *** short tons with a value of *** dollars in 2008. Apparent U.S. consumption of finished drill collars totaled approximately *** short tons with a value of *** dollars in 2008. Currently, nine firms are known to produce drill pipe and drill collars in the United States.[3] U.S. producers' U.S. shipments of finished drill pipe totaled 121,092 short tons with a value of 738.7 million dollars in 2008, and accounted for 77.8 percent of apparent U.S. consumption by quantity and 82.2 percent by value. U.S. producers' U.S. shipments of finished drill collars totaled 23,049 short tons with a value of 92.0 million dollars in 2008, and accounted for 77.3 percent of apparent U.S. consumption by quantity and 74.3 percent by value. U.S. imports of finished drill pipe from China totaled *** short tons with a value of *** dollars in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value. U.S. imports of finished drill collars from China totaled *** short tons with a value of *** dollars in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value. U.S. imports of finished drill pipe from nonsubject sources totaled *** short tons with a value of *** dollars in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value. U.S. imports of finished drill collars from nonsubject sources totaled *** short tons with a value of *** dollars in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value.[4]

SUMMARY DATA AND DATA SOURCES

A summary of data collected in these investigations is presented in appendix C, tables C-1, C-2, C-3, C-4, C-5, and C-6. Except as noted, U.S. industry data are based on questionnaire responses of eight firms that accounted for at least *** percent of U.S. production of drill pipe and drill collars during 2008.[5] U.S. imports of unfinished drill pipe are based on 4 firms that accounted for *** percent of U.S. imports of unfinished drill pipe in 2008 and *** percent in January-September 2009 from China.[6] U.S. imports of finished drill pipe are based on 16 firms that accounted for *** percent of U.S. imports of finished drill pipe in 2008 and *** percent in January-September 2009 from China. U.S. imports of drill collars are

[3] ***.

[4] Unfinished drill pipe consumption in 2008 was *** short tons with a value *** dollars and primarily consisted of U.S. and Austrian origin product. Unfinished drill collar consumption in 2008 was *** short tons with a value of *** dollars and consisted of *** unfinished drill collars.

[5] See, e.g., Petitioners' postconference brief, p. 22 n.21.

[6] Staff believes import customs data to be overstated and followed up with several importers that were shown to be large importers under the HTS statistical reporting numbers for drill pipe. ***. ***'s importer questionnaire responses and email from ***, January 26, 2010.

based on 16 firms that accounted for *** percent of imports of drill collars that entered into the United States under HTS statistical reporting category 8431.43.8060 (a "basket" category) in 2008.[7]

PREVIOUS AND RELATED INVESTIGATIONS

The Commission has conducted numerous investigations concerning oil country tubular goods. However, the Commission has only been able to obtain separate data for drill pipe since the mid-1990s, and has not previously obtained separate data for drill collars. Table I-1 presents information regarding prior investigations in which the Commission has specifically considered the issue of drill pipe.

Table I-1
Drill pipe: Previous and related investigations, 1995-2010

Investigation Numbers	Countries	Outcome	Status
701-TA-363-364 (F) 731-TA-711-717 (F)	Argentina, Austria, Italy, Japan, Korea, Mexico, Spain	Negative determination with respect to Austria, Italy, Korea, and Spain; affirmative determination with respect to Argentina, Japan and Mexico (USITC Pub. 2911, August 1995)	Antidumping duty orders issued with respect to drill pipe from Argentina, Japan, and Mexico.
731-TA-276-277 (1R)	Canada, Taiwan	Negative determination in first review (USITC Pub. 3316, July 2000). *In the original investigations, the Commission found drill pipe to be a distinct domestic like product but available data did not allow separate consideration.*	Antidumping duty orders revoked.
731-TA-711, 714, 716 (1R)	Argentina, Japan, Mexico	Negative determination with respect to Argentina and Mexico, affirmative determination with respect to Japan (USITC Pub. 3434, June 2001)	Antidumping duty orders revoked with respect to drill pipe from Argentina and Mexico, continued with respect to Japan.
701-TA-428 (P) 731-TA-992-994, 996-1005 (P)	Austria, Brazil, China, France, Germany, India, Indonesia, Romania, South Africa, Spain, Turkey, Ukraine, Venezuela	Negative determinations (USITC Pub. 3511, May 2002). *The Commission defined the domestic like product consistent with Commerce's scope (including oil well casing, tubing, and drill pipe, whether finished or unfinished, but excluding finished drill pipes with tool joints attached), but recognized the merits of arguments in favor of two domestic like products: (1) casing/tubing and (2) drill pipe.*	No orders issued.
731-TA-714 (2R)	Japan	Negative determination in second review (USITC Pub. 3923, June 2007)	Antidumping duty order revoked.

Note.–In its most recent OCTG investigation (*Certain Oil Country Tubular Goods from China, Inv. No. 701-TA-463 (F)*, USITC Publication No. 4124 (January 2010)), the Commission collected data with respect to drill pipe. However, because the focus of this proceeding was on casing and tubing (whether finished or unfinished), data provided by mills and processors regarding finished and unfinished drill pipe was presented in the context of alternative products produced on shared equipment.

Source: Cited USITC publications.

[7] ***. ***'s importer questionnaire response. Staff notes, however, that the partial data provided by this company suggest that it might account for a sizeable share of the value of drill collar sales, as it specializes in high value *** drill collars. Email from ***, February 5, 2010.

NATURE AND EXTENT OF ALLEGED SUBSIDIES AND SALES AT LTFV

Alleged Subsidies

On January 27, 2010, Commerce published a notice in the *Federal Register* of the initiation of its countervailing duty investigation on drill pipe from China.[8] Commerce indicated its intention to investigate the following government programs in China:

- *Preferential Loans and Interest Rates*
- *Debt-To-Equity Swaps and Loan Forgiveness*
- *Income Tax and Other Direct Tax Benefit Programs*
- *Subsidies for Foreign Invested Enterprises (FIES)*
- *Indirect Tax and Tariff Exemption Programs*
- *Government Provision of Goods and Services for Less Than Adequate Remuneration (LTAR)*
- *Grant Programs*
- *Subsidies To DP Producers Located in Economic Development Zones*

Alleged Sales at LTFV

On January 28, 2010, Commerce published a notice in the *Federal Register* of the initiation of its antidumping duty investigations on drill pipe from China.[9] Commerce has initiated antidumping duty investigations based on estimated dumping margins that range from 429.53 percent to 496.93 percent for drill pipe from China.

THE SUBJECT MERCHANDISE

Commerce's Scope

Commerce has defined the scope of this investigation as follows:

> The products covered by this investigation are steel drill pipe, and steel drill collars, whether or not conforming to American Petroleum Institute (API) or non–API specifications, whether finished or unfinished (including green tubes suitable for drill pipe), without regard to the specific chemistry of the steel (i.e., carbon, stainless steel, or other alloy steel), and without regard to length or outer diameter. The scope does not include tool joints not attached to the drill pipe, nor does it include unfinished tubes for casing or tubing covered by any other antidumping or countervailing duty order.[10]

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[8] *Drill Pipe from the People's Republic of China: Initiation of Countervailing Duty Investigation,* 75 FR 4345, January 27, 2010.

[9] *Drill Pipe from the People's Republic of China: Initiation of Antidumping Duty Investigations,* 75 FR 4531, January 28, 2010.

[10] *Drill Pipe from the People's Republic of China: Initiation of Countervailing Duty Investigation,* 75 FR 4345, January 27, 2010.

Tariff Treatment

The subject merchandise currently is classified in the Harmonized Tariff Schedule of the United States (HTSUS) under subheadings 7304.22, 7304.23, and 8431.43. Drill pipe, other than that fitted with tool joints, is properly entered under the following HTSUS statistical reporting numbers: 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, and 7304.23.6060. Drill pipe with tool joints attached that is treated by Customs as machinery parts is properly entered under HTSUS statistical reporting number 8431.43.8040, while drill collars are properly entered under HTSUS statistical reporting number 8431.43.8060 (a broad category that includes a substantial volume of nonsubject merchandise).

These HTSUS provisions became effective on February 3, 2007.[11] Subsequent editions of the HTSUS have not resulted in revisions to the provisions listed above. Excerpts from the current HTSUS are attached as exhibit I-1. The column 1-general (normal trade relations) rates of duty for the subject products under all covered subheadings are free.

Table I-2
Drill pipe and drill collars: Tariff rates, 2010

HTSUS rate line	Brief article description[1]	General[2]	Special[3]	Column[4]
		Rates *(percent ad valorem)*		
7304.22.00	Stainless steel, seamless drill pipe, of a kind used in drilling for oil or gas	Free	---	35 percent
7304.23.30	Iron (other than cast) or nonalloy steel, seamless drill pipe, of a kind used in drilling for oil or gas	Free	---	25 percent
7304.23.60	Alloy (other than stainless) steel, seamless drill pipe, of a kind used in drilling for oil or gas	Free	---	35 percent
8431.43.80	Parts for boring or sinking machinery of subheading 8430.41 or 8430.49, nesoi [5]	Free	---	35 percent

[1] For full legal description, see the Harmonized Tariff Schedule of the United States.
[2] Normal trade relations, formerly known as the most-favored-nation duty rate.
[3] Special rates not applicable when General rate is free.
[4] Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.
[5] Rate line includes drill pipe fitted with tool joints (8431.43.8040) and drill collars (in 8431.43.8060).

Source: Harmonized Tariff Schedule of the United States (2010) and Tariff Database.

[11] Prior to February 3, 2007, drill pipe other than that fitted with tool joints, was properly classified under HTSUS statistical reporting numbers 7304.21.3000, 7304.21.6030, 7304.21.6045, and 7304.21.6060.

THE DOMESTIC LIKE PRODUCT

Overview[12]

Steel pipes and tubes are made in circular, rectangular, or other cross sections, and are generally manufactured by either a welded or seamless production process. Steel pipes and tubes manufactured by either process can be categorized by the grades of steel (e.g., carbon and alloy grades) used in steel production[13] as well as by end-use. The American Iron and Steel Institute (AISI) has defined six such end-use categories: standard pipe, line pipe, structural pipe and tubing, mechanical tubing, pressure tubing, and oil country tubular goods (OCTG).[14]

Steel pipes and tubes are generally produced according to standards and specifications published by a number of organizations, including the American Petroleum Institute (API),[15] the American Society for Testing and Materials (ASTM), and the American Society of Mechanical Engineers. Comparable organizations in the United Kingdom, Japan, Russia, and other countries also have developed standard specifications for steel pipes and tubes.[16]

The products that are the focus of these proceedings conist of drill pipe and drill collars, which are tubular steel products used in drilling for oil and natural gas. They are the basic components of the drill string, which transmits drilling motion (see figures I-1 and I-2). Tubular products are used because of the need to conduct drilling fluid (mud) down to the drill bit at the bottom of the drill hole and to flush drill cuttings to the surface for removal.[17] Finished drill pipe and drill collars are both hollow drill string components but vary by wall thickness, length, and production methods.

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[12] Except as noted, information presented in the "Description and Applications" and "Manufacturing Processes" is drawn from *Oil Country Tubular Goods from Argentina, Austria, Italy, Japan, Korea, Mexico, and Spain, Investigations Nos. 701-TA-363 and 364 (Final) and Investigation No. 731-TA-711-717 (Final)*, USITC Publication 2911, August 1995, from *Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico, Investigation Nos. 701-TA-364 (Review) and 731-TA-711 and 713-716 (Review)*, USITC Publication 3434, June 2001, and from *Certain Oil Country Tubular Goods from China, Investigation No. 701-TA-463 (Final)*, USITC Publication 4124, January 2010.

[13] Included in alloy grades are heat-resisting, stainless, and "other" alloy grades.

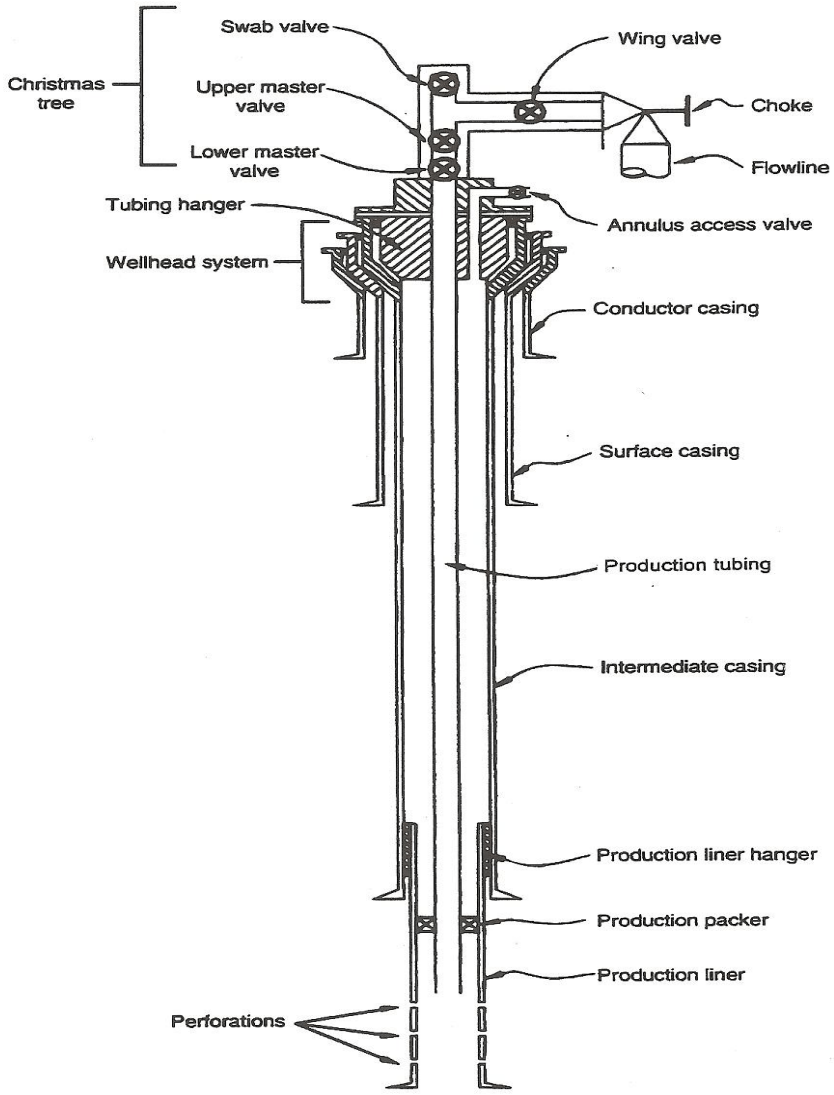
[14] Standard, line, and pressure pipe is generally intended to convey liquids and is typically tested and rated for its ability to withstand hydrostatic pressure. Structural pipe and tubing is used for load-bearing purposes and construction, although only small amounts of seamless pipe are used in structural applications. Seamless mechanical tubing is typically a custom-designed product employed within the automotive industry and by equipment manufacturers. OCTG are steel pipes and tubes used in the drilling of oil and gas wells and in the conveying of oil and gas from within the well to ground level.

[15] The API or American Petroleum Institute is a trade organization serving the petroleum industry. It produces standards, recommended practices, specifications, codes and technical publications, reports and studies that cover each segment of the industry. API standards promote the use of safe, interchangeable equipment and operations through the use of proven, sound engineering practices as well as help reduce regulatory compliance costs. In conjunction with API's Quality Programs, many of these standards form the basis of API certification programs.

[16] Particular specifications to which pipe products are produced are commonly marked on each pipe and are referred to as a "stencil."

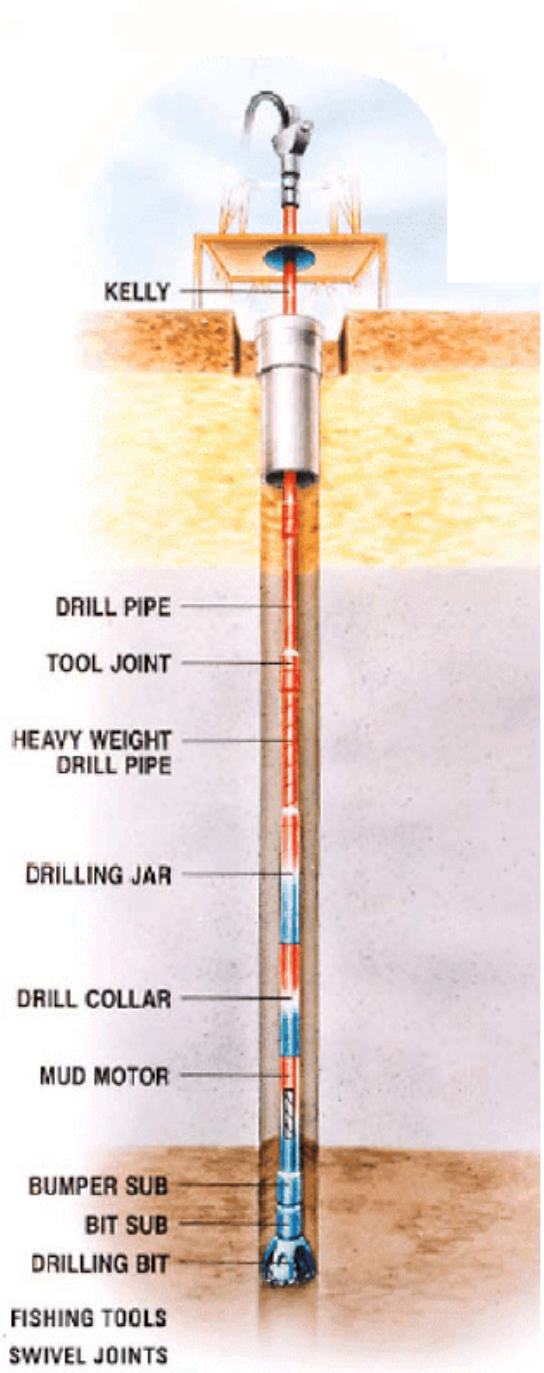
[17] Drill pipe is defined by the API Specification 7 (March 2002, p. 2) as a length of tube, usually steel, to which special threaded connections called tool joints are attached. Drill collar is defined by API Specification 7 (March 2002, p. 2) as a thick-walled pipe to provide stiffness and concentration of weight at the bit. (See below for further details on drill pipe and drill collar). Other elements of a drill string may include pup joints, reamers, stabilizers, shock subs, crossover subs, and other accessories which are attached to the drill string. Conference transcript, p. 45 (Morris).

Figure I-1
Drill pipe and drill collars: Simplified diagrammatic representation of a well



Source: *Introduction to Oil and Gas Production, Fifth Edition*, American Petroleum Institute, June 1996, p. 11.

Figure I-2
Drill pipe and drill collars: Drill string showing relative position of drill pipe, heavy weight drill pipe, drill collars, and connecting tool joints



Source: Timken, retrieved from www.timken.com, February 7, 2007.

Description and Applications

Drill Pipe

A single length (or joint) of drill pipe comprises a hollow tube, usually about 30 feet long, with a wall thickness of less than .5 inch and a tool joint connection on each end.[18] Drill pipe, which is subject to torsional stresses and fatigue during drilling operations, must be seamless and heat-treated to API specifications.

The subject product includes both finished drill pipe as well as unfinished pipe used in the manufacturing of finished drill pipe. Such unfinished pipe is known as "green tube" and is produced by seamless steel pipe producers. Producers of finished drill pipe use green tube to which they weld separately manufactured tool joints. A tool joint is a steel component for drill-pipe designed to be welded to the drill-pipe body and having a rotary shoulder connection. The tool joint is a heavy coupling element having robust, tapered threads. It is designed to sustain the weight of the drill stem, withstand the strain of repeated connection and disconnection, and provide a leak-proof seal. The male tool joint section (or pin, with threads cut on the outside) is attached to one end of the length of drill pipe and the female tool joint section (or box, with threads cut on the inside) is attached to the other end. Like drill pipe, tool joints are also subject to stress caused by shear and vibration, and consequently fatigue. The scope of these investigations does not include tool joints that are not attached to the drill pipe.

Heavy-weight drill pipe (HWDP)[19] is a form of drill pipe whose walls are thicker and tool joints are longer than conventional drill pipe. This intermediate weight pipe has a wall thickness of approximately one inch and has an integral wear pad in the middle. HWDP is designed to provide a gradual transition from the relatively lightweight drill pipes to the heavier drill collars to help reduce drill pipe fatigue or failure and prevent stress concentration at the top of drill collar. HWDP also allows drilling to operate at higher speed, reducing torque and differential pressure sticking.[20] HWDP is well-suited for directional drilling because it bends easily, it simplifies directional control and minimizes connection fatigue problems common to high-angle or horizontal drilling.[21]

Drill Collar

The drill collar is a heavy, thick-walled, machined product that is designed to guide, stabilize, provide stiffness and add weight to the drill bit to drill a more vertical hole.[22] Most drill collars are round with lengths of about 30 feet.[23] The inside diameter (I.D.) of a drill collar ranges from 2 inches to 3

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[18] The outside diameter of a green tube ranges from 2.375 to 6.625 inches.

[19] This description is adapted from S.T. Horton, "*Drill String and Drill Collars*," University of Texas at Austin and International Association of Drilling Contractors, third edition, 1995, pp. 63 and 87.

[20] Differential pressure sticking is the rubbing of the tool joint against the wall of the hole. Differential pressure sticking usually takes place in directional drilling. S.T. Horton, "*Rotary Drilling: Drill String and Drill Collars*," University of Texas at Austin and International Association of International Contractors, third edition, 1995, p. 66.

[21] National Oilwell Varco (Grant Prideco), found at http://www.nov.com/grantprideco, retrieved January 14, 2010. See also VAM Drilling Catalogue, p. 47, found at http://www.vamdrilling.com/userfiles/file/catalog.pdf,

[22] The drill bit is the cutting or pulverizing head which bores through underground formations. See also S.T. Horton, "*Rotary Drilling: Drill String and Drill Collars*," University of Texas at Austin and International Association of International Contractors, third edition, 1995, p. 5.

[23] See table 14-Drill Collars, Specification for Rotary Drill Stem Elements, ANSI/API 7-1, 2006, p. 40. See S.T. Horton, "*Rotary Drilling: Drill String and Drill Collars*," University of Texas at Austin and International Association of International Contractors, third edition, 1995, pp. 4-5. API is an American National Standards

(continued...)

inches, and outside diameter (O.D.) from 4 inches to 11 inches. To reduce differential pressure sticking, the surface of the drill collar can have spiral grooves or the drill collars may be of square cross section.[24]

Manufacturing Processes

Drill Pipe

The manufacturing process for the body of the drill pipe consists of two phases, first forming (performed by pipe mills) and then finishing (performed by processors).

In the forming phase, the initial raw material is a round or square solid steel billet.[25] Green tube is manufactured by either of two high temperature methods to form a central cavity in the solid steel billet, namely, the rotary piercing method or the hot extrusion method. In the rotary piercing method, the heated billet is gripped by angled rolls, which cause it to rotate and advance over a piercer point, forming a hole through its length. In the extrusion method, the billet is hot punch-pierced and then extruded axially through a die and over a mandrel, forming a hollow shell. The hollow shell produced by either method is then rolled with either a fixed plug or a continuous mandrel inside the shell to reduce the wall thickness, and thereby increasing the length. Finally, the shell is rolled in the sizing mill or a stretch reducing mill and is formed to size.

Subsequent to the forming phase, the green tube is transferred to a processor where the it will go through the finishing phase. In this phase, as shown in figure I-3, the pipe is heated, upset,[26] heat-treated, inspected, straightened.

Heat treatments for drill pipe are agreed to between the buyer and maker or specified by the API.[27] In general, heat treatments depends on the grade of the pipe. For group 1 (lower grade) the drill pipe is normalized or normalized and tempered or quenched and tempered. For group 3 (high strength grades) the drill pipe is quenched and tempered or normalized or tempered. All upset drill pipe is heat treated full length after upsetting.

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[23] (...continued)
Institute (ANSI) accredited standards developing organization, operating with approved standards development procedures and undergoing regular audits of its processes.

[24] VAM Drilling Catalogue, p. 64, found at http://www.vamdrilling.com/userfiles/file/catalog.pdf, retrieved January 10, 2010 (also found in attachment 9 of the petition).

[25] If square billet is used, it is first forced through a single circular roll pass, producing a round billet for the piercing operation.

[26] In the upsetting process, the pipe ends on the green tubes are first heated to forging temperature and then quickly inserted into a special forging press or upsetter. The press will form a pipe upset that is thicker than the pipe wall by pressing the hot metal around a set of special forging dies. Dimensional tolerances for the various pipe sizes and upset configurations are specified by API standards. The upset pipe is then heat-treated by any of several methods of thermal processes to API specifications. See figure I-3.

[27] See Heat treatment, API Specification 5D, 2002, p. 3.

Following the above processes, the drill pipe tube is ready to weld. A drill pipe tube is converted to drill pipe by friction welding a tool joint to each end of the drill pipe tube by rotational friction.[28] The pin is attached to one end of the length of drill pipe tube and the box is attached to the other end.[29] No filler is used.[30] In friction welding, the heat for the weld is created by pressuring one piece of metal against another piece which is rotated at high speed.[31]

The drill pipe (with tool joint) will undergo an additional heat treatment, albeit using a polymer rather than water as the quenching agent to provide a gradual cooling process. The pipe then goes through a finishing process where it is machined smooth and inspected. Figure I-3 presents a schematic for the manufacturing of drill pipe.

A tool joint can be made either from a seamless pipe that is cut to length or from a steel billet, bored to size. The seamless pipe is then heat-treated, threaded, hard banded, coated with phosphate, and inspected as depicted in figure I-4.[32]

The production of HWDP also begins with a solid steel bar or a seamless pipe that is cut to size. HWDP is made to API ANSI/API Specification 7-1[33] and, except for certain details, is produced basically in the same way as that of drill pipe.[34]

Drill Collar

Drill collar begins with a solid round steel bar that is bored or trepanned in order to form a continuous seamless product. The boring or trepanning process can be performed by a mill (such as Timken) or by a processor (such as NOV Grant Prideco). At ***,[35] for example, the bar goes through a heat treatment process for *** hours at *** degrees that is followed by a water quench process to freeze the pipe microscopic structure to *** degrees. The bar is then tempered in another furnace at *** degrees to achieve the desired mechanical property. The bar is subsequently straightened and then bored (trepanned) by carbide thread cutters. Spiral grooves may also be formed and hardbanding applied on to the outside of the drill collars. Since the wall of the collar is very thick, threads are cut directly into each end of the drill collar so that it can be connected to other collars.[36] Phosphate coating and inspections are usually the final processes. See figure I-5 for a depiction of the manufacturing process for drill collars.

[28] Friction welding can also be known as inertia welding. Tool joints may also be screwed onto the pipe or joined by a combination of screwing and welding.

[29] See also field trip notes regarding a visit by the staff to ***, on January 13, 2010. ***.

[30] Id.

[31] Id.

[32] Phosphate coating is for protection against corrosion.

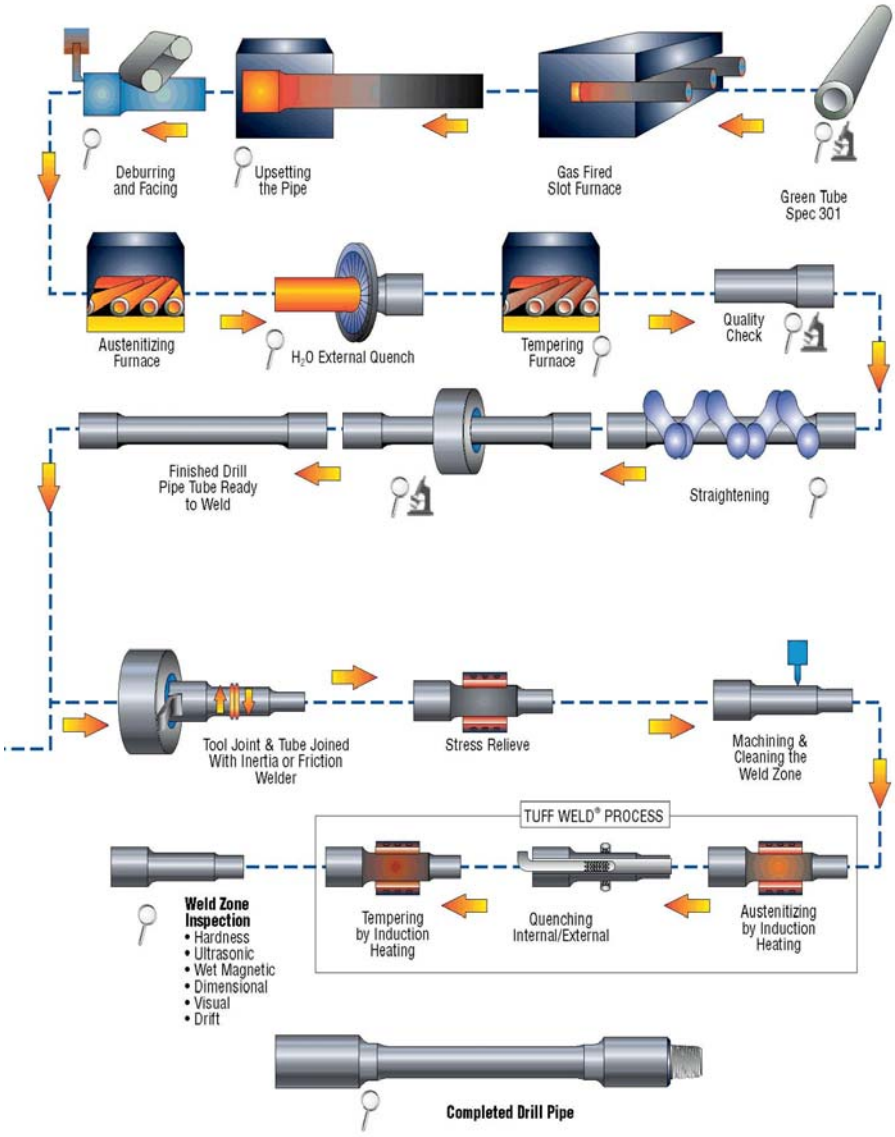
[33] Addendum 1 to ANSI/API Specification 7-1, 2009, p. 1.

[34] The HWDP has an integral wear pad in the middle of its body. Grant Prideco for example, reportedly uses the same heat treatment process for HWDP and drill pipe. Staff report on field visit to ***, January 13, 2010.

[35] Staff report on field visit ***, January 13, 2010.

[36] The grooves help the drill collar advance through the earth more smoothly.

Figure I-3
Drill pipe: Manufacturing process for drill pipe



Source: Grant Prideco, from http://www.grantprideco.com/drilling/manufacturing_drillpipe_manproc.asp, retrieved January 15, 2010.

Figure I-4
Drill pipe: Manufacturing process for tool joint

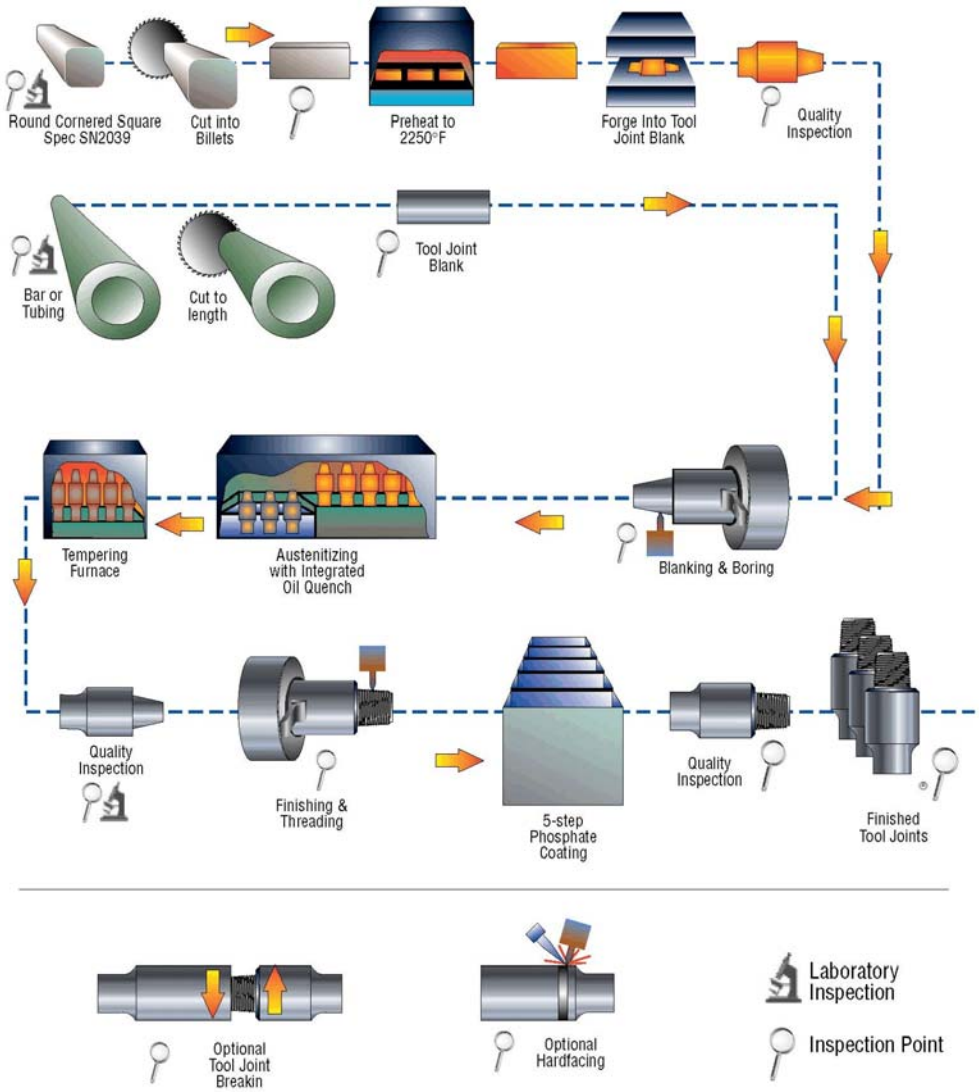
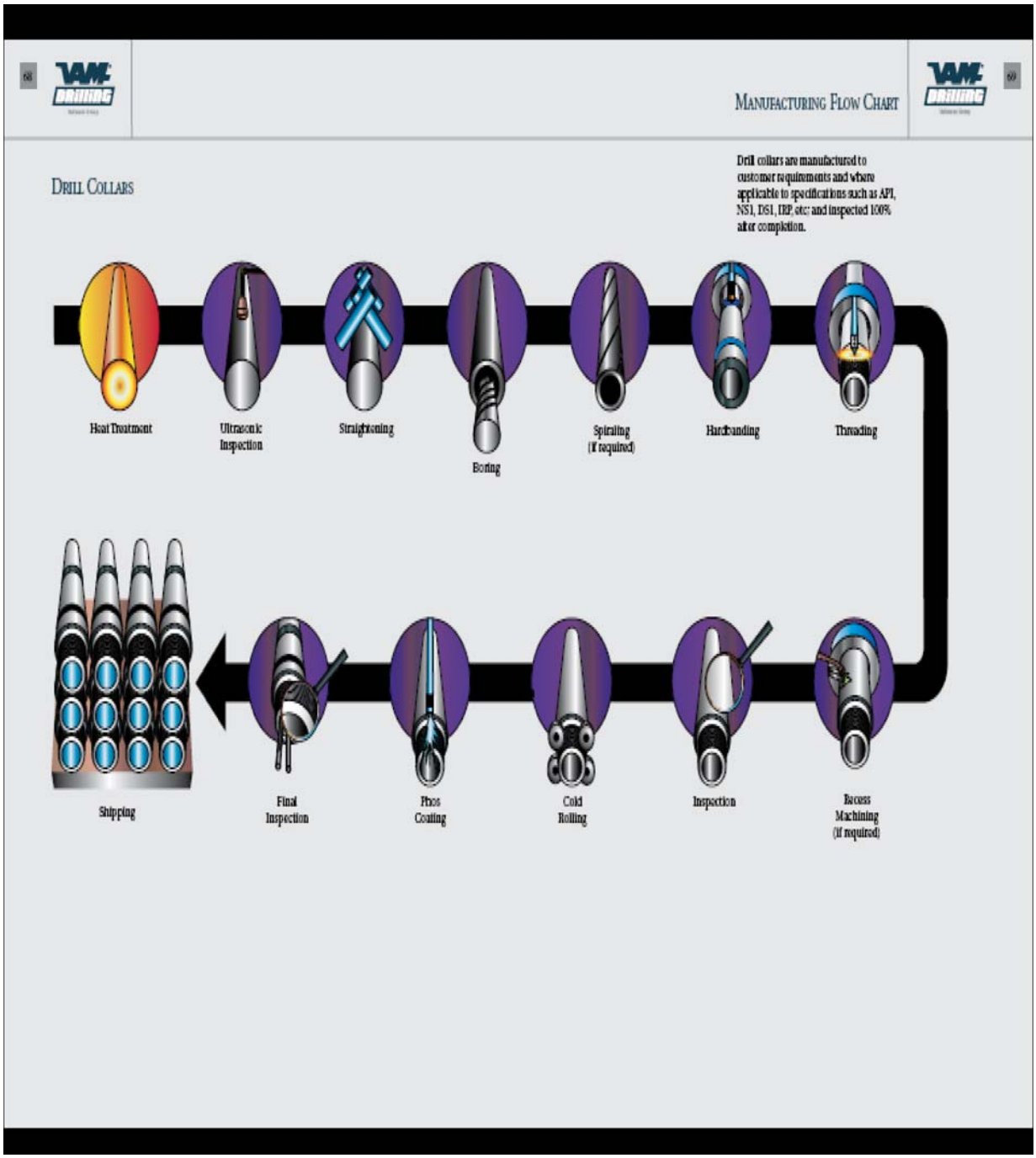


Figure I-5
Drill collar: Manufacturing process for drill collar



Source: VAM Catalogue, found at http://www.VAMdrilling.com, retrieved January 15, 2010.

DOMESTIC LIKE PRODUCT ISSUES

The Commission's decision regarding the appropriate domestic product(s) that are "like" the subject imported product is based on a number of factors including: (1) physical characteristics and uses; (2) common manufacturing facilities and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and (6) price. Information regarding these factors is discussed below.

The petition in these investigations explicitly references drill pipe and drill collars; this is a departure from language appearing in the scopes of previous proceedings involving drill pipe.[37] Petitioners contend that the Commission should find one domestic like product coextensive with Commerce's scope.[38] Petitioners also maintain that unfinished drill pipe (even in its green tube stage) can be used only to make drill pipe. Petitioners further argue that green tube for drill pipe differs from green tube for casing and tubing and therefore must be considered, in this case, as a single product "like" finished drill pipe and drill collars.[39]

Respondents do not contest the inclusion of drill collars, but contend that green tube should be excluded from the domestic like product.[40] Respondents contend that green tube is a commodity product that can be used to make a variety of OCTG items including drill pipe as well as casing or tubing. Respondents further argue that green tube should be excluded from consideration as a like product in this case because it is already covered in the scope of the current OCTG investigation.[41] Respondents stress that since imports of green tubes destined for OCTG have been classified and reported as green tube for drill pipe,[42] the inclusion of green tube imports in the scope of these investigations would result in over-reporting the imports of green tubes. Respondents quote a U.S. Steel official in an earlier proceeding as supporting their contention that a green tube can be made into drill pipe or casing and tubing.[43]

Physical Characteristics and Uses

Finished drill pipe, HWDP, and drill collar, as discussed earlier in this chapter, are part of the drill string which is designed to transmit motion from the (above ground) drilling motor to the drill bit, and to conduct drilling fluid (mud) down to the drill bit to flush drill cuttings to the surface for removal. Drill collars generally are used to place weight on the drill bit (and so typically, but not always, are placed on the lower portions of the drill string). Conventional drill pipe transmits torque and supports the tension of the drill string, while HWDP serves as an intermediate drill string member. Although similar in terms of length (generally 30-31 feet), each of these drill string components differ in terms of wall thickness, with

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[37] "The products covered by this order consist of oil country tubular goods, hollow steel products of circular cross-section, including oil well casing, tubing, and drill pipe, of iron (other than cast iron) or steel (both carbon and alloy), whether seamless or welded, whether or not conforming to American Petroleum Institute (API) or non-API specifications, whether finished or unfinished (including green tubes and limited service OCTG products). This scope does not cover casing, tubing, or drill pipe containing 10.5 percent or more of chromium." *See Oil Country Tubular Goods From Argentina, Italy, Japan, Korea, and Mexico,* USITC Publication 3923, June 2007, p. 7 (citing a May 1, 2007, memorandum to the file by Commerce's Program Manager). Staff notes that the scope of the current investigations includes stainless steel products, another distinction from prior drill pipe cases. However, U.S. production of stainless steel products is believed to be limited to drill collars.

[38] Petitioners' postconference brief, p. 2.

[39] Petitioners' postconference brief, p. 7.

[40] Respondents' postconference brief, p. 4.

[41] Respondents' postconference brief, p. 5.

[42] Conference transcript, p. 134 (Chen).

[43] Respondents' postconference brief, p. 8.

drill collars having the thickest walls and conventional drill pipe the thinnest. In addition, as described earlier in this chapter, drill pipe is joined using tool joints, while drill collars are coupled together.

Unfinished (or "green" if not heat-treated) drill pipe is an intermediate product that is sold by U.S. manufacturers (specifically, U.S. mills such as Timken, TMK, and U.S. Steel) to drill pipe processors. Green tubes are produced domestically but are also imported in large volumes.[44] While finished drill pipe has tool joints attached to each end so that it can be connected to other drill pipe to form a drill string, green tube is a section of pipe that cannot be connected to any other pipe.[45] Thus, while finished drill pipe can be used in oil and gas drilling applications, green tube cannot.[46]

Manufacturing and Employees

Petitioners stress the overlap in the manufacturing processes for drill pipe and drill collars[47] and contend that the drill string members are generally made by the same facilities by the same employees.[48] U.S. mills differ with respect to whether the "mother tubes" are produced with common equipment – Timken produces pierced tubes for drill pipe and drill collars on the same equipment, while certain boring equipment is used only for drill collars. Neither TMK nor U.S. Steel produce drill collars. U.S. processors pointed to the distinctions in their operations (several processors trepan, or drill, their own drill collars from bar, while purchasing green tubes for the production of drill pipe), but also pointed to some overlap in production (certain HWDP is produced from drill collar material) and common processes (such as heat treating, machining, threading, hardbanding, and inspection). Most processors noted the requirement for specialized welding equipment to join the drill pipe with the tool joints.

Respondents note that the manufacturing facilities, production processes, and production employees are different between green tube and finished drill pipe, as recognized by the petition.[49] There is no overlap between the U.S. mills that produce green tube and the U.S. processors that produce finished drill pipe, although at least one drill pipe processor, ***, occasionally produces and sells drill pipe that has been upset and heat treated, but not tool joined.

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[44] Information in this section is drawn to a large degree from *Oil Country Tubular Goods from Austria, Brazil, China, France, Germany, India, Indonesia, Romania, south Africa, Spain, Turkey, Ukraine, and Venezuela (Preliminary), Inv. Nos. 701-TA-428 and Invs. Nos. 731-TA-992-994 and 996-1005*, USITC Publication 3511, May 2002, p. I-6.

[45] Respondents' postconference brief, p. 11.

[46] In terms of API minimum requirements for physical dimensions, there is overlap between green tubes (for drill pipes) and tubing having O.D. sizes ranging from 2.375 to 4.500 inches and between green tubes and casing of O.D. sizes ranging from 5 to 5.500 inches. The tolerances for dimensions and weight are largely identical. The mechanical strength requirements, including yield and tensile strength (minimum yield strength indicates the load at which the pipe will be permanently stretched; minimum tensile strength specifies the load at which the pipe will break apart), for drill pipes also overlap with those for casing and tubing; however, at the high end of the products, API-specified mechanical strengths for high-end drill pipe are significantly more stringent than those for casing and tubing. Moreover, drilling under arduous operational conditions such as deep sea drilling, arctic drilling, directional drilling, and drilling in corrosive environment, require finished drill pipe to be of much higher tensile strength than that specified by the API. Finished drill pipe is also subject to torsional stress, as already noted, and the API therefore has specified torsional strength for drill pipe. In regard to chemical composition, API 5D and API 5DP only specify the maximum contents of sulphur and phosphorous for drill pipe, which are largely similar to casing and tubing.

[47] Petitioners' postconference brief, p. 9; and Staff field trip report, ***, January 13, 2010.

[48] Petitioners' postconference brief, p. 9; conference transcript (Fields and Morris), p. 43.

[49] Respondents' postconference brief, p. 13; petition, p. 9, and conference transcript, p. 28 (Ramsey). Mr. Ramsey testifies that TMK-IPSO sold green tube to virtually all U.S. producers of finished drill pipe.

Interchangeability

Petitioners maintain that individual drill collar and finished drill pipe are not interchangeable with other individual drill collar or finished drill pipe, nor are individual sizes of HWDP and the standard finished drill pipe.[50] Petitioners stress that they can be treated as part of the same like product because they are all used in a complementary fashion. The drill string must use both products to drill a well.[51] In their questionnaire responses, responding producers generally agreed that finished drill collar and drill pipe are not interchangeable.[52]

No party suggests that unfinished drill pipe can be used "as is" on a drill string. However, Petitioners quote the Commission's past findings indicating that there is little evidence of purchasers actually using drill pipe interchangeably with casing or tubing at the finished stage.[53]

Customer and Producer Perceptions

Five producers report that there is little or no difference in sales or marketing of finished drill pipe and collar. The same marketing personnel typically handle both finished drill pipe and drill collar, which are also sold to the same type of customers. One producer maintains that the two products are typically marketed and sold as part of a drilling package.[54]

Respondents contend that customers and producers perceive green tube and finished drill pipe (including drill collars) as different products because, as noted above, one cannot put green tubes on a drill string.[55] Petitioners do not dispute the notion that drill strings consist of finished product, but caution against assuming that green tubes used in the production drill pipe are necessarily "like" those used in the production of casing and tubing, noting that there has reportedly been no problem differentiating these two types of green tubes by leading suppliers, including TMK and U.S. Steel.[56]

Channels of Distribution

Table I-3 presents the respective channels of distribution for U.S. producers' U.S. shipments of unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars. Additional details regarding the channel structure of domestically produced and imported drill pipe and drill collars are presented in Part II of this report, *Conditions of Competition in the U.S. Market*. As shown in table I-3, domestic producers sell pipe and drill collars almost exclusively to end users. Unfinished drill pipe (and unfinished drill collars) are sold *** to the processors that finish them for downhole drilling.

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[50] Petitioners' postconference brief, p. 8.

[51] Petitioners' postconference brief, p. 9.

[52] Producers' questionnaire responses, part V-38.

[53] Petitioners' postconference brief, p. 7.

[54] Producers' questionnaire responses, part V.

[55] Conference transcript, p. 159 (Mostoway) and p. 47 (Morris); Respondents' postconference brief, p. 11.

[56] Conference transcript, pp. 36-37 (Schagrin).

Table I-3
Drill pipe and drill collars: Channels of distribution for U.S. producers' U.S. shipments of drill pipe and drill collars, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Price

Table I-4 presents average unit values for U.S. producers' U.S. shipments of unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars produced in the United States. Pricing practices and prices reported for domestically produced and imported drill pipe and drill collars in response to the Commission's questionnaires are presented in Part V of this report, *Pricing and Related Information*.

Table I-4
Drill pipe and drill collars: Average unit values of U.S. producers' U.S. shipments of drill pipe and drill collars, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Average unit value *(dollars per short ton)*[1]				
U.S. producers' U.S. shipments of unfinished drill pipe	***	***	***	***	***
U.S. producers' U.S. shipments of finished drill pipe	4,686	5,528	6,100	5,941	6,232
U.S. producers' U.S. shipments of unfinished drill collars	***	***	***	***	***
U.S. producers' U.S. shipments of finished drill collars	2,889	3,235	3,992	3,829	3,315

[1] Net value, f.o.b. U.S. point of shipment.

Source: Compiled from data submitted in response to Commission questionnaires.

As shown in table I-4, the average unit values for finished drill pipe exceeded those for finished drill collars in every period. The differential between finished drill pipe and unfinished drill pipe was even greater, although unfinished drill pipe maintained higher average unit values than unfinished drill collars.

INTERMEDIATE PRODUCTS

As discussed above, unfinished (or "green" if not heat-treated) drill pipe is a precursor to finished drill pipe. Therefore, in addressing whether unfinished drill pipe and finished drill pipe constitute a single domestic like product, the Commission may apply its semifinished product analysis.[57]

Uses

"Green tube" is a term that can apply to unfinished, non-heat-treated tube bodies for casing and tubing or for drill pipe.[58] The scope of these investigations, however, focuses on the latter form of green tube.[59] From the perspective of at least two leading processors, the green tube usedin their operations is dedicated to the finished drill pipe. VAM Drilling, for example states that "(b)y controlling quality at all stages of product manufacture, from the seamless green tube to finished drill pipe and drillstem components, VAM Drilling ensures a superior product."[60] Similarly, Grant Prideco (prior to its merger with NOV), indicated that it "controlled each facet of the drill pipe process," manufacturing (through Voest-Alpine Tubulars) "the green tube (drill pipe tube that has not been heat-treated or processed), the tool joint, and complete the finishing and welding operations."[61]

As discussed above, NOV Grant Prideco and VAM focus on the green tubes that they source outside of the United States. Three U.S. mills produce unfinished drill pipe domestically. Timken, the ***, is not believed to produce casing or tubing, while TMK and U.S. Steel do produce these products.[62] TMK distinguishes between drill pipe, casing, tubing, and coupling stock, indicating on its website that "(s)emifinished drill pipe is available in carbon and alloy grades ... Our seamless drill pipe can be ordered

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[57] Under this analysis, the Commission examines (1) whether the upstream article is dedicated to the production of the downstream article or has independent uses; (2) whether there are perceived to be separate markets for the upstream and downstream articles; (3) differences in the physical characteristics and functions of the upstream and downstream articles; (4) differences in the costs or value of the vertically differentiated articles; and (5) the significance and extent of the processes used to transform the upstream into the downstream articles.

[58] *See, e.g., INSTRUCTION BOOKLET: GENERAL INFORMATION, INSTRUCTIONS, AND DEFINITIONS FOR COMMISSION QUESTIONNAIRES, Certain Oil Country Tubular Goods from China, Investigation Nos. 701-TA-463 and 731-TA-1159 (Final),* p. 5 (green tubes identified as one example of unfinished casing and tubing); *INSTRUCTION BOOKLET: GENERAL INFORMATION, INSTRUCTIONS, AND DEFINITIONS FOR COMMISSION QUESTIONNAIRES, Drill Pipe / Drill Collars from China, Investigation Nos. 701-TA-474 and 731-TA-1176 (Preliminary),* p. 5 (green tubes identified as one example of unfinished drill pipe and/or drill collars).

[59] While not commonplace, terms such as "green drill pipe" or "green drill pipe tubes" have been employed. *See, e.g., Drilling Contractor: Capital Wirelines* (September/October 2001), p. 4 (in which the International Association of Drilling Contractors cites a letter by Grant Prideco, joined by IADC and several drilling contractors, which uses those terms on four occasions).

[60] VAM Quality Statement, found at http://www.vamdrilling.com/qhse.asp, retrieved on February 10, 2010. The company notes on its website that "VAM Drilling receives green tubes from V&M Tubes' mills in Saint-Saulve, France, Mülheim, Germany and Belo Horizonte, Brazil. (The) tubes are upset and heat-treated to the required specifications at VAM Drilling's manufacturing plants in Europe and the United States. VAM Supply Chain, found at http://www.vamdrilling.com/supply_chain.asp, retrieved on February 10, 2010.

[61] Grant Prideco, Form 10-K for the year ended December 31, 2007, pp. 1-2 (found at Petition, exhibit 3). The company went on to note that "(W)e are able to meet our customers' demanding product specifications, particularly with respect to the green drill pipe tubes with body wall thickness, wall uniformity, and other features that exceed minimum API standards and are not readily available from third-party mills." Ibid.

[62] *Certain Oil Country Tubular Goods from China, Investigation No. 701-TA-463 (Final),* USITC Publication 4124, January 2010, table III-1.

as green tube or as upset and heat-treated to API 5D grades."[63] Although U.S. Steel's online product catalogue identifies drill pipe as a distinct entry,[64] U.S. Steel officials have testified in previous proceedings as to interchangeability of green tube (as a general term), prior to heat-treatment and upsetting.[65]

Markets

As shown previously in table I-3, unfinished drill pipe in its green stage is sold *** to the processors that provide heat treatment, upsetting, and tool joining. The finished drill pipe, in turn, is sold by the processors almost exclusively to end users.[66] Thus, both unfinished and finished drill pipe marketing differs from that of casing and tubing (whether unfinished or finished) and coupling stock, which are sold almost exclusive to distributors.[67]

Characteristics and Functions

As discussed above, unfinished drill pipe in its green stage is produced to the chemistry and dimensional specifications that permit processors to heat treat, upset, and join the tube body with the tool joint that is characteristic of finished drill pipe. Prior to these operations, however, unfinished drill pipe cannot be connected to other drill pipes and thus cannot function as a component of a drill string for use in oil and gas drilling.

Value

Unfinished drill pipe in its green stage is produced by seamless pipe mills, primarily from billet, while finished drill pipe is produced almost entirely from unfinished drill pipe.[68] As shown in table I-4, U.S. mill shipments of unfinished drill pipe in its green stage had an average unit value of $*** in 2008,[69]

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[63] Found at http://www.tmk-group.com/ipsco_seamless.php, presented in Respondents' Postconference Brief, exhibit 9.

[64] U.S. Steel, Tubular Products Drill Pipe Search, found at http://www.uss.com/corp/tubular/scripts/drillsearch.asp, retrieved January 22, 2010. Because the information in this listing includes end finish (upset ends) and grades, it is not certain that it pertains to unfinished drill pipe in its green stage.

[65] *See generally* Respondents' Postconference Brief, exhibit 9. In a more recent interview, ***. Staff telephone interview with ***, November 12, 2009 (used with permission).

[66] At least one drill pipe processor, ***, occasionally produces and sells drill pipe that has been upset and heat treated but not tool joined.

[67] *Certain Oil Country Tubular Goods from China, Investigation No. 701-TA-463 (Final)*, USITC Publication 4124, January 2010, table II-1. *See also* conference transcript, pp. 36 (Schagrin) and 99 (Ramsey) (TMK relies upon different personnel for green tubes, casing and tubing; announced price increases by TMK for casing and tubing do not cover drill pipe green tube).

[68] Heavyweight drill pipe can be produced from drill collar material, such as bar stock (conference transcript, p. 55, Williamson) or the drill collar itself (conference transcript, p. 106, Morris). However, the share of drill pipe that is not produced from green tubes is believed to be very small. Conference transcript, pp. 106 (Parks) and 107 (Morris).

[69] In a recent interview, ***. Staff telephone interview with ***, November 12, 2009 (used with permission).

while U.S. processor shipments had an average unit value of $6,100. As noted at the staff conference, the tool joint represents a not insubstantial portion of the production cost of finished drill pipe.[70]

Transformation Processes

As discussed previously, the tube body of drill pipe is formed from round or square solid steel billets in seamless pipe mills. These mills use either rotary piercing or hot extrusion to form a central cavity in the billets, then roll the hollow shell with either a fixed plug or a continuous mandrel inside the shell to reduce the wall thickness and thereby increase the length. Finally, they roll the shell to size in a sizing or stretch-reducing mill.

U.S. processors typically acquire unfinished drill pipe at its green stage, then finish the product through a series of value-added operations.[71] The processors heat the ends of the tube body, then insert them into a forging press or upsetter, compressing and thickening the walls at the end of the tube body to form internal or external upsets. The length of the tube body is next heat treated by one of several possible methods and prepared for welding. Processors then weld separately manufactured tool joints to each end of the tube body by rotational friction or friction welding. The drill pipe undergoes additional heat treatment using a polymer as the quenching agent so that it cools gradually, followed by additional machining and inspection.[72]

[70] According to one witness, "(t)he tool joint constitutes about 30 percent of the final cost of completed drill pipe." Conference transcript, p. 134 (Garvey).

[71] The President of VAM Drilling USA estimated that it may engage in as many as 18 separate operations while finishing drill pipe. Conference transcript, p. 15 (Fields).

[72] For a description of NOV Grant Prideco's drill pipe processing, see http://www.nov.com/Tubular_and_Corrosion_Control/Drilling_Tubulars/Drill_Pipe/Drill_Pipe_Manufacturing_Process.aspx, retrieved on February 11, 2010.

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

U.S. MARKET CHARACTERISTICS

Drill pipes and drill collars are parts of a drill string used in drilling for oil and natural gas. They are sold in both unfinished and finished forms; standard weight and heavy weight; and new as well as used or refurbished.

Seven of nine responding U.S. mills and processors producing drill pipe reported that all of their drill pipe is produced to order, with lead times ranging from four weeks to over seven months.[1] Four of six responding U.S. mills and processors producing drill collar reported that all of their drill collar is produced to order, with lead times ranging from four weeks to over five months. Six of twelve responding importers of drill pipe from China reported that all or virtually all of their drill pipe is produced to order, with lead times ranging from four weeks to over seven months.[2] Four importers reported that all or nearly all of their drill pipe is sold from inventory, with lead times ranging from immediate delivery to 15 days. Two importers reported a mixture of sales produced to order and sales from inventory. Four of 10 responding importers of drill collar from China reported that all or nearly all of their drill collar is produced to order, with lead times ranging from four weeks to six months.[3] Four importers reported that all of their drill collar is sold from inventory, with lead times ranging from immediate delivery to six months. Two importers reported a mixture of sales of product produced to order and sales from inventory.

When firms were asked to list the geographic regions of the United States where they sell drill pipe and drill collars, four of the U.S. producers reported that they served a nationwide market and the others reported mostly selling to the central southwest. One importer reported that it served a nationwide market, while the majority of importers reported serving specific geographic markets, with most citing the central southwest, followed by the mountain states, and the west coast.

CHANNELS OF DISTRIBUTION

As shown in table II-1, the majority of U.S. producers' U.S. shipments of drill pipe and drill collars were to end users, including drilling contractors, followed by sales to processors, and a small share to distributors.[4] In 2006, the majority of importers' U.S. shipments of drill pipe from China went to distributors; in 2007 and 2008, their U.S. shipments of drill pipe were divided between distributors and end users; and in the first three quarters of 2009, the majority of their U.S. shipments of drill pipe were to end users. The majority of importers' U.S. shipments of drill collars from China went to end users, followed by distributors. The majority of importers' U.S. shipments of drill pipe and drill collars from nonsubject countries went to end users, followed by processors.

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[1] *** reported that *** percent of its sales of drill pipe and drill collar are from inventory and *** reported that *** percent of its sales of drill pipe and drill collar are from inventory.

[2] Included in this total are importers *** that are ***.

[3] Included in this total are importers *** that are ***.

[4] U.S. Producers' Questionnaire responses at II-8a and II-8d and Importers' Questionnaire responses at II-5a and II-5b. Conference transcript, p. 15 (Fields). Staff notes that there are different channels for unfinished and finished drill pipe and drill collars; in particular, U.S. producers' U.S. shipments of unfinished products went *** to processors. *See* table I-3.

Table II-1
Drill pipe and drill collars: U.S. producers' and importers' U.S. shipments of drill pipe and drill collars, by sources and channels of distribution, 2006-08, and January-September 2009

* * * * * * *

There was limited customer overlap among U.S. producers and importers of drill pipe and drill collars in 2008. Specifically, among the total 51 "top five" customers for drill pipe in 2008 cited by producers and importers, *** customers (***) were listed by both a U.S. producer and an importer.[5] Among the total 43 "top five" customers for drill collars in 2008 reported by producers and importers, *** (***) was listed by both a U.S. producer and an importer.[6]

Respondents asserted that U.S. producers of drill pipe and drill collars sell mostly to the larger drilling contractors, whereas suppliers of imports from China tend to sell to smaller land drilling contractors.[7]

SUPPLY AND DEMAND CONSIDERATIONS

Supply[8]

U.S. Supply

The supply response of U.S. producers to changes in price depends on such factors as the level of excess capacity, the availability of alternate markets for U.S.-produced drill pipe and drill collars, inventory levels, and the ability to shift production to the manufacture of other products. The evidence indicates that the U.S. producers of unfinished drill pipe and unfinished drill collars have the ability to respond to changes in prices with small to moderate changes in quantity, due primarily to ***. The evidence indicates that the U.S. producers of finished drill pipe and finished drill collars have the ability to respond to changes in prices with moderate changes in quantity, due primarily to ***.

Industry capacity

U.S. producers' annual capacity utilization rates for unfinished drill pipe decreased from 53.0 percent in 2006 to 44.0 percent in 2007 before increasing to 57.4 percent in 2008; the capacity utilization rate was 4.8 percent in the first three quarters of 2009. U.S. producers' annual capacity utilization rates for finished drill pipe decreased from 96.4 percent in 2006 to 80.4 percent in 2008; the capacity utilization rate was 46.3 percent in the first three quarters of 2009. U.S. producer Timken's annual capacity utilization rates for unfinished drill collars increased from *** percent in 2006 to *** percent in 2007 before decreasing to *** percent in 2008; the capacity utilization rate was *** percent in the first three quarters of 2009. U.S. producers' annual capacity utilization rates for finished drill collars

[5] *** additional top customers for drill pipe reported by U.S. producers (***) are importers of drill pipe from China.

[6] *** additional top customers for drill collars reported by U.S. producers (***) are importers of drill collars from China.

[7] Conference transcript, p. 164 (Garvey).

[8] Short run effects discussed in the supply and demand sections refer to changes that could occur within 12 months, unless otherwise indicated.

decreased from 83.7 percent in 2006 to 76.6 percent in 2008; the capacity utilization rate was 44.1 percent in the first three quarters of 2009.

Alternative markets

U.S. producers' exports of unfinished drill pipe, as a share of their total shipments of unfinished drill pipe, decreased from *** percent in 2006 to *** percent in 2008; they accounted for *** percent of total shipments in the first three quarters of 2009. U.S. producers' exports of finished drill pipe, as a share of their total shipments of finished drill pipe, increased from 23.8 percent in 2006 to 35.8 percent in 2008; they accounted for 38.4 percent of total shipments in the first three quarters of 2009. U.S. producer Timken's exports of unfinished drill collars, as a share of the company's total shipments of unfinished drill collars, increased from *** percent in 2006 to *** percent in 2008; they accounted for *** percent of total shipments in the first three quarters of 2009. U.S. producers' exports of finished drill collars, as a share of their total shipments of finished drill collars, increased from 25.5 percent in 2006 to 39.3 percent in 2008; they accounted for 50.5 percent of total shipments in the first three quarters of 2009. These data indicate that the U.S. producers of unfinished products are *** to divert shipments to or from alternative markets in response to changes in the price of unfinished drill pipe and unfinished drill collars, whereas U.S. producers of finished drill pipe and drill collars *** to do so.

Inventory levels

U.S. producers' ratio of end-of-period inventories of unfinished drill pipe to total shipments of unfinished drill pipe decreased from *** percent in 2006 to *** percent in 2008; they were equivalent to *** percent of total shipments in the first three quarters of 2009. U.S. producers' ratio of end-of-period inventories of finished drill pipe to total shipments of finished drill pipe increased from 7.2 percent in 2006 to 10.2 percent in 2008; they were equivalent to 24.9 percent of total shipments in the first three quarters of 2009. U.S. producer Timken's ratio of end-of-period inventories of unfinished drill collars to total shipments of unfinished drill collars *** from *** percent in 2006 to *** percent in 2008; they were equivalent to *** percent of total shipments in the first three quarters of 2009. U.S. producers' ratio of end-of-period inventories of finished drill collars to total shipments of finished drill collars increased from 43.5 percent in 2006 to 65.3 percent in 2008; they were equivalent to 81.1 percent of total shipments in the first three quarters of 2009. These data indicate that the U.S. producers of unfinished drill pipe and unfinished drill collars *** to use inventories as a means of increasing shipments of unfinished product to the U.S. market, whereas the U.S. producers of finished products *** to use inventories as a means of increasing shipments of drill pipe.

Production alternatives

*** U.S. producers of unfinished drill pipe and *** of the five U.S. producers of finished drill pipe (***) reported that they use the same manufacturing equipment and the same workers used to make drill pipe in the production of other products. *** U.S. producer of unfinished drill collars and *** producer of finished drill collars reported that they use the same manufacturing equipment and the same workers used to make drill pipe in the production of other products. The other products cited included OCTG, other pipe and tubing, ***. The ability of some U.S. producers to shift production from drill pipe and drill collars to other products increases their supply responsiveness in the short run.

Supply disruptions

One U.S. producer of drill pipe, ***, reported that it faced supply constraints in periods of 2008, during which it limited volume to its customers. Importer of drill pipe and drill collars Command Energy

Services reported that since 2006 it has experienced backlogs from U.S. producers ranging from 15 to 18 months that peaked in mid-2008.[9] *** other importers of drill pipe and drill collars from China also reported experiencing long lead times and late deliveries during certain periods, but did not identify the suppliers involved. Weatherford, an importer and purchaser of drill pipe and drill collars, reported ***.[10]

Used products

At least one U.S. producer of finished drill pipe and drill collars (Rotary Drilling) and two U.S. importers (Command Energy and Downhole Pipe) sell used or refurbished drill pipe and drill collars.[11] U.S. producer Rotary Drilling reported that used products are sold to small shallow land drilling companies that account for approximately 15 percent of the U.S. market.[12] U.S. producer VAM Drilling reported that drilling contractors can transfer used products from idled rigs to active rigs rather than buying new product.[13] U.S. producer Rotary Drilling also stated that some of the large manufacturers of drill pipe and drill collars face difficulty in selling used products because they are not necessarily API certified.[14] Importer Downhole Pipe reported that it supplied customers with used products between 2006 and 2008 when these customers "could not afford to pay current list prices {from} the major manufacturers" or could not "get delivery."[15] This importer also reported that ***.[16] Importer Command Energy also reported that it has a trade program with many of its customers in which it exchanges new products for customers' used products of equal value.[17] ***.[18]

Subject Imports from China

The responsiveness of supply of imports from China to changes in price in the U.S. market is affected by such factors as capacity utilization rates and the availability of home markets and other export markets. Based on available information, producers of drill pipe in China have the capability to respond to changes in demand with changes in the quantity of shipments of drill pipe to the U.S. market. The main contributing factors to this degree of responsiveness of supply are the *** over the period for which data were collected. Based on available information, producers of drill collar in China have the capability to respond to changes in demand with moderate changes in the quantity of shipments of drill pipe to the U.S. market. The main contributing factors to the degree of responsiveness of supply are the *** over the period for which data were collected.

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[9] Conference transcript, pp. 166-167 (Garvey).

[10] Weatherford's postconference brief, p. 3.

[11] U.S. producers Texas Steel and VAM Drilling reported that they only sell new products. Conference transcript, p. 66 (Parks, Brand). Importers Command Energy and Downhole Pipe reported that they have, at times, imported used products from Mexico, South America, Europe, and the Middle East. Conference transcript, pp. 188-189 (Lesco, Garvey).

[12] Conference transcript, pp. 65-66 (Morris). This producer also noted that offshore drilling companies do not use used products. *Ibid*. Importer Command Energy reported that there are limited applications for used drill pipe and drill collars. Conference transcript, p. 176 (Garvey).

[13] Conference transcript, p. 67 (Fields).

[14] Conference transcript, pp. 65-66 (Morris). This producer also stated that it re-certifies used drill collars and processes them into heavyweight drill pipe. Conference transcript, p. 106 (Morris).

[15] Conference transcript, p. 170 (Lesco).

[16] Respondents' postconference brief, responses to staff questions #6.

[17] Conference transcript, p. 176 (Garvey).

[18] ***.

Industry capacity

During the period for which data were collected, the capacity utilization rate for reporting producers in China of drill pipe decreased from *** percent in 2006 to *** percent 2008; it is projected to be *** percent in 2009 and *** percent in 2010. During the period for which data were collected, the capacity utilization rate for reporting producers in China of drill collars increased from *** percent in 2007 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010.

Alternative markets

Available data indicate that producers of drill pipe and drill collars in China may have some ability to divert shipments to or from alternative markets in response to changes in the price of drill pipe and drill collars. The share of shipments by producers of drill pipe in China that went to the United States increased from *** percent in 2006 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010. The share of shipments by producers of drill pipe in China to export markets other than the United States increased from *** in 2006 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010. The share of shipments by producers of drill pipe in China going to the home market decreased from *** percent in 2006 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010.[19]

The share of shipments by producers of drill collars in China that went to the United States increased from *** percent in 2007 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010. The share of shipments by producers of drill collars in China to export markets other than the United States increased from *** percent in 2007 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010. The share of shipments by producers of drill collars in China going to the home market decreased from *** percent in 2007 to *** percent in 2008; it is projected to be *** percent in 2009 and *** percent in 2010.

Inventory levels

Inventories of responding producers of drill pipe in China, as a share of total shipments of drill pipe, increased from *** percent in 2006 to *** percent in 2008; they are projected to be *** percent in 2009 and *** percent in 2010. Inventories of responding producers of drill collars in China, as a share of total shipments of drill collars, decreased from *** percent in 2007 to *** percent in 2008; they are projected to be *** percent in 2009 and *** percent 2010.

Nonsubject Imports

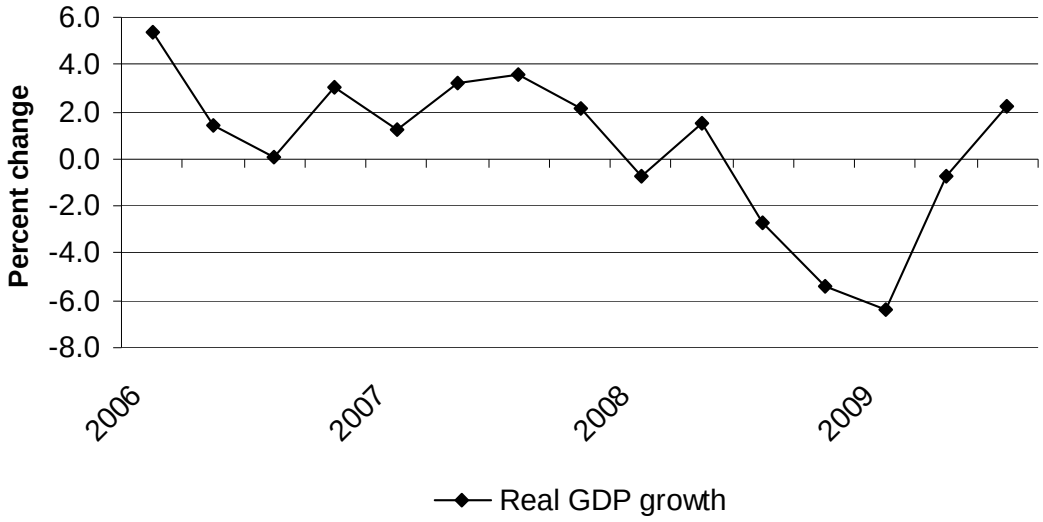
Imports from nonsubject sources of drill pipe, as a share of the quantity of total U.S. imports of drill pipe, generally declined during the period for which data were collected. With respect to unfinished drill pipe, nonsubject imports fell from *** percent in 2006 to *** percent in 2008 and accounted for *** percent of the quantity of total imports of unfinished drill pipe in the first three quarters of 2009. With respect to finished drill pipe, nonsubject imports fell from *** percent in 2006 to *** percent in 2008 and accounted for *** percent of the quantity of total imports of unfinished of drill pipe in the first three quarters of 2009. Imports from nonsubject sources of drill collars, as a share of the quantity of total U.S. imports of drill collars, increased from *** percent in 2006 to *** percent in 2007 before decreasing to *** percent in 2008 and accounted for *** percent in the first three quarters of 2009.

[19] Because these data include ***, export shares are understated.

Demand

The lack of substitutes for drill pipe and drill collars and the fact that drill pipe and drill collars represent a low share of overall drilling costs, as discussed below, indicate that the demand for these products is likely to be price inelastic. The demand for drill pipe and drill collars are largely determined by the overall economy and oil drilling activity which, in turn, is driven by the prices of oil and natural gas. U.S. real GDP growth at seasonally adjusted annual rates is shown in figure II-1.[20]

Figure II-1
Drill pipe and drill collars: Real GDP growth, by quarters, January 2006-September 2009



Source: Bureau of Economic Analysis.

U.S. demand for drill pipe and drill collars depends on the number of active rigs drilling for oil and natural gas in the United States and the footage being drilled, as shown in figures II-2, II-3, and II-4. Active rigs may be supplied with new drill pipe and drill collars or with used drill pipe and drill collars transferred from inactive rigs. Drill pipe and drill collars on active rigs need to be replaced every 3-5 years. U.S. producers reported that drilling operators know their replacement needs well in advance.[21]

The number of active rigs is a broad indicator of demand for oil and natural gas.[22] Figure II-3 presents monthly average crude oil prices, oil and total rig counts, and total rig permits issued. Figure II-4 presents monthly average natural gas prices, natural gas and total rig counts, and total rig permits issued. Figure II-5 presents actual and predicted prices for crude oil and natural gas.[23]

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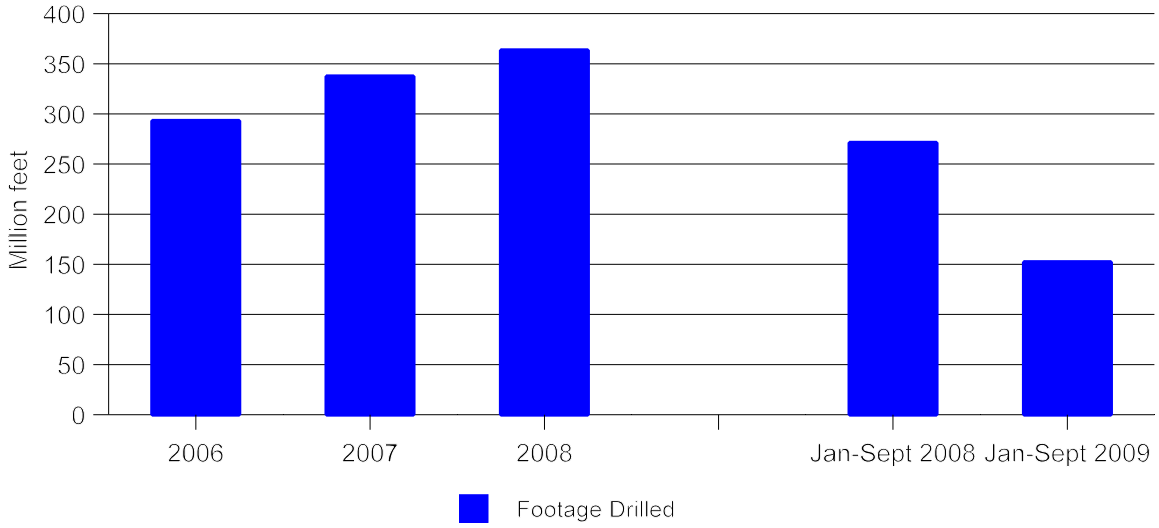
[20] U.S. Bureau of Economic Analysis. *Gross Domestic Product: Third Quarter 2009 (Third Estimate).* December 22, 2009.

[21] Conference transcript, pp. 71-72 (Schagrin).

[22] *Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico, Investigations Nos. 701-TA-711 and 713-716 (Second Review),* USITC Publication 3923, June 2007.

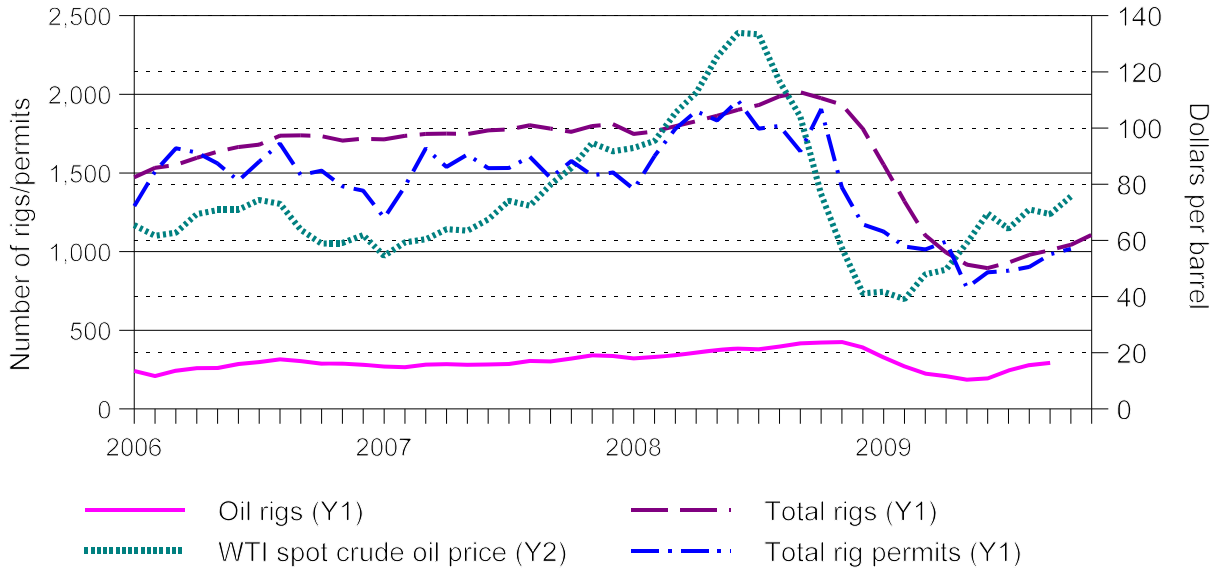
[23] The U.S. Energy Information Administration (USEIA) expects the price of West Texas Intermediate crude oil to rise from $62 per barrel in 2009 to $80 in 2010 and $84 in 2011. USEIA also expects the annual average natural gas Henry Hub spot price to increase from $4.06 per thousand cubic feet in 2009 to $5.36 in 2010 and $6.12 in 2011. USEIA, Short-Term Energy Outlook, January 2010, p. 1.

Figure II-2
Drill pipe and drill collars: Footage drilled, 2006-08, January-September 2008, and January-September 2009



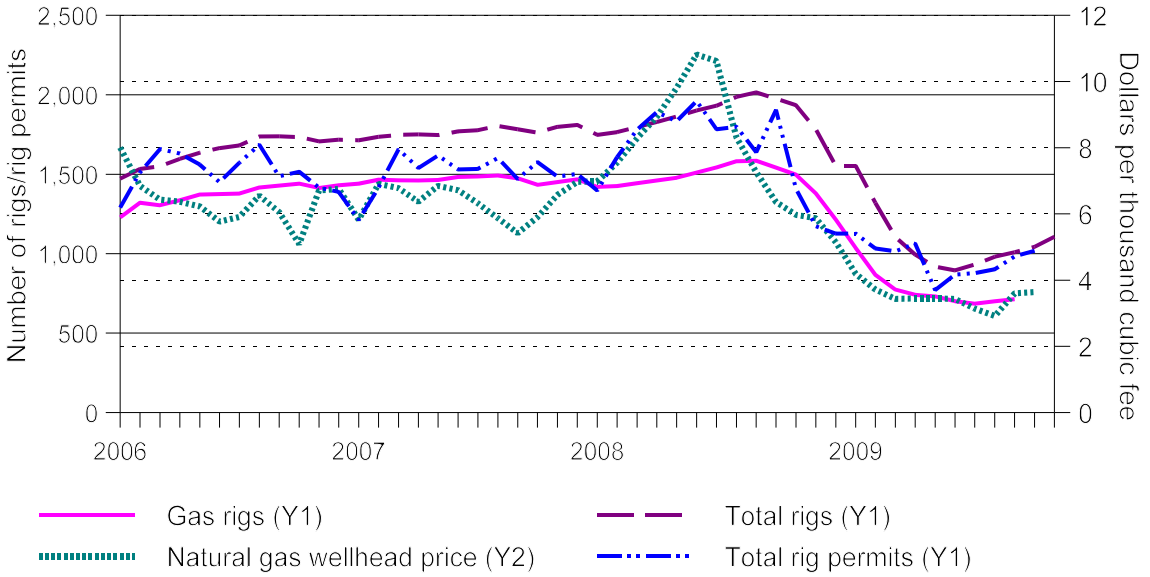
Source: "Drilling and Production Outlook September 2009," Spears & Associates, Inc. (as presented in USITC Publication 4124).

Figure II-3
Drill pipe and drill collars: Crude oil prices, Baker-Hughes U.S. oil rig count, and U.S. oil rig permits, monthly averages, January 2006-September/October/November 2009



Source: Baker-Hughes Rig Count, Energy Information Administration, Preston, and RigData (as presented in USITC Publication 4124).

Figure II-4
Drill pipe and drill collars: Natural gas prices, Baker-Hughes U.S. gas rig count, and U.S. gas rig permits, monthly averages, January 2006-September/October/November 2009



Source: Baker-Hughes Rig Count, Energy Information Administration, Preston, and RigData (as presented in USITC Publication 4124).

Figure II-5
Oil and gas: Short term actual and predicted monthly West Texas Intermediate crude oil prices and composite wellhead spot prices of natural gas, January 2006-December 2010

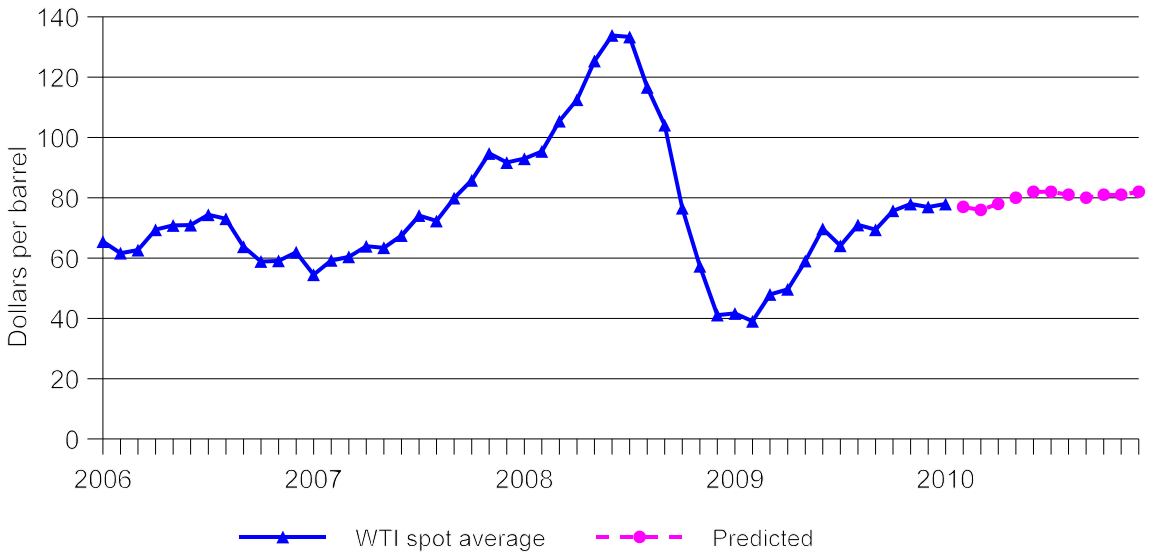
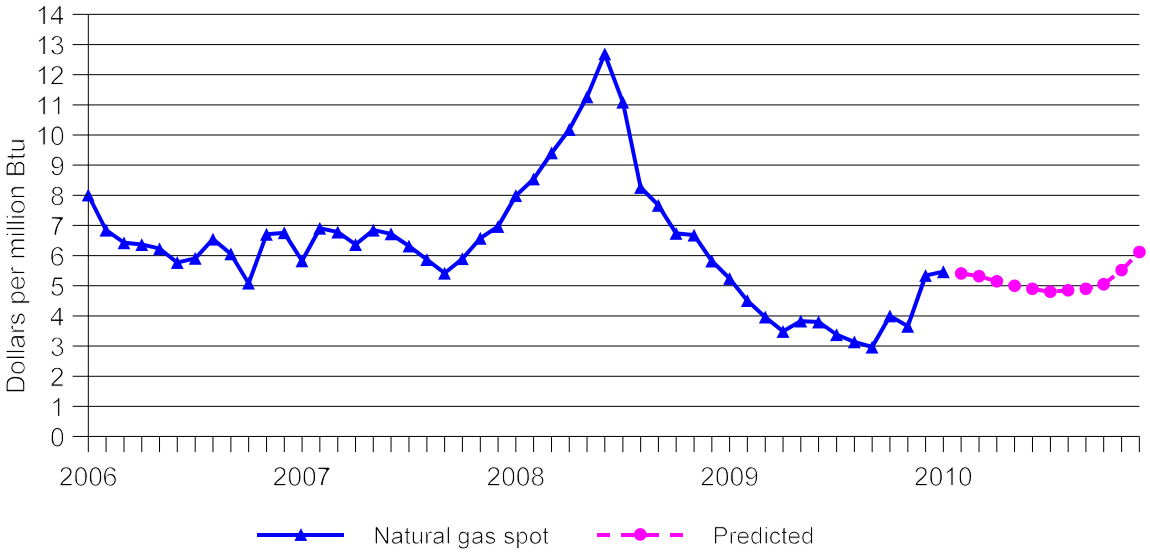


Figure continued on following page.

Figure II-5--*continued*
Oil and gas: Short term actual and predicted monthly West Texas Intermediate crude oil prices and composite wellhead spot prices of natural gas, January 2006-December 2010



Source: U.S. EIA, http://www.eia.doe.gov/emeu/steo/pub/xls/Fig1.xls and http://www.eia.doe.gov/emeu/steo/pub/xls/Fig4.xls, retrieved February 3, 2010.

When asked how the overall demand for drill pipe and drill collars has changed since January 2006, all of the responding producers and virtually all of the responding importers reported that demand has decreased or fluctuated, citing the recession and noting that demand increased from 2006 to mid-2008 and decreased sharply thereafter.[24] One U.S. producer and two importers also reported that demand for drill pipe and drill collars outside the United States has followed the same trend as U.S. demand, but that the decline in 2009 was less severe outside the United States.

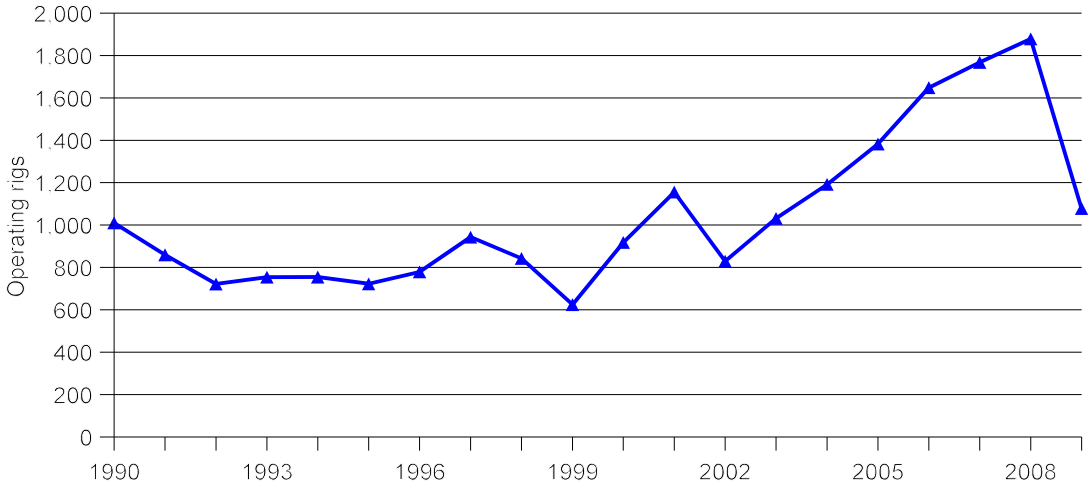
Apparent U.S. consumption of finished drill pipe increased by *** percent from 2006 to 2007 before decreasing by *** percent in 2008. Apparent U.S. consumption of finished drill pipe was *** percent lower in January-September 2009 than in January-September 2008. Apparent U.S. consumption of finished drill collars increased by *** percent from 2006 to 2007 before decreasing by *** percent in 2008. Apparent U.S. consumption of finished drill collars was *** percent lower in January-September 2009 than in January-September 2008.

Business Cycle

The majority of the U.S. producers and importers reported that the business cycle of the drill pipe and drill collars industry is subject to oil and gas prices and, therefore, it depends heavily on the oil and gas rig counts. As shown in figure II-6, oil and gas drilling in the United States has experienced sharp upward and downward adjustments with some frequency over the past two decades.

[24] One U.S. producer reported that demand decreased by *** percent from 2008 to 2009 and another reported that it decreased by *** percent over the same period.

Figure II-6
Drill pipe and drill collars: Operating oil and gas rigs in the United States, 1990-2009



Source: Baker-Hughes Rig Count.

Substitute Products

The majority of U.S. producers and virtually all responding importers reported that there are no substitutes for drill pipe and drill collars. Two firms cited casing, one cited aluminum-based drill pipe, and another cited coil tubing as possible substitutes in limited applications.

Cost Share

The majority of U.S. producers reported that drill pipe and drill collars account for between one and five percent of the total cost of oil and gas drilling.

SUBSTITUTABILITY ISSUES

The degree of substitutability between domestic products and subject and nonsubject imports and between subject and nonsubject imports is examined in this section. The discussion is based upon the results of questionnaire responses from producers and importers.[25]

Comparisons of Domestic Product and Subject Imports

To determine whether U.S.-produced drill pipe and drill collars can generally be used in the same applications as imports from China, producers and importers were asked whether the products can "always," "frequently," "sometimes," or "never" be used interchangeably. Six of nine U.S. producers reported that drill pipe from different sources are always interchangeable (3 of 6 for drill collars), as shown in table II-2. A majority of the importers that compared drill pipe and drill collars from China with those from the United States reported that they are always or frequently interchangeable, as shown in table II-2.

[25] Included in the importers' responses in this section of the report are *** firms that are *** and ***.

Table II-2
Drill pipe and drill collars: Perceived degree of interchangeability of product produced in the United States and in other countries, by country pairs

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
Drill pipe								
U.S. vs. subject countries:								
U.S. vs. China	6	1	1	1	6	4	4	1
U.S. vs. nonsubject countries:								
U.S. vs. Other	6	2	0	1	6	5	2	1
Subject countries vs. nonsubject countries:								
China vs. Other	6	1	1	0	5	4	3	0
Drill collars								
U.S. vs. subject countries:								
U.S. vs. China	3	1	1	1	6	3	3	1
U.S. vs. nonsubject countries:								
U.S. vs. Other	3	2	1	0	6	5	1	1
Subject countries vs. nonsubject countries:								
China vs. Other	3	1	1	0	5	3	2	0

Note.–"A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

Petitioners reported that U.S. producers' product mix has shifted towards a higher share of premium grades since 2006, as product from China competes mostly in the standard API grades.[26] One producer indicated that premium grades are often proprietary and suggested that premium grades from China are imitations of other firms' proprietary products. Another producer reported that product from China is becoming increasingly accepted for more uses. One importer reported that product from China is not interchangeable with premium U.S. grades and another importer reported that proprietary grades are not interchangeable with 90 percent of drill systems.

Importer Command Energy reported that U.S. producers Grant Prideco and VAM Drilling "have complete control" of the market for premium grades and that these producers' prices for premium grades are 30 to 40 percent higher than the prices of standard grades.[27] Command Energy estimates that there are premium-grade producers in China and that its sales of premium-grade drill pipe account for approximately 15 percent of the entire U.S. drill pipe market.[28] It further reported that ***.[29] U.S. producer VAM Drilling reported that premium grades of drill pipe account for approximately 15 to 20 percent of the total U.S. market for drill pipe and that Grant Prideco is currently the major supplier of

[26] Conference transcript, p. 78 (Schagrin). ***. Petitioners' postconference brief, responses to staff questions.

[27] Conference transcript, p. 130 (Garvey).

[28] Conference transcript, p. 155 (Garvey).

[29] Respondents' postconference brief, responses to staff questions #8.

premium grades.[30] This producer and Rotary Drilling stated that drill pipe producers in China offer some premium grades but they are not producing the highest level of premium grades.[31] Rotary Drilling also reported that premium grades are used in very deep wells.[32]

As indicated in table II-3, roughly half of responding U.S. producers reported that differences other than price between U.S.-produced drill pipe and subject imports are frequently or sometimes a significant factor in their sales, while the other half reported that they are never a significant factor. A majority of responding importers reported that differences other than price between U.S.-produced drill pipe and subject imports are always or frequently significant factor in their sales. A majority of producers reported that differences other than price between U.S.-produced drill collars and subject imports are sometimes a significant factor in their sales, while a majority of importers reported that such differences are at least sometimes a significant factor.

Two U.S. producers reported that the quality of imports from China was previously perceived to be inferior but that they now meet API specifications. Another producer reported that U.S. producers have superior technical support. Two importers reported that their lead times for imported product are shorter than those offered by U.S. producers.

Other Country Comparisons

In addition to comparisons between the U.S. product and imports from the subject country, U.S. producer and importer comparisons between the United States and imports from nonsubject countries and between subject imports and nonsubject imports are also shown in tables II-2 and II-3.

[30] Conference transcript, pp. 15-16 (Fields) and p. 59 (Parks). VAM Drilling also reported that producers in Japan, Germany, and Austria produce premium grades. Conference transcript, pp. 63-64 (Fields).

[31] Conference transcript, p. 59 (Parks, Morris).

[32] Conference transcript, p. 60 (Morris). Rotary Drilling also noted that deep wells may sometimes necessitate the use of very low grades of drill pipe.

Table II-3
Drill pipe and drill collars: Differences other than price between products from different sources[1]

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
Drill pipe								
U.S. vs. subject countries:								
U.S. vs. China	0	2	3	4	5	3	3	2
U.S. vs. nonsubject countries:								
U.S. vs. Other	0	0	4	4	2	4	3	2
Subject countries vs. nonsubject countries:								
China vs. Other	0	1	2	4	2	1	2	2
Drill collars								
U.S. vs. subject countries:								
U.S. vs. China	0	1	4	1	2	3	3	2
U.S. vs. nonsubject countries:								
U.S. vs. Other	0	0	4	1	1	3	4	2
Subject countries vs. nonsubject countries:								
China vs. Other	0	1	2	1	1	3	2	2

[1] Producers and importers were asked if differences other than price between drill pipe and drill collars produced in the United States and in other countries are a significant factor in their firms' sales of drill pipe and drill collars.

Note.–"A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the alleged margins of dumping and subsidies was presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of eight firms that accounted for *** percent of U.S. production of drill pipe and drill collars during 2008.[1]

U.S. PRODUCERS

The Commission sent producer questionnaires to 27 possible producers. Nine producers responded to the Commission questionnaires, eight of which were able to provide useable data. Presented in table III-1 is a list of current domestic producers of drill pipe and drill collars and each company's position on the petition, production location(s), related and/or affiliated firms, and share of reported production of drill pipe and drill collars in 2008.

Table III-1
Drill pipe and drill collars: U.S. producers, positions on the petition, U.S. production locations, related and/or affiliated firms, and shares of 2008 reported U.S. production

Firm	Position on petition	U.S. production location(s)	Related and/or affiliated firms	Share of production (*percent*)
Unfinished drill pipe				
Timken	***	Canton, OH Houston, TX	None	***
TMK	Support	Ambridge, PA Koppel, PA Downers Grove, IL	OAO TMK[1]	***
U.S. Steel	***	Fairfield, AL Lorain, OH	None	***
Total				100.0
Finished drill pipe				
NOV Grant Prideco	***	Amelia, LA Navasota, TX	([2])	***
RDT	Support	Beasley, TX	***	***
Smith	***	Houston, TX	([3])	***
TSC	Support	Houston, TX	***	***
VAM	Support	Houston, TX	***[4]	***
Total				100.0

Table continued on next page.

[1] See, e.g., Petitioners' postconference brief, p. 22 n.21.

Table III-1--*Continued*
Drill pipe and drill collars: U.S. producers, positions on the petition, U.S. production locations, related and/or affiliated firms, and shares of 2008 reported U.S. production

Firm	Position on petition	U.S. production location(s)	Related and/or affiliated firms	Share of production (*percent*)
Unfinished drill collars				
Timken	***	Canton, OH Houston, TX	None	100.0
Total				100.0
Finished drill collars				
NOV Grant Prideco	***	Amelia, LA Navasota, TX	([2])	***
RDT	Support	Beasley, TX	***	***
Smith	***	Houston, TX	([3])	***
VAM	Support	Houston, TX	***[4]	***
Total				100.0

[1] ***.
[2] ***.
[3] ***.
[4] ***.

Note.– ***.

Source: Compiled from data submitted in response to Commission questionnaires.

As indicated in table III-1, four U.S. producers are related to foreign producers of the subject merchandise. In addition, as discussed in greater detail below, two U.S. producers, ***, directly import the subject merchandise.

Table III-2 presents important drill pipe and drill collar industry events from 2006 to 2009.

Table III-2
Drill pipe and drill collars: Important industry events, 2006-09

Year	Company	Description
2006	IPSCO	**Purchase**: IPSCO purchases NS Group for $1.5 billion.[1]
2006	Grant Prideco	***[2]
2006	TSC	**Expansion**: addition of a second welding line to increase product range.[3]
2006	National Oilwell Varco (NOV)	***[4]
2007	TSC	***[5]
2007	Evraz and TMK (Russia)	**Purchase**: Evraz and TMK purchase IPSCO-Tubulars for $4 billion from Svenskt Stal AB.[6]
2008	TMK	**Expansion**: TMK-IPSCO increases its production range for unfinished drill pipe at its Ambridge, PA, mill.[7]
2008	NOV	***.[8]
2008	RDT	**Expansion**: addition of a second weld line; remains idle.[9]

Table continued on the next page.

Table III-2--*Continued*
Drill pipe and drill collars: Important industry events, 2006-09

Year	Company	Description
2008	NOV	**Purchase**: NOV purchases Houston-based Grant Prideco for $7.4 billion.[10]
2008	NOV and Schlumberger	**Joint venture**: NOV and Schlumberger form joint venture in the manufacturing and technology development of wired drill string telemetry systems.[11]
2008	VAM Drilling USA	**Production disrupted**: Hurricane Ike disrupts operations of VAM's Houston manufacturing facility for several days in September.[12]
2008	Timken	**Purchase:** Acquisition of Boring Specialties Inc., Houston.[13]
2009	U.S. Steel	***.[14]
2009	U.S. Steel	U.S. Steel Voluntary Early Retirement Program affects 500 employees and saves $70 million companywide.[15]
2009	VAM Drilling USA	**Lay off:** reductions in February, June, and November hours reduced to 32 per week, 3 weeks of unpaid furlough (office).[16]
2009	VAM Drilling USA	**Purchase**: VAM Drilling acquires DPAL FZCO, an established supplier of drill pipes, formerly owned by the Soconord Group. DPAL FZCO offers a large range of drill pipes to the oil & gas industry in the Middle East.[17]
2009	Smith International	**Production curtailment:** due to low sales.[18]

[1] *The Fabricator*, "IPSCO Completes NS Group Acquisition," December 4, 2006.
[2] ***.
[3] Conference transcript, p. 19 (Brand).
[4] ***.
[5] ***.
[6] IPSCO, News release, March 14, 2008.
[7] Conference transcript, p. 27 (Ramsey).
[8] ***.
[9] Conference transcript, p. 23 (Morris).
[10] Grant Prideco, News release, April 21, 2008.
[11] NOV, Press release, November, 19, 2008.
[12] VAM Drilling USA, News, http://www.vamdrilling.com/news-details.asp?id=24/
[13] TIMKEN, News release, February 22, 2008.
[14] ***.
[15] See U.S. Steel, press releases, found at http://uss.mediaroom.com/index.php?s=43&item=556, retrieved January 8, 2010.
[16] Conference transcript, pp. 17-18 (Fields).
[17] VAM Drilling, News, found at http://www.vamdrilling.com/userfiles/file/Vallourec%20Press%20Release%20DPAL.pdf/, retrieved January 8, 2010.
[18] ***.

Sources: American Metal Markets (as indicated), companies' news releases, various articles, questionnaire responses, and conference transcript.

U.S. CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION

U.S. producers' capacity, production, and capacity utilization data for unfinished drill pipe are presented in table III-3a. ***'s capacity growth was consistent with its capital expenditures. TMK also reported a major capital investment in early 2008 that increased its capacity and allowed it to produce unfinished drill pipe with an outside diameter of 5 1/2 inches.[2]

Table III-3a
Unfinished drill pipe: U.S. capacity, production, and capacity utilization, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Capacity (*short tons*)[1]	166,721	172,147	158,236	120,556	104,110
Production (*short tons*)	88,383	75,724	90,830	69,734	5,016
Capacity utilization (*percent*)	53.0	44.0	57.4	57.8	4.8

[1] *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** per week and *** weeks per year.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers' capacity, production, and capacity utilization data for finished drill pipe are presented in table III-3b. Finished drill pipe capacity increased between 2006 and 2007 largely due to ***'s addition of a weld line, ***'s ramp-up of production of finished drill pipe, and ***'s additional *** percent capacity. *** accounted for the largest decline in production of finished drill pipe in 2008, although the company reported an increase in *** the decline in its production of drill pipe. *** producers of finished drill pipe reported lower production in January-September 2009 through January-September 2008 with *** showing production declines of *** percent. Capacity utilization rates in 2006 and 2007 were above 90 percent, while lower capacity utilization rates in 2008 were consistent with lower U.S. shipments by *** and ***. Capacity utilization was lower for all producers in January-September 2009.

[2] Conference transcript, p. 27 (Ramsey).

Table III-3b
Finished drill pipe: U.S. capacity, production, and capacity utilization, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Capacity (*short tons*)[1]	189,393	239,046	241,203	186,574	191,268
Production (*short tons*)	182,560	216,718	193,827	143,847	88,485
Capacity utilization (*percent*)	96.4	90.7	80.4	77.1	46.3

[1] *** reported capacity (production capability) based on operating *** hours per *** days per week depending on the manufacturing lines utilized. ***. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers' capacity, production, and capacity utilization data for unfinished drill collars are presented in table III-3c. Timken reported ***. In addition, Timken reported the acquisition of Boring Specialties, Inc. in March 2008.

Table III-3c
Unfinished drill collars: U.S. capacity, production, and capacity utilization, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Capacity (*short tons*)[1]	***	***	***	***	***
Production (*short tons*)	***	***	***	***	***
Capacity utilization (*percent*)	***	***	***	***	***

[1] Timken reported capacity (production capability) based on operating *** hours per week and *** weeks per year.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers' capacity, production, and capacity utilization data for finished drill collars are presented in table III-3d. Capacity increased for the reasons stated above under finished drill pipe except in the case of ***, which was already producing drill collars in 2006.

Table III-3d
Finished drill collars: U.S. capacity, production, and capacity utilization, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Capacity (*short tons*)[1]	45,551	53,369	57,688	43,266	43,266
Production (*short tons*)	38,106	51,212	44,175	28,880	19,080
Capacity utilization (*percent*)	83.7	96.0	76.6	66.7	44.1

[1] *** reported capacity (production capability) based on operating *** hours per *** days per week depending on the manufacturing lines utilized. ***. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year. *** reported capacity (production capability) based on operating *** hours per week and *** weeks per year.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. PRODUCERS' SHIPMENTS

Data on U.S. producers' shipments of unfinished drill pipe are presented in table III-4a. U.S. shipments fluctuated between 2006 and 2008, but were *** percent lower in January-September 2009 than in January-September 2008. This coincides with a drop in the quantity of shipments of finished drill pipe of *** percent.

Table III-4a
Unfinished drill pipe: U.S. producers' shipments, by types, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Quantity (*short tons*)					
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	83,627	78,561	90,178	67,865	7,823
Value (*1,000 dollars*)					
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	119,719	117,250	178,647	128,621	12,672
Unit value (*per short ton*)					
U.S. shipments	$***	$***	$***	$***	$***
Export shipments	***	***	***	***	***
Total shipments	1,432	1,492	1,981	1,895	1,620
Share of quantity (*percent*)					
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	100.0	100.0	100.0	100.0	100.0

[1] Undefined.

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

Source: Compiled from data submitted in response to Commission questionnaires.

Data on U.S. producers' shipments of finished drill pipe are presented in table III-4b. U.S. shipments of finished drill pipe were *** percent lower in January-September 2009 than in January-September 2008, consistent with ***'s reported declines in their order books for 2009.

Table III-4b
Finished drill pipe: U.S. producers' shipments, by types, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
			Quantity (*short tons*)		
U.S. shipments	135,667	167,827	121,092	88,761	49,858
Export shipments	42,316	47,562	67,553	46,988	31,071
Total shipments	177,983	215,389	188,645	135,749	80,929
			Value (*1,000 dollars*)		
U.S. shipments	635,689	927,758	738,658	527,289	310,723
Export shipments	222,219	318,066	474,369	335,166	241,497
Total shipments	857,908	1,245,824	1,213,027	862,455	552,220
			Unit value (*per short ton*)		
U.S. shipments	$4,686	$5,528	$6,100	$5,941	$6,232
Export shipments	5,251	6,687	7,022	7,133	7,772
Total shipments	4,820	5,784	6,430	6,353	6,824
			Share of quantity (*percent*)		
U.S. shipments	76.2	77.9	64.2	65.4	61.6
Export shipments	23.8	22.1	35.8	34.6	38.4
Total shipments	100.0	100.0	100.0	100.0	100.0

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

Source: Compiled from data submitted in response to Commission questionnaires.

Data on U.S. producer Timken's shipments of unfinished drill collars are presented in table III-4c. Timken reported that its unfinished drill pipe and unfinished drill collar order books are currently ***, contributing to ***.[3]

Table III-4c
Unfinished drill collars: U.S. producers' shipments, by types, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Data on U.S. producers' shipments of finished drill collars are presented in table III-4d. Once again the reported decline of U.S. shipments from January-September 2008 to January-September 2009 is consistent with the decline in orders reported by ***.

Table III-4d
Finished drill collars: U.S. producers' shipments, by types, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
			Quantity (*short tons*)		
U.S. shipments	25,660	38,143	23,049	17,267	9,986
Export shipments	8,799	8,850	14,937	10,123	10,177
Total shipments	34,459	46,993	37,986	27,390	20,163
			Value (*1,000 dollars*)		
U.S. shipments	74,131	123,398	92,013	66,121	33,104
Export shipments	26,628	31,014	57,202	41,276	35,252
Total shipments	100,759	154,412	149,215	107,397	68,356
			Unit value (*per short ton*)		
U.S. shipments	$2,889	$3,235	$3,992	$3,829	$3,315
Export shipments	3,026	3,504	3,830	4,077	3,464
Total shipments	2,924	3,286	3,928	3,921	3,390
			Share of quantity (*percent*)		
U.S. shipments	74.5	81.2	60.7	63.0	49.5
Export shipments	25.5	18.8	39.3	37.0	50.5
Total shipments	100.0	100.0	100.0	100.0	100.0

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

Source: Compiled from data submitted in response to Commission questionnaires.

[3] Timken's U.S. producer questionnaire response.

U.S. producers' order book information is presented in table III-5. U.S. producers' order books peaked in the second and third quarters of 2008 before falling to their lowest point in the third and fourth quarters of 2009. This is consistent with the testimony given at the staff conference where the Petitioners' stated that their order books have plummeted over the last year.[4]

Table III-5
Drill pipe and drill collars: U.S. producers' order books, by types, 2006-09

* * * * * * *

U.S. PRODUCERS' INVENTORIES

Table III-6a, which presents end-of-period inventories for unfinished drill pipe, shows that inventories increased from 2007 to 2008 and this is primarily due to increases by ***. *** reported no end-of-period inventories during the period examined.

Table III-6a
Unfinished drill pipe: U.S. producers' end-of-period inventories, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table III-6b, which presents end-of-period inventories for finished drill pipe, reflects a continuous increase in end-of-period inventories by ***. However, ***'s reported *** short tons in its end-of period inventories was more than any other producer of finished drill pipe in 2008. RDT explained at the staff conference that it is currently producing for inventory in order to keep people working [5] and, thus its January-September 2009 end-of-period inventories are ***.

Table III-6b
Finished drill pipe: U.S. producers' end-of-period inventories, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Inventories (*short tons*)	12,814	14,142	19,325	22,240	26,882
Ratio to production (*percent*)	7.0	6.5	10.0	11.6	22.8
Ratio to U.S. shipments (*percent*)	9.4	8.4	16.0	18.8	40.4
Ratio to total shipments (*percent*)	7.2	6.6	10.2	12.3	24.9
Note.–Partial-year ratios are based on annualized production and shipments.					
Source: Compiled from data submitted in response to Commission questionnaires.					

[4] Conference transcript, p. 20 (Brand); conference transcript, p. 16 (Fields); and conference transcript, p. 28 (Ramsey).

[5] Conference transcript, p. 70 (Morris).

Table III-6c, which presents end-of-period inventories for unfinished drill collars, reflects that Timken's end-of-period inventories increased *** in *** and ***, and then decreased ***. Timken explained that its overall tube orders ***.

Table III-6c
Unfinished drill collars: U.S. producers' end-of-period inventories, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table III-6d, which presents end-of-period inventories for finished drill collars, shows that inventories increased throughout the period examined. All finished drill collar producers' inventories increased throughout the period examined, with *** reporting more end-of-period inventories than the other producers combined.[6]

Table III-6d
Finished drill collars: U.S. producers' end-of-period inventories, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Inventories (*short tons*)	14,999	19,081	24,807	19,506	21,791
Ratio to production (*percent*)	39.4	37.3	56.2	50.7	85.7
Ratio to U.S. shipments (*percent*)	58.5	50.0	107.6	84.7	163.7
Ratio to total shipments (*percent*)	43.5	40.6	65.3	53.4	81.1

Note.–Partial-year ratios are based on annualized production and shipments.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. PRODUCERS' IMPORTS AND PURCHASES

U.S. producers' imports and purchases of drill pipe are presented in table III-7a. *** U.S. producers of drill pipe reported imports or purchases from China. *** reported imports from China ***. It also***. *** reported purchases from China of drill pipe.

*** reported imports from all other sources. *** imports ***. *** imports unfinished drill pipe from its sister companies ***.

*** reported purchases of imports of unfinished drill pipe from all other countries.

Table III-7a
Drill pipe: U.S. producers' imports and purchases, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

[6] The only exception occurred in interim 2008 to interim 2009 when ***'s end-of-period inventories decreased.

U.S. producers' imports and purchases of drill collars are presented in table III-7b. *** reported imports of drill collars from ***.[7]

Table III-7b
Drill collars: U.S. producers' imports and purchases, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

The U.S. producers' aggregate employment data for unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars are presented in tables III-8a, b, c, and d, respectively. The number of reported production and related workers ("PRWs") declined for each of the four products from January-September 2008 to January-September 2009. All of the producers that presented testimony at the staff conference discussed their employees and their layoffs. ***'s reported decline of its number of PRWs is the ***. At the staff conference, RDT explained it was currently producing for inventory in order to avoid laying its employees off.[8] TMK reported that it laid off people beginning in late 2008 and continuing throughout 2009 in both its melt shop and its tube pipe mill.[9] TMK accounted for a *** part of the reduced number of PRWs reported for unfinished drill pipe (table III-7a) because it reported *** PRWs in January-September 2008 and a reduction to *** in January-September 2009. TSC reported at the staff conference that it has had significant layoffs at its plant.[10] TSC reported reducing its number of PRWs from January-September 2008 to January-September 2009 by *** PRWs and is one of the driving forces behind the reduced number of PRWs in finished drill pipe (table III-7b). VAM reported at the staff conference that it has laid off one-third of its employees and is struggling to give its employees a 32 hour work week.[11] In addition, every white collar employee at VAM Drilling USA reportedly had three weeks of unpaid furlough in 2009.[12]

[7] *** reported imports of unfinished drill collars from all other sources, but staff follow-up confirmed that ***'s reported imports of drill collars were actually steel bars. Thus, ***'s reported imports have not been included in the data. Staff telephone interview with ***.

[8] Conference transcript, p. 70 (Morris).

[9] Conference transcript, p. 29 (Ramsey).

[10] Conference transcript, p. 20 (Brand).

[11] Conference transcript, p. 17 (Fields).

[12] Conference transcript, p. 18 (Fields).

Table III-8a
Unfinished drill pipe: U.S. producers' employment-related data, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Production and related workers (PRWs)	163	176	202	176	38
Hours worked by PRWs (*1,000 hours*)	380	364	426	318	59
Hours worked per PRW	2,331	2,068	2,109	1,807	1,553
Wages paid to PRWs (*1,000 dollars*)	8,240	7,420	10,005	7,324	1,285
Hourly wages	$21.68	$20.38	$23.49	$23.03	$21.78
Productivity (*short tons produced per 1,000 hours*)	232.6	208.0	213.2	219.3	85.0
Unit labor costs (*per short ton*)	$93.23	$97.99	$110.15	$105.03	$256.18
Source: Compiled from data submitted in response to Commission questionnaires.					

Table III-8b
Finished drill pipe: U.S. producers' employment-related data, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Production and related workers (PRWs)	1,138	1,335	1,377	1,404	1,083
Hours worked by PRWs (*1,000 hours*)	3,017	3,595	3,596	2,525	1,860
Hours worked per PRW	2,651	2,693	2,611	1,798	1,717
Wages paid to PRWs (*1,000 dollars*)	46,783	59,106	63,623	42,721	28,868
Hourly wages	$15.51	$16.44	$17.69	$16.92	$15.52
Productivity (*short tons produced per 1,000 hours*)	60.5	60.3	53.9	57.0	47.6
Unit labor costs (*per short ton*)	$256.26	$272.73	$328.25	$296.99	$326.25
Source: Compiled from data submitted in response to Commission questionnaires.					

Table III-8c
Unfinished drill collars: U.S. producers' employment-related data, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table III-8d
Finished drill collars: U.S. producers' employment-related data, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September--	
	2006	2007	2008	2008	2009
Production and related workers (PRWs)	162	204	207	199	148
Hours worked by PRWs (*1,000 hours*)	410	517	547	350	279
Hours worked per PRW (*1,000 hours*)	2,531	2,534	2,643	1,759	1,885
Wages paid to PRWs (*1,000 dollars*)	8,595	11,767	12,855	8,647	5,565
Hourly wages	$20.96	$22.76	$23.50	$24.71	$19.95
Productivity (*short tons produced per 1,000 hour*s)	92.9	99.1	80.8	82.5	68.4
Unit labor costs (*per short ton*)	$225.56	$229.77	$291.00	$299.41	$291.67

Source: Compiled from data submitted in response to Commission questionnaires.

PART IV: U.S. IMPORTS, APPARENT CONSUMPTION, AND MARKET SHARES

U.S. IMPORTERS

Importer questionnaires were sent to 76 firms believed to be importers of subject drill pipe and drill collars, as well as to all U.S. producers of drill pipe and drill collars.[1] Two U.S. producers, ***, reported imports of drill pipe. Only *** reported imports of drill collars.[2] Staff compiled data from usable questionnaire responses submitted by 22 companies believed to account for more than 80 percent of U.S. imports of drill pipe and drill collars properly entered under HTS subheadings 7304.22.00, 7304.23.30, 7304.23.60, and 8431.43.80, a "basket" category. Table IV-1 lists all responding U.S. importers of drill pipe and drill collars from China and other sources, their locations, and their shares of U.S. imports, in 2008.

Table IV-1
Drill pipe and drill collars: U.S. importers, source(s) of imports, U.S. headquarters, and shares of imports in 2008

Firm	Headquarters	Source of imports	Share of imports *(percent)*		
			China	Other	Total
Unfinished drill pipe					
Benteler Steel & Tube Corporation ("Benteler")	Houston, TX	***	***	***	***
Drill Pipe International, LLC	New Hope, MN	***[1]	***	***	***
NOV Grant Prideco	Houston, TX	***	***	***	***
VAM	Houston, TX	***	***	***	***
Total			100.0	100.0	100.0

Table continued on next page.

[1] The Commission sent questionnaires to those firms identified in the petition as importers, along with firms that, based on a review of data provided by U.S. Customs and Border Protection ("Customs"), may have imported at least 900,000 dollars (landed duty value paid) or which may have imported more than one percent of total imports under the following HTS statistical reporting numbers 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, 7304.23.6060, 8431.43.8040, and 8431.43.8060 (as well as the prior HTS statistical reporting numbers 7304.21.3000, 7304.21.6030, 7304.21.6045, and 7304.21.6060) in any one year since 2006.

[2] *** initially reported imports of drill collars from ***. However, staff confirmed that these entries were *** which the company subsequently ***. Staff telephone interview with ***, January 27, 2010.

Table IV-1 – *Continued*
Drill pipe and drill collars: U.S. importers, source(s) of imports, U.S. headquarters, and shares of imports in 2008

Firm	Headquarters	Source of imports	Share of imports *(percent)*		
			China	Other	Total
Finished drill pipe					
Baosteel America, Inc.	Montvale, NJ	***	***	***	***
Champions Pipe & Supply, Inc.[2]	Houston, TX	***	***	***	***
Command Energy Services International Ltd. (“Command”)	Barbados, WI	***	***	***	***
Downhole Pipe & Equipment, L.P. (“Downhole”)	Sugar Land, TX	***	***	***	***
Drill Pipe Industries	Texarkana, TX	***	***	***	***
Hilong USA LLC	Houston, TX	***	***	***	***
Hunt Oil Tool Company	Lafayette, LA	***	***	***	***
Longbright (American), Inc.	Alhambra, CA	***	***	***	***
NOV Grant Prideco	Houston, TX	***	***	***	***
Sentry Pumping Units Int’l., Inc.[3]	Wichita, KS	***	***	***	***
Soconord Corporation	Houston, TX	***	***	***	***
Thyssen Krupp Materials North American Inc.	Southfield, MI	***	***	***	***
Tiger Trading, Inc.	Conroe, TX	***	***	***	***
VAM	Houston, TX	***	***	***	***
Viking Drilling, LLC	Odessa, TX	***	***	***	***
Weatherford International, Inc.	Houston, TX	***	***	***	***
Total			100.0	100.0	100.0
Unfinished drill collars					
([4])	([4])	([4])	([4])	([4])	([4])

Table continued on next page.

Table IV-1 – *Continued*
Drill pipe and drill collars: U.S. importers, source(s) of imports, U.S. headquarters, and shares of imports in 2008

Firm	Headquarters	Source of imports	Share of imports *(percent)*		
			China	Other	Total
Finished drill collars					
Champions Pipe & Supply, Inc.[2]	Houston, TX	***	***	***	***
Command Energy Services International Ltd. ("Command")	Barbados, WI	***	***	***	***
Downhole Pipe & Equipment, L.P. ("Downhole")	Sugar Land, TX	***	***	***	***
Drill Pipe Industries	Texarkana, TX	***	***	***	***
Great White Directional Services	Oklahoma City, OK	***	***	***	***
Hunt Oil Tool Company	Lafayette, LA	***	***	***	***
John Lawrie Inc.	Houston, TX	***	***	***	***
Longbright (American), Inc.	Alhambra, CA	***	***	***	***
NOV Grant Prideco	Houston, TX	***	***	***	***
Schoeller-Bleckmann America, Inc.	Houston, TX	***	***	***	***
Sentry Pumping Units Int'l., Inc.[3]	Wichita, KS	***	***	***	***
Thyssen Krupp Materials North American Inc.	Southfield, MI	***	***	***	***
Tiger Trading, Inc.	Conroe, TX	***	***	***	***
VAM	Houston, TX	***	***	***	***
Viking Drilling, LLC	Odessa, TX	***	***	***	***
Weatherford International, Inc.	Houston, TX	***	***	***	***
Total			100.0	100.0	100.0

[1] ***.
[2] ***.
[3] ***.
[4] There are believed to be *** imports of unfinished drill collars into the United States.

Note.–***'s importer questionnaire response is not included in the data because its response indicates that it is a purchaser not an importer.
Note.–Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. IMPORTS

Table IV-2a presents data for U.S. imports of unfinished drill pipe from China and all other sources. The leading sources of nonsubject imports are Austria, France, and Germany.

Table IV-2a
Unfinished drill pipe: U.S. imports, by sources, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table IV-2b presents data for U.S. imports of finished drill pipe from China and all other sources. The leading source of nonsubject imports is ***.[3]

Table IV-2b
Finished drill pipe: U.S. imports, by sources, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

There are believed to be *** imports of unfinished drill collars. Accordingly table IV-2c is not presented.

Table IV-2d presents data for U.S. imports of finished drill collars from China and all other sources.[4] The leading nonsubject sources of finished drill pipe collars are Austria and France.

Table IV-2d
Finished drill collars: U.S. imports, by sources, 2006-08, January-September 2008, and January-September 2009

***** ***** ***** ***** ***** ***** *****

Table IV-2e presents data for U.S. imports of drill pipe of (both unfinished and finished) and drill collars from China and all other sources.

Table IV-2e
Drill pipe and drill collars: U.S. imports, by sources, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

[3] Imports reported as originating from Mexico under statistical reporting number 8431.43.8040 are not included in the compilation of finished drill pipe imports. These low-value entries were ***. According to a company representative, ***. Staff telephone interview with ***, January 27, 2010.

[4] Data do not include ***'s reported imports from *** because the company was unable to provide consistent quantity and value data.

NEGLIGIBILITY

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.[5] Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country of merchandise corresponding to a domestic like product where such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition or the initiation of the investigation. However, if there are imports of such merchandise from a number of countries subject to investigations initiated on the same day that individually account for less than 3 percent of the total volume of the subject merchandise, and if the imports from those countries collectively account for more than 7 percent of the volume of all such merchandise imported into the United States during the applicable 12-month period, then imports from such countries are deemed not to be negligible.[6] Imports from China accounted for *** percent of total imports of drill pipe and drill collars by quantity during the most recent 12-month period.[7]

APPARENT U.S. CONSUMPTION

Data concerning apparent U.S. consumption of unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars during the period for which data were collected are shown in tables IV-3a, IV-3b, IV-3c, and IV-3d.

Table IV-3a
Unfinished drill pipe: U.S. shipments of domestic product, U.S. imports, and apparent U.S. consumption, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

[5] Sections 703(a)(1), 705(b)(1), 733(a)(1), and 735(b)(1) of the Act (19 U.S.C. §§ 1671b(a)(1), 1671d(b)(1), 1673b(a)(1), and 1673d(b)(1)).

[6] Section 771(24) of the Act (19 U.S.C. § 1677(24)).

[7] Imports of unfinished drill pipe from China accounted for *** percent of total imports of unfinished drill pipe by quantity during the most recent 12-month period. Imports of finished drill pipe from China accounted for *** percent of total finished drill pipe by quantity during the most recent 12-month period. Imports of unfinished and finished drill pipe from China accounted for *** percent of total imports of unfinished and finished drill pipe by quantity during the most recent 12-month period. Imports of drill collars from China accounted for *** percent of total imports of drill collars by quantity during the most recent 12-month period.

Table IV-3b
Finished drill pipe: U.S. shipments of domestic product, U.S. imports, and apparent U.S. consumption, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Quantity (*short tons*)				
U.S. producers' U.S. shipments	135,667	167,827	121,092	88,761	49,858
U.S. imports from–					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total U.S. imports	***	***	***	***	***
Apparent U.S. consumption	***	***	***	***	***
	Value (*1,000 dollars*)				
U.S. producers' U.S. shipments	635,689	927,758	738,658	527,289	310,723
U.S. imports from--					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total U.S. imports	***	***	***	***	***
Apparent U.S. consumption	***	***	***	***	***

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

Source: Compiled from data submitted in response to Commission questionnaires.

Table IV-3c
Unfinished drill collars: U.S. shipments of domestic product, U.S. imports, and apparent U.S. consumption, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table IV-3d
Finished drill collars: U.S. shipments of domestic product, U.S. imports, and apparent U.S. consumption, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Quantity (*short tons*)				
U.S. producers' U.S. shipments	25,660	38,143	23,049	17,267	9,986
U.S. imports from–					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total U.S. imports	***	***	***	***	***
Apparent U.S. consumption	***	***	***	***	***
	Value (*1,000 dollars*)				
U.S. producers' U.S. shipments	74,131	123,398	92,013	66,121	33,104
U.S. imports from--					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total U.S. imports	***	***	***	***	***
Apparent U.S. consumption	***	***	***	***	***

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

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. MARKET SHARES

U.S. market share data are presented in tables IV-4a, IV-4b, IV-4c, and IV-4d.

Table IV-4a
Unfinished drill pipe: Apparent U.S. consumption and market shares, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table IV-4b
Finished drill pipe: Apparent U.S. consumption and market shares, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table IV-4c
Unfinished drill collars: Apparent U.S. consumption and market shares, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table IV-4d
Finished drill collars: Apparent U.S. consumption and market shares, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

RATIO OF IMPORTS TO U.S. PRODUCTION

Information concerning the ratio of imports to U.S. production of unfinished drill pipe is presented in table IV-5a.

Table IV-5a
Unfinished drill pipe: U.S. production, U.S. imports, and ratio of imports to U.S. production, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Quantity (*short tons*)				
U.S. production	88,383	75,724	90,830	69,734	5,016
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***
	Ratio of U.S. imports to production (*percent*)				
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***

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

Source: Compiled from data submitted in response to Commission questionnaires.

Information concerning the ratio of imports to U.S. production of finished drill pipe is presented in table IV-5b.

Table IV-5b
Finished drill pipe: U.S. production, U.S. imports, and ratio of imports to U.S. production, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Quantity (*short tons*)				
U.S. production	182,560	216,718	193,827	143,847	88,485
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***
	Ratio of U.S. imports to production (*percent*)				
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***

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

Source: Compiled from data submitted in response to Commission questionnaires.

Information concerning the ratio of imports to U.S. production of unfinished drill collars is presented in table IV-5c.

Table IV-5c
Unfinished drill collars: U.S. production, U.S. imports, and ratio of imports to U.S. production, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Information concerning the ratio of imports to U.S. production of finished drill collars is presented in table IV-5d.

Table IV-5d
Finished drill collars: U.S. production, U.S. imports, and ratio of imports to U.S. production, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Quantity (*short tons*)				
U.S. production	38,106	51,212	44,175	28,880	19,080
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***
	Ratio of U.S. imports to production (*percent*)				
Imports from:					
China	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total imports	***	***	***	***	***

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

Source: Compiled from data submitted in response to Commission questionnaires.

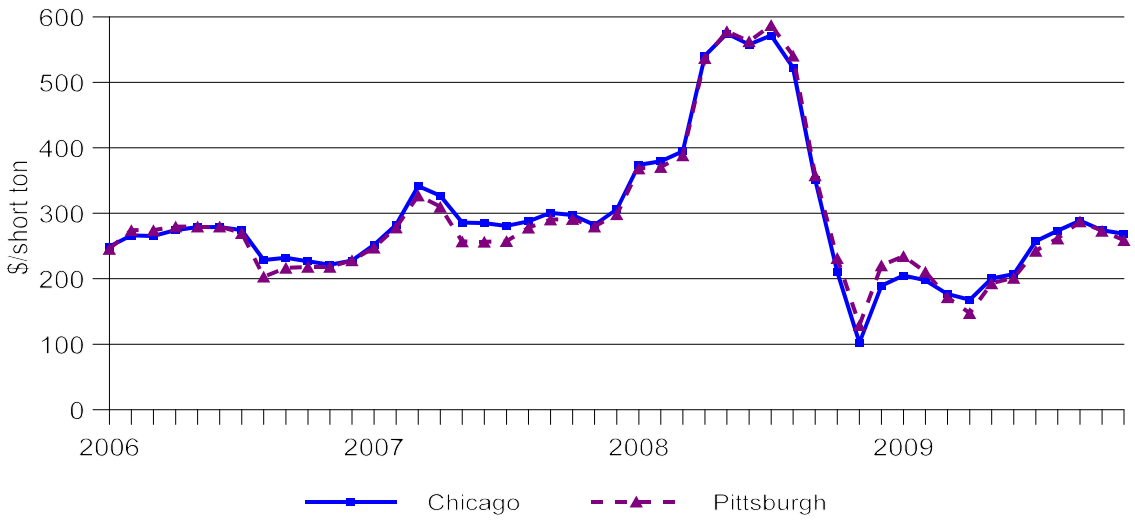
PART V: PRICING AND RELATED INFORMATION

FACTORS AFFECTING PRICES

Raw Material Costs

Raw materials as a share of cost of goods sold for domestic producers of drill pipe and drill collars increased from *** percent in 2006 to *** percent in 2008 before decreasing to *** percent in the first three quarters of 2009. Most producers reported that their raw material costs increased from 2006 through the end of 2008 and decreased thereafter.[1] The key costs in producing drill pipe and drill collars are raw materials such as steel billets. The price of scrap (a key component for billet production) was relatively stable in 2006-07, doubled over the first three quarters of 2008, and then decreased to levels below those from 2006-07 by mid-2009 (figure V-1). The prices of natural gas, electricity, and iron ore rose between 2006 and 2008, with noticeable increases for each in 2008, before declining in 2009 (table V-1).

Figure V-1
Drill pipe and drill collars: Ferrous scrap prices--No. 1 heavy melt, Chicago and Pittsburgh average consumer prices, monthly, January 2006-November 2009



Source: American Metal Market LLC.

[1] One producer noted that the sales prices of drill pipe and drill collars are not set by raw material costs, but rather by supply and demand in the market.

Table V-1
Drill pipe and drill collars: Energy and input prices--U.S. natural gas, electricity, and iron ore average annual prices, 2006-08 and 2009 year-to-date

Item	2006	2007	2008	2009
U.S. natural gas industrial price[1]	$7.87	$7.68	$9.58	$5.22
Electricity industrial price[2]	6.2¢	6.4¢	7.0¢	6.9¢
Iron ore (*per metric ton*)	$53.88	$59.64	$70.43	$70.00

[1] Price to industrial users in dollars per thousand cubic feet.
[2] Price to industrial users in cents per kilowatt-hour.

Sources: U.S. Energy Information Administration, http://www.eia.doe.gov, official statistics of the U.S. Department of Energy, http://www.eia.doe.gov/cneaf/electricity/epm/table5_3.html, http://www.eia.doe.gov/cneaf/electricity/epm/table5_6_b.html, http://minerals.usgs.gov/minerals/pubs/commodity/iron_ore/mcs-2010-feore.pdf, retrieved February 3, 2010, and "Short-Term Energy Outlook," Table 2 (January 2010).

U.S. Inland Transportation Costs

U.S. producers reported that U.S. inland transportation costs of drill pipe and drill collars range from less than 1 to 5 percent of the delivered price. Importers reported that U.S. inland transportation costs of drill pipe and drill collars range from less than 1 to 4.25 percent of the delivered price.

U.S. inland shipping distances for U.S.-produced drill pipe and drill collars and drill pipe and drill collars produced in China were requested from both U.S. producers and U.S. importers. For the U.S. producers, 42.8 percent of their U.S. sales in 2008 occurred within distances of 100 miles from their facilities, 29.4 percent occurred within distances of 101 to 1,000 miles, and 27.9 percent occurred within distances over 1,000 miles from their facilities. For importers of drill pipe and drill collars from China, 9.5 percent of sales by value in 2008 occurred within 100 miles of their storage facilities, 71.7 percent of sales occurred within 101 to 1,000 miles, and 18.8 percent occurred within distances over 1,000 miles.

PRICING PRACTICES

Pricing Methods

When questionnaire respondents were asked how they determined the prices that they charge for drill pipe and drill collars, *** the U.S. producers reported the use of transaction-by-transaction negotiations, *** (***) reported also using contracts, and one reported also using price lists. Virtually all responding importers of drill pipe and drill collars from China reported using transaction-by-transaction negotiations, although two reported using contracts, and one reported also using price lists.

All U.S. producers reported that they quote prices of drill pipe and drill collars on an f.o.b. basis and one reported also quoting prices on a delivered basis. Eleven of fourteen responding importers reported that they quote prices of drill pipe and drill collars on an f.o.b. basis, two reported quoting prices on a delivered basis, and one reported quoting on either an f.o.b. or delivered basis.

Sales Terms and Discounts

U.S. producers and importers of drill pipe and drill collars from China were asked what share of their sales were on a (1) long-term contract basis (multiple deliveries for more than 12 months), (2) short-term contract basis (up to and including 12 months), and (3) spot sales basis (for a single delivery) during

2008. Six of nine U.S. producers of drill pipe reported that all of their sales of drill pipe are spot sales; two reported that *** of their sales are on a short-term contract basis with the remainder being spot sales; and one reported an even split between short-term contracts and spot sales. Three of six U.S. producers of drill collars reported that all of their sales are spot sales; two reported that *** of their sales are on a short-term contract basis with the remainder being spot sales; and one reported slight majority of short-term contracts relative to spot sales. These producers' short-term contracts typically last from one month up to one year, may or may not fix price, and mostly contain meet-or-release provisions.

Among the importers that reported sales of drill pipe from China, all but one reported that all of their sales are made on a spot basis. All but one of the responding importers of drill collars from China reported that their sales are made on a spot basis.

*** reported that they offer discounts based on volume or on market conditions. *** importers of drill pipe and drill collars from China reported applying discounts based on volume or on market conditions.

PRICE DATA

The Commission requested U.S. producers and importers of drill pipe and drill collars from China to provide quarterly data for the total quantity and f.o.b. value of selected finished products that were shipped to unrelated customers in the U.S. market.[2] Data were requested for the period January 2006-September 2009. The finished products for which pricing data were requested are as follows:

***Product 1*.—Drill pipe, finished, 5" O.D., 19.5 lbs./ft., grade G-105 with tool joints attached.**

***Product 2*. —Drill pipe, finished, 4 1/2" O.D., 16.6 lbs./ft., grade G-105 with tool joints attached.**

***Product 3*. —Heavy weight drill pipe, 5" O.D., 50.1 lbs./ft., with tool joints attached.**

***Product 4*. —Drill collars, 6 1/2" O.D., x 2 13/16" ID with connections attached.**

Four U.S. producers and seven importers of product imported from China provided pricing data for sales of the requested products, although not all firms reported pricing data for all products for all quarters.[3] Pricing data on drill pipe products (products 1-3) reported by these firms accounted for approximately *** percent of the quantity of U.S. producers's U.S. shipments of drill pipe and *** percent of the quantity of U.S. imports of drill pipe from China during January 2006-September 2009. Pricing data on the drill collar product (product 4) reported by these firms accounted for approximately *** percent of the quantity of U.S. producers's U.S. shipments of drill collars and *** percent of the quantity of U.S. imports of drill collars from China during January 2006-September 2009.

Price Trends

Weighted-average f.o.b. prices and quantities reported for U.S. producers and importers are presented in tables V-2 through V-5 and in figures V-2 through V-5 on a quarterly basis during January

[2] The Commission also requested firms to provide pricing data on sales of imports from nonsubject sources. These prices are presented in appendix E.

[3] Petitioners suggested that importer ***'s revised submission of *** contains pricing data misreported in ***. Petitioner's postconference brief, p. 24. Staff disagrees with petitioner's assertion because ***.

Staff excluded sales data of imports from China reported by importer *** because its data were ***.

2006-September 2009. For sales reported by U.S. producers, product 1 accounted for *** percent of the total quantity reported by U.S. producers for all pricing products over the entire period, product accounted for *** percent, product 3 accounted for *** percent, and product 4 accounted for *** percent. For sales of products imported from China, product 1 accounted for *** percent of the total quantity reported by importers for all pricing products from China over the entire period, product 2 accounted for *** percent, product 3 accounted for *** percent, and product 4 accounted for *** percent.

Table V-2
Drill pipe: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 and margins of underselling/(overselling), by quarters, January 2006-September 2009

* * * * * * *

Table V-3
Drill pipe: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 and margins of underselling/(overselling), by quarters, January 2006-September 2009

* * * * * * *

Table V-4
Drill pipe: Weighted-average f.o.b. prices and quantities of domestic and imported product 3 and margins of underselling/(overselling), by quarters, January 2006-September 2009

* * * * * * *

Table V-5
Drill collars: Weighted-average f.o.b. prices and quantities of domestic and imported product 4 and margins of underselling/(overselling), by quarters, January 2006-September 2009

* * * * * * *

Figure V-2
Drill pipe: Weighted-average f.o.b. prices and quantities of domestic and imported product 1, by quarters, January 2006-September 2009

* * * * * * *

Figure V-3
Drill pipe: Weighted-average f.o.b prices and quantities of domestic product 2, by quarters, January 2006-September 2009

* * * * * * *

Figure V-4
Drill pipe: Weighted-average f.o.b. prices and quantities of domestic and imported product 3, by quarters, January 2006-September 2009

* * * * * * *

Figure V-5
Drill collars: Weighted-average f.o.b. prices and quantities of domestic and imported product 4, by quarters, January 2006-September 2009

* * * * * * *

The weighted-average sales prices of U.S.-produced product 1 increased overall by *** percent from January 2006 to September 2009, fluctuating but generally increasing over the entire period and increasing dramatically at the end of the period, by *** percent from the first quarter of 2009 to the third quarter of 2009. The weighted-average sales prices of product 1 imported from China also increased overall by *** percent from January 2006 to September 2009. These sales prices increased dramatically at the end of the period, by *** percent from the first quarter of 2009 to the third quarter of 2009.

The weighted-average sales prices of U.S.-produced product 2 increased overall by *** percent from January 2006 to September 2009, fluctuating over the entire period to their lowest point in the *** quarter of ***, after which they increased by *** to the third quarter of 2009. The weighted-average sales prices of product 2 imported from China increased overall by *** percent from January 2006 to September 2009, fluctuating but remaining relatively stable over the entire period.

The weighted-average sales prices of U.S.-produced product 3 increased overall by *** percent from January 2006 to September 2009, with most of the increase being accounted for by an increase of *** percent from *** quarter of *** to the *** quarter of ***, after which prices remained relatively flat ***. The weighted-average sales prices of product 3 imported from China increased by *** percent over the entire period, remaining relatively stable ***, when ***.

The weighted-average sales prices of U.S.-produced product 4 decreased overall by *** percent from January 2006 to September 2009, fluctuating but remaining relatively flat over most of the period before decreasing by *** percent in ***. The weighted-average sales prices of product 4 imported from China increased by *** percent from the *** (the first period for which data were reported) to the ***.[4]

Table V-6
Drill pipe and drill collars: Summary of weighted-average f.o.b. prices for products 1-4 from the United States and China

* * * * * * *

Price Comparisons

Margins of underselling and overselling for the period are presented by product category in table V-7. The data show that prices of imports from China were lower than the U.S. producers' prices in 16 out of 51 quarterly comparisons, by margins ranging from 0.1 percent to 49.1 percent. The prices of imports from China were higher than U.S. producers' prices in 35 quarterly comparisons, by margins ranging from 0.1 to 103.3 percent.

[4] There were limited reported sales of pricing product 4 imported from China.

Table V-7
Drill pipe and drill collars: Instances of underselling/overselling and the range and average of margins for products 1-4, January 2006-September 2009

	Underselling				Overselling			
	Number of instances	Range (*percent*)	Volume (*short tons*)[1]	Average margin (*percent*)	Number of instances	Range (*percent*)	Volume (*short tons*)	Average margin (*percent*)
By product:								
Product 1	6	***	***	***	9	***	***	***
Product 2	6	***	***	***	9	***	***	***
Product 3	0	***	***	***	15	***	***	***
Product 4	4	***	***	***	2	***	***	***
By period:								
2006	3	***	***	***	9	***	***	***
2007	3	***	***	***	10	***	***	***
2008	5	***	***	***	10	***	***	***
Jan-Sept 2009	5	***	***	***	6	***	***	***
Total[3]	**16**	**0.1 to 49.1**	**10,038**	**9.6**	**35**	**0.1 to 103.3**	**19,427**	**16.8**

[1] Import volumes occurring in the instances cited.

[2] Not applicable.

[3] Total number of instances for all cited products, range of margins for all cited products, and average margin for all cited products.

Source: Compiled from data submitted in response to Commission questionnaires.

LOST SALES AND LOST REVENUES

The Commission requested that U.S. producers report any instances of lost sales or revenues they experienced due to competition from imports of drill pipe and drill collars from China since January 2006. U.S. producers provided *** lost sales allegations valued at a total of $*** and *** lost revenues allegations valued at a total of $*** as shown in tables V-8 and V-9.[5]

Table V-8
Drill pipe and drill collars: U.S. producers' and converters' lost sales allegations

* * * * * * *

[5] *** of the lost sales allegations involved drill pipe and the remaining *** involved drill collars. *** of the lost revenues allegations involved drill pipe and the remaining *** involved drill collars. The lost revenues allegations provided involved sales of ***. ***.

Table V-9
Drill pipe and drill collars: U.S. producers' lost revenue allegations

* * * * * * *

Staff received responses from purchasers regarding *** lost sales allegations valued at $*** and *** lost revenues allegations valued at $***. The responding firms confirmed *** allegations totaling $*** and refuted *** allegations totaling $***. In the *** remaining allegations, purchasers did not respond to the specific transactions cited but provided other responses that are discussed below.

*** was cited in a *** involving *** short tons of drill pipe valued at $*** allegedly occurring in ***. It disagreed with the allegation, stating that ***.

*** was cited in *** lost *** allegations involving *** short tons of drill pipe valued at $*** allegedly occurring in *** and *** involving *** short tons of drill pipe valued at $*** allegedly occurring in ***. It agreed with the ***. It also reported that it has switched from purchasing drill pipe from U.S. producers to Chinese import suppliers and that U.S. producers have reduced their prices in order to compete with subject imports.

*** was cited in a *** involving *** short tons of drill pipe valued at $*** allegedly occurring in *** and *** involving *** short tons of drill pipe valued at $***. While it reported that ***, it disagreed with ***. It reported that it had switched approximately ***. It further reported that ***.

*** was cited in a lost sales allegation involving *** of drill pipe valued at $*** allegedly occurring in ***. It did not respond to the specific transaction cited; however, it reported that ***.

*** was cited in a lost sales allegation involving *** of drill pipe valued at $*** allegedly occurring in ***. It disagreed with the allegation, stating that ***.

*** was cited in a lost sales allegation involving *** short tons of drill pipe valued at $*** allegedly occurring in ***. It disagreed with the allegation, stating that it did not purchase any imports from China during the time period cited and that it ***. It further reported that it ***. ***.[6]

*** was cited in *** lost sales allegations involving *** short tons of drill pipe valued at $***. It agreed with the allegations. It further reported that ***.

*** was cited in a lost sales allegation involving *** short tons of drill pipe valued at $*** allegedly occurring in ***. It reported that it ***.

*** was cited in a lost sales allegation involving *** short tons of drill pipe valued at $*** allegedly occurring in ***. It agreed with the allegation, stating that it has switched purchases of drill pipe from U.S. producers to Chinese import suppliers due to price; however, it also stated that ***.

*** was cited in *** lost sales allegations involving *** short tons of drill pipe valued at $***. It did not respond to the specific allegations; however, it reported that it does not import drill pipe from China and that it has ***. It further reported that it ***.

***.[7]

[6] ***.

[7] ***.

PART VI: FINANCIAL EXPERIENCE OF THE U.S. PRODUCERS

BACKGROUND

Eight U.S. producers (NOV Grant Prideco, RDT, Smith, TMK, TSC, Timken, U.S. Steel, and VAM) reported drill pipe financial results. Five of these U.S. producers (NOV Grant Prideco, RDT, Smith, Timken, and VAM) also separately reported financial results on drill collar operations.[1] ***.[2] Because the majority of revenue reflects commercial sales, primarily representing U.S. domestic shipments followed by a smaller share of exports, only a total sales line item is presented in the tables below.[3]

With respect to unfinished drill pipe operations and finished drill collar operations, no single U.S. producer represents a substantial share of either product category. In contrast, unfinished drill collar financial results reflect the operations of a single company, Timken, while NOV Grant Prideco accounted for *** percent of cumulative finished drill pipe sales value. By way of comparison, the next largest producer in terms of cumulative sales value, ***, accounted for only *** percent. While grouped according to primary product categories (unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars), each company is unique in terms of items such as specific product mix, manufacturing, and cost classification.[4] Operational differences which distinguish U.S. producers also include, among other features, the extent to which inputs are purchased from related parties, as well as the overall focus of company-specific operations.[5] [6] Notwithstanding these differences, U.S. producers generally reported similar cost-cutting measures, in large part representing employee layoffs and reduced hours, in response to notably lower sales volume at the end of the period.[7]

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[1] ***.

[2] ***. Staff telephone interview with ***, January 20, 2010 (USITC auditor notes (preliminary phase)).

[3] Financial results reflect generally accepted accounting principles ("GAAP") with annual periods reported on a calendar-year basis. ***.

***. In its 2009 3rd quarter 10-Q, National Oilwell Varco stated that "{b}ased on the Company's indefinite-lived intangible asset impairment analysis performed during the second quarter of 2009, the Company incurred an impairment charge of $147 million in the Petroleum Services & Supplies segment related to a partial impairment of the Company's Grant Prideco trade name. The impairment charge was primarily the result of the substantial decline in worldwide rig counts through June 2009, declines in current forecasts in rig activity for the remainder of 2009, 2010, and 2011 compared to rig count forecasts at the beginning of 2009, and a current decline in the revenue forecast for the drill pipe business unit for the remainder of 2009, 2010, and 2011." National Oilwell Varco 2009 3rd quarter 10-Q, p. 8.

[4] Underlying product mix is presumed to be the primary factor which explains differences in company-specific average sales value and average cost of goods sold ("COGS"). In addition to differences such as the extent to which tool joints are manufactured from tool joint forgings or purchased in essentially completed form, the components of reported COGS also likely reflect differences in cost accounting systems which are variously based on standard cost (predominant), job order, process cost, modified actual cost, and hybrid job order.

[5] The following companies reported input purchases from related parties: ***. Staff telephone interview with ***, January 26, 2010 (USITC auditor notes (preliminary phase)).

[6] ***. In addition to producing heavyweight finished drill pipe and drill collars, Smith is also reportedly a producer/distributor of other drilling products. Conference transcript, p. 19 (Fields).

[7] Conference transcript, p. 17 (Smith), p. 20 (Fields), pp. 23-24 (Morris), p. 29 (Ramsey). In addition to employee layoffs, a VAM official noted at the staff conference that cost cutting initiatives were implemented in a number of other areas such as material purchases and energy. Conference transcript, pp. 83-84 (Fields). An RDT

(continued...)

OPERATIONS ON DRILL PIPE AND DRILL COLLARS

Income-and-loss data for operations on unfinished drill pipe, finished drill pipe, unfinished drill collars, and finished drill collars are presented in table VI-1a, table VI-1b, table VI-1c, and table VI-1d.[8] Table VI-2a and table VI-2b present selected company-specific financial information with subtotals for unfinished and finished drill pipe operations and unfinished and finished drill collar operations, respectively. A variance analysis of the financial results of each of the above-referenced product categories is presented in table VI-3a, table VI-3b, table VI-3c, and table VI-3d.[9] An overall consolidation of finished drill pipe and finished drill collar operations is presented in appendix C.

Unfinished and Finished Drill Pipe Operations

As presented in table VI-2a, three U.S. producers (Timken, TMK, and U.S. Steel) reported financial results on unfinished drill pipe, while five U.S. producers (NOV Grant Prideco, RDT, Smith, TSC, and VAM) reported financial results on finished drill pipe. As noted previously, NOV Grant Prideco accounts for *** of overall finished drill pipe activity. With the exception of a relatively small volume of exported unfinished drill pipe, the unfinished drill pipe produced and sold by U.S. mills (see table VI-1a) is consumed in U.S. finished drill pipe production. As indicated in footnote 5 above, *** which represent a large share of the remaining unfinished drill pipe consumed in the production of finished drill pipe.

While the overall pattern of sales for the two categories of drill pipe was similar, the absolute sales volume of finished drill pipe peaked in 2007. In contrast, the absolute sales volume for unfinished drill pipe reached its highest level in 2008. The subsequent decline in unfinished drill pipe sales volume in interim 2009 compared to interim 2008 was also sharper compared to the corresponding decline in finished drill pipe sales volume; e.g., unfinished drill pipe sales volume was 88.5 percent lower in interim 2009 than in interim 2008, while finished drill pipe sales volume was 40.4 percent lower. The larger contraction of unfinished drill pipe sales, in conjunction with declines in corresponding production and capacity utilization, at least in part, appears to explain why unfinished drill pipe producers reported an overall gross and operating loss in interim 2009, while finished drill pipe producers collectively remained profitable in interim 2009 albeit at a lower absolute level (see table VI-1a and table VI-1b).

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[7](...continued)
official also indicated that, because of poor market conditions at the end of the period, the installation of purchased equipment related to a second welding line has been postponed. Conference transcript, p. 23, 84-85 (Morris). With regard to steps taken by NOV Grant Prideco, a company official stated that ***. E-mail from ***, January 28, 2010.

[8] The majority of companies are either unfinished drill pipe producers or finished drill pipe producers. ***. Staff telephone interview with ***, January 22, 2010 (USITC auditor notes (preliminary phase)).

[9] A variance analysis is calculated in three parts, sales variance, cost of sales variance, and SG&A expense variance. Each part consists of a price variance (in the case of the sales variance) or a cost variance (in the case of the cost of sales and SG&A expense variance) and a volume variance. The sales or cost variance is calculated as the change in unit price times the new volume, while the volume variance is calculated as the change in volume times the old unit price. Summarized at the bottom of table VI-3a, table VI-3b, table VI-3c, and table VI-3d, the price variance is from sales; the cost/expense variance is the sum of those items from COGS and SG&A variances, respectively, and the volume variance is the sum of the lines under price and cost/expense variance.

With regard to changes in product mix and the utility of the variance analysis (i.e., a stable product mix generally enhances the utility of the variance analysis), producers indicated that product mix was generally stable but that there was some change in effective product mix during the period. Conference transcript, pp. 77 (Fields, Morris, Brand). E-mail from ***, January 26, 2010.

As shown in table VI-2a, most company-specific average per-short ton sales values for both categories of drill pipe increased in each annual period. At the end of the period, this pattern changed with *** reporting higher average sales value in interim 2009 compared to interim 2008. ***.[10] VAM, *** indicated that its product mix shifted to a higher share of premium grade drill pipe and a lower corresponding share of API grade.[11]

As shown in the variance analysis for finished drill pipe (table VI-3b), the positive price variance generated by finished drill pipe operations at the end of the period was more than offset by much larger corresponding negative cost and volume variances. In the absence of employee layoffs and other cost-cutting measures adopted by U.S. producers, as noted above, the overall negative cost variances at the end of the period presumably would have been higher and corresponding financial results lower. With regard to company-specific financial results on drill pipe shown in table VI-2a, it should be noted that, while ***.[12] Among the finished drill pipe producers, *** percentage decline in sales volume in interim 2009 compared to interim 2008, as well as the lowest capacity utilization. As shown in table VI-2a, *** at the end of the period.

Unfinished and Finished Drill Collar Operations

As shown in table VI-2b, unfinished drill collar financial results represent the operations of a single company, Timken, while finished drill collar financial results were reported by four U.S. producers (NOV Grant Prideco, RDT, Smith, and VAM).

Similar to the pattern of sales volume reported by unfinished drill pipe producers, the percentage decline in unfinished drill collar sales volume in interim 2009 compared to interim 2008 was *** compared to the corresponding decline in finished drill collar sales volume (26.4 percent). Unlike the finished drill pipe category, where *** U.S. producers reported lower sales volume in interim 2009 compared to interim 2008, volume changes for finished drill collar producers were ***. ***.

In addition to the underlying physical differences which distinguish unfinished and finished drill collars, the break in terms of average unfinished and finished drill collar sales value and COGS shown in table VI-2b also in part reflects the fact that ***.[13]

As shown in table VI-2b, ***.[14] ***.[15]

While both finished drill collar and finished drill pipe financial results declined in interim 2009 compared to interim 2008, a negative price variance (table VI-3d) was the largest single component of the overall decline of finished drill collar operating income at the end of the period. In contrast, as noted previously, finished drill pipe operations generated a positive price variance at the end of the period with the decline in operating income attributable to a combination of negative net cost and volume variances.

[10] Staff telephone interview with ***, January 25, 2010 (USITC auditor notes (preliminary phase)). E-mail from ***, January 26, 2010.

[11] Conference transcript, p. 77 (Fields).

[12] ***.

[13] ***. Staff telephone interview with ***, January 21, 2010 (USITC auditor notes (preliminary phase)).

[14] E-mail with attachment from ***, January 27, 2010.

[15] Staff telephone interview with ***, January 28, 2010 (USITC auditor notes (preliminary phase)).

Table VI-1a
Unfinished drill pipe: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
			Quantity (*short tons*)		
Total net sales quantity	83,628	78,561	90,178	67,865	7,823
			Value (*$1,000*)		
Total net sales value	119,719	117,252	178,647	128,608	12,672
Cost of goods sold:					
Raw materials	38,121	38,686	57,105	44,142	3,496
Direct labor	9,648	8,734	10,932	7,839	1,158
Other factory costs	36,877	34,936	48,255	35,945	9,224
Total cost of goods sold	84,646	82,356	116,292	87,926	13,878
Gross profit or (loss)	35,073	34,896	62,355	40,682	(1,206)
Selling expenses	696	710	869	653	219
General and administrative expenses	5,616	5,758	8,170	5,399	1,532
Total SG&A expenses	6,312	6,468	9,039	6,052	1,751
Operating income or (loss)	28,761	28,428	53,316	34,630	(2,957)
Interest expense	872	698	649	428	123
Other expenses	137	88	(14)	71	46
Other income items	1,899	1,235	1,579	1,200	331
Net income or (loss)	29,651	28,877	54,260	35,331	(2,795)
Depreciation/amortization	1,716	2,213	6,371	3,641	1,558
Estimated cash flow	31,367	31,090	60,631	38,972	(1,237)
			Ratio to net sales (*percent*)		
Raw material	31.8	33.0	32.0	34.3	27.6
Direct labor	8.1	7.4	6.1	6.1	9.1
Other factory costs	30.8	29.8	27.0	27.9	72.8
Cost of goods sold	70.7	70.2	65.1	68.4	109.5
Gross profit or (loss)	29.3	29.8	34.9	31.6	(9.5)
SG&A expenses	5.3	5.5	5.1	4.7	13.8
Operating income or (loss)	24.0	24.2	29.8	26.9	(23.3)
Net income or (loss)	24.8	24.6	30.4	27.5	(22.1)

Table continued on next page.

Table VI-1a--*Continued*
Unfinished drill pipe: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Unit value (*dollars per short ton*)				
Total net sales	1,432	1,492	1,981	1,895	1,620
Cost of goods sold:					
Raw material	456	492	633	650	447
Direct labor	115	111	121	116	148
Other factory costs	441	445	535	530	1,179
Total cost of goods sold	1,012	1,048	1,290	1,296	1,774
Gross profit or (loss)	419	444	691	599	(154)
SG&A expenses	75	82	100	89	224
Operating income or (loss)	344	362	591	510	(378)
	Number of producers reporting				
Operating losses	0	0	0	0	2
Data	3	3	3	3	3

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-1b
Finished drill pipe: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
			Quantity (*short tons*)		
Total net sales quantity	177,983	216,390	188,644	135,750	80,929
			Value (*$1,000*)		
Total net sales value	857,907	1,245,824	1,213,027	862,455	552,221
Cost of goods sold:					
Raw materials	355,643	481,045	497,013	339,806	280,019
Direct labor	19,567	24,947	29,024	20,102	18,017
Other factory costs	192,307	252,490	210,918	145,001	136,411
Total cost of goods sold	567,517	758,482	736,955	504,909	434,447
Gross profit	290,390	487,342	476,072	357,546	117,774
Selling expenses	19,853	23,617	34,977	23,374	25,759
General and administrative expenses	5,789	7,323	7,886	6,147	10,839
Total SG&A expenses	25,642	30,940	42,863	29,521	36,598
Operating income	264,748	456,402	433,209	328,025	81,176
Interest expense	1,014	1,183	1,481	1,059	1,007
Other expenses	288	1,324	1,044	761	1,216
Other income items	0	0	350	266	18
Net income	263,446	453,895	431,034	326,471	78,971
Depreciation/amortization	12,045	12,810	14,264	11,667	13,165
Estimated cash flow	275,491	466,705	445,298	338,138	92,136
			Ratio to net sales (*percent*)		
Raw material	41.5	38.6	41.0	39.4	50.7
Direct labor	2.3	2.0	2.4	2.3	3.3
Other factory costs	22.4	20.3	17.4	16.8	24.7
Cost of goods sold	66.2	60.9	60.8	58.5	78.7
Gross profit	33.8	39.1	39.2	41.5	21.3
SG&A expenses	3.0	2.5	3.5	3.4	6.6
Operating income	30.9	36.6	35.7	38.0	14.7
Net income	30.7	36.4	35.5	37.9	14.3

Table continued on next page.

Table VI-1b--*Continued*
Finished drill pipe: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Unit value (*dollars per short ton*)				
Total net sales	4,820	5,757	6,430	6,353	6,824
Cost of goods sold:					
Raw material[1]	1,998	2,223	2,635	2,503	3,460
Direct labor	110	115	154	148	223
Other factory costs	1,080	1,167	1,118	1,068	1,686
Total cost of goods sold	3,189	3,505	3,907	3,719	5,368
Gross profit	1,632	2,252	2,524	2,634	1,455
SG&A expenses	144	143	227	217	452
Operating income	1,487	2,109	2,296	2,416	1,003
	Number of producers reporting				
Operating losses	0	0	0	0	1.0
Data	4	5	5	5	5

[1] ***. Petition, exhibit II-1B-1-a.

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-1c
Unfinished drill collars: Results of operations, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table VI-1d
Finished drill collars: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
			Quantity (*short tons*)		
Total net sales quantity	34,459	46,993	37,986	27,389	20,163
			Value (*$1,000*)		
Total net sales value	100,759	154,411	149,215	107,397	68,357
Cost of goods sold:					
Raw materials	42,552	59,007	66,859	45,108	31,807
Direct labor	6,791	9,246	8,626	5,574	5,282
Other factory costs	22,929	29,975	26,599	17,721	18,707
Total cost of goods sold	72,272	98,228	102,084	68,403	55,796
Gross profit	28,487	56,183	47,131	38,994	12,561
Selling expenses	4,526	7,516	9,385	7,213	4,262
General and administrative expenses	936	1,456	1,794	859	955
Total SG&A expenses	5,462	8,972	11,179	8,072	5,217
Operating income	23,025	47,211	35,952	30,922	7,344
Interest expense	140	194	258	152	253
Other expenses	265	531	788	275	509
Other income items	0	0	34	27	2
Net income	22,620	46,486	34,940	30,522	6,584
Depreciation/amortization	2,656	3,127	3,651	3,521	2,861
Estimated cash flow	25,276	49,613	38,591	34,043	9,445
			Ratio to net sales (*percent*)		
Raw material	42.2	38.2	44.8	42.0	46.5
Direct labor	6.7	6.0	5.8	5.2	7.7
Other factory costs	22.8	19.4	17.8	16.5	27.4
Cost of goods sold	71.7	63.6	68.4	63.7	81.6
Gross profit	28.3	36.4	31.6	36.3	18.4
SG&A expenses	5.4	5.8	7.5	7.5	7.6
Operating income	22.9	30.6	24.1	28.8	10.7
Net income	22.5	30.1	23.4	28.4	9.6

Table continued on next page.

Table VI-1d--*Continued*
Finished drill collars: Results of operations, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			January-September	
	2006	2007	2008	2008	2009
	Unit value (*dollars per short ton*)				
Total net sales	2,924	3,286	3,928	3,921	3,390
Cost of goods sold:					
Raw material	1,235	1,256	1,760	1,647	1,577
Direct labor	197	197	227	204	262
Other factory costs	665	638	700	647	928
Total cost of goods sold	2,097	2,090	2,687	2,497	2,767
Gross profit	827	1,196	1,241	1,424	623
SG&A expenses	159	191	294	295	259
Operating income	668	1,005	946	1,129	364
	Number of producers reporting				
Operating losses	0	0	0	0	1.0
Data	4	4	4	4	4

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-2a
Unfinished and finished drill pipe: Results of operations, by firm, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table VI-2b
Unfinished and finished drill collars: Results of operations, by firm, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

Table VI-3a
Unfinished drill pipe: Variance analysis of financial results, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			Jan.-Sept.
	2006-08	2006-07	2007-08	2008-09
	Value (*$1,000*)			
Total net sales:				
Price variance	49,551	4,787	44,057	(2,153)
Volume variance	9,377	(7,254)	17,338	(113,783)
Total net sales variance	58,928	(2,467)	61,395	(115,936)
Cost of sales:				
Cost variance	(25,016)	(2,839)	(21,758)	(3,743)
Volume variance	(6,630)	5,129	(12,178)	77,791
Total net cost of sales	(31,646)	2,290	(33,936)	74,048
Gross profit variance	27,282	(177)	27,459	(41,888)
SG&A expenses:				
Expense variance	(2,233)	(538)	(1,615)	(1,053)
Volume variance	(494)	382	(956)	5,354
Total SG&A variance	(2,727)	(156)	(2,571)	4,301
Operating income variance	24,555	(333)	24,888	(37,587)
Summarized as:				
Price variance	49,551	4,787	44,057	(2,153)
Net cost/expense variance	(27,249)	(3,377)	(23,372)	(4,796)
Net volume variance	2,253	(1,743)	4,204	(30,638)

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-3b
Finished drill pipe: Variance analysis of financial results, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			Jan.-Sept.
	2006-08	2006-07	2007-08	2008-09
	Value (*$1,000*)			
Total net sales:				
Price variance	303,732	202,789	126,945	38,058
Volume variance	51,388	185,128	(159,742)	(348,292)
Total net sales variance	355,120	387,917	(32,797)	(310,234)
Cost of sales:				
Cost variance	(135,444)	(68,500)	(75,727)	(133,439)
Volume variance	(33,994)	(122,465)	97,254	203,901
Total net cost of sales	(169,438)	(190,965)	21,527	70,462
Gross profit variance	185,682	196,952	(11,270)	(239,772)
SG&A expenses:				
Expense variance	(15,685)	235	(15,890)	(18,999)
Volume variance	(1,536)	(5,533)	3,967	11,922
Total SG&A variance	(17,221)	(5,298)	(11,923)	(7,077)
Operating income variance	168,461	191,654	(23,193)	(246,849)
Summarized as:				
Price variance	303,732	202,789	126,945	38,058
Net cost/expense variance	(151,129)	(68,265)	(91,617)	(152,438)
Net volume variance	15,858	57,130	(58,521)	(132,469)

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-3c
Unfinished drill collars: Variance analysis of financial results, 2006-08, January-September 2008, and January-September 2009

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Table VI-3d
Finished drill collars: Variance analysis of financial results, 2006-08, January-September 2008, and January-September 2009

Item	Calendar year			Jan.-Sept.
	2006-08	2006-07	2007-08	2008-09
	Value (*$1,000*)			
Total net sales:				
Price variance	38,143	17,002	24,399	(10,706)
Volume variance	10,313	36,650	(29,595)	(28,334)
Total net sales variance	48,456	53,652	(5,196)	(39,040)
Cost of sales:				
Cost variance	(22,415)	332	(22,683)	(5,440)
Volume variance	(7,397)	(26,288)	18,827	18,047
Total net cost of sales	(29,812)	(25,956)	(3,856)	12,607
Gross profit variance	18,644	27,696	(9,052)	(26,433)
SG&A expenses:				
Expense variance	(5,158)	(1,523)	(3,927)	725
Volume variance	(559)	(1,987)	1,720	2,130
Total SG&A variance	(5,717)	(3,510)	(2,207)	2,855
Operating income variance	12,927	24,186	(11,259)	(23,578)
Summarized as:				0
Price variance	38,143	17,002	24,399	(10,706)
Net cost/expense variance	(27,573)	(1,191)	(26,610)	(4,714)
Net volume variance	2,357	8,375	(9,049)	(8,158)

Source: Compiled from data submitted in response to Commission questionnaires.

CAPITAL EXPENDITURES, RESEARCH AND DEVELOPMENT EXPENSES, ASSETS, AND RETURN ON INVESTMENT

Data on capital expenditures, research and development ("R&D") expenses, assets, and return on investment related to drill pipe (unfinished and finished) and drill collars (finished and unfinished) are presented in table VI-4. As shown in table VI-4, the majority of capital expenditures were reported by the finished drill pipe segment with company-specific increases/decreases generally reflecting material expansions/upgrades undertaken during the period.[16] The overall lower level of capital expenditures in interim 2009 compared to interim 2008 is also consistent with a decline in corresponding estimated cash flow from operations.

As noted above, a RDT official stated at the staff conference that the company purchased but left uninstalled a second weld line.[17] ***.[18] ***. Testimony at the staff conference indicates that related investments have essentially gone unused since TMK has received no orders for the larger diameter green tube it can now produce.[19] ***.[20] ***.[21]

Table VI-4
Operations on drill pipe and drill collars: Capital expenditures, R&D expenses, total assets, and return on investment, by firm, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

CAPITAL AND INVESTMENT

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of drill pipe and drill collars, respectively, from China on their firms' growth, investment, ability to raise capital, existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments.

Drill Pipe – Actual Negative Effects

Drill Pipe Intl.	***.[22]
NOV Grant Prideco	***.
RDT	***.
Smith	***.

[16] ***. Staff telephone interview with ***, January 20, 2010 (USITC auditor notes (preliminary phase)).

[17] Conference transcript, pp. 84-85 (Morris). E-mail from ***, February 2, 2010.

[18] Staff telephone interview with ***, February 2, 2010.

[19] According to a TMK official, "{d}espite the capital investment that we committed to expanding our tube size range, we have yet to receive an order in 5-1/2 inch green tube due to in large part because of import{ed} drill pipe from China." Conference transcript, p. 27 (Ramsey).

[20] ***. E-mail from ***, January 29, 2010. ***. Ibid.

[21] ***. Staff telephone interview with ***, January 28, 2010 (USITC auditor notes (preliminary phase)).

[22] ***.

Timken	***.
TMK	***.
TSC	***.
U.S. Steel	***.
VAM	***.

Drill Pipe – Anticipated Negative Effects

Drill Pipe Intl.	***.
NOV Grant Prideco	***.
RDT	***.
Smith	***.
Timken	***.
TMK	***.
TSC	***.
U.S. Steel	***.
VAM	***.

Drill Collars – Actual Negative Effects

Drill Pipe Intl.	***.
NOV Grant Prideco	***.
RDT	***.
Smith	***.
Timken	***.
TMK	***.
TSC	***.
U.S. Steel	***.
VAM	***.

Drill Collars – Anticipated Negative Effects

Drill Pipe Intl.	***.
NOV Grant Prideco	***.
RDT	***.
Smith	***.
Timken	***.
TMK	***.
TSC	***.
U.S. Steel	***.
VAM	***.

PART VII: THREAT CONSIDERATIONS AND INFORMATION ON NONSUBJECT COUNTRIES

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the nature of the alleged subsidies was presented earlier in this report; information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission on nonsubject countries and the global market.

THE INDUSTRY IN CHINA

Overview

According to the World Steel Association (WSA),[1] China was the leading global producer of seamless tubular products in 2007,[2] accounting for nearly 62 percent (20.0 million short tons) of global production of (table VII-1). Regionally, Asia accounted for almost 70 percent of global production of seamless tubular products in 2007.

[1] The WSA, formerly known as the International Iron and Steel Institute (IISI), is an international organization representing approximately 180 steel producers, national and regional steel industry associations, and steel research institutes. WSA members produce about 85 percent of the world's steel. WSA provides data for all seamless tubular products, a much broader category than the subject products.

[2] In this section, "*seamless tube*" refers to a broad range of seamless tubular products, including the subject merchandise. "*Seamless OCTG*" covers a smaller group of steel tubular goods, such as casing, tubing, coupling stock, drill pipe, and drill collars. See part I for more details on different categories of steel tubular goods.

Table VII-1
Seamless tubular products: Global production, by region, 2005–07

Region	Calendar year		
	2005	2006	2007
	Quantity (*1,000 short tons*)		
North America			
United States	2,184	2,293	1,908
Mexico	822	823	732
Subtotal	3,006	3,116	2,640
South America			
Argentina	950	936	925
Brazil	541	614	([1])
All others	54	55	([1])
Subtotal	1,545	1,633	925
European Union (15)			
Austria	428	473	492
Germany	1,786	1,958	2,011
Italy	847	913	933
France	780	873	929
All others	476	503	522
Subtotal	4,317	4,719	4,886
Asia			
China	12,608	16,975	20,039
Japan	2,237	2,307	2,281
All others	21	22	22
Subtotal	14,866	19,305	22,341
All others	1,365	1,517	1,595
Total	25,098	30,289	32,388

[1] Not reported.

Note.--Data originally reported in metric tons, which were converted to short tons by multiplying by 1.1023.

Source: WSA, *Steel Statistical Yearbook 2008*, 2009, table 25, p. 62.

According to ***,[3] China bypassed the United States in 2001 to become the world's leading producer of seamless OCTG, accounting for *** of the world's production. By 2007, China's total production of seamless OCTG was 4.2 million short tons, over three times larger than that of the United States, the world's second largest producer of seamless OCTG.[4] *** reported that among the most important developments in the global supply of OCTG has been the steady rise of China's production, especially in seamless OCTG.[5]

More specific to the subject merchandise, according to Globe Trade Atlas, China was the largest exporter of drill pipe in 2008, exporting 3 times more than Germany, the world's second leading drill pipe exporter.[6] With respect to home market prospects, most Chinese oil and natural gas exploration activities have been concentrated in the onshore fields in the western provinces of Xinjiang, Sichuan, Gansu, and Inner Mongolia.[7]

Operations on Drill Pipe and Drill Collars

China is the world's most populous country and has a rapidly growing economy. It is also the world's second-leading consumer of oil after the United States, and the third-largest net importer of oil following the United States and Japan.[8]

According to the Petitioners, China has excess capacity to produce seamless pipe products (which includes unfinished drill pipe).[9] The Petitioners further report that *** catalogues the existence of *** producers with at least *** friction welding lines (each with a capacity of *** tons).[10] The Respondents contend that the Chinese home market and third-country demand has and will continue to absorb the majority of Chinese production capacity.[11] The Respondents cite a recent article which states that China is the second-biggest consumer of oil after the United States, consuming 8.14 million barrels of oil per day.[12] Respondents also note that the largest oil producer in the world, Saudi Aramco, recently made a significant refinery investment in China because of China's strong demand for oil and its robust economic recovery.[13] However, Petitioners' counter that China produces only one-ninth as much natural gas as the United States and less than half as much oil.[14]

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[3] ***.

[4] ***. *** provides data for seamless OCTG, a category that is broader than the subject products.

[5] ***.

[6] Global Trade Information Services, Inc., *Global Trade Atlas* online database. Global trade data for the subject products are reported at the HTS 6-digit subheading level 7304.22, 7304.23, and 8431.43. These subheadings also include nonsubject products and therefore likely overstate the volume of exports of drill pipe.

[7] U.S. Department of Energy, Energy Information Administration (EIA), "China Energy Profile," July 2009.

[8] China's economic growth averaged 10 percent during 2000-08. The current global economic crisis reduced Chinese annual economic growth from 13 percent in 2007 to 6.1 percent in the first quarter of 2009. Energy Information Administration, Department of Energy, July 2009, found at http://www.eia.doe.gov/emeu/cabs/China/Background.html, retrieved January 27, 2010.

[9] Petition, p. 21.

[10] Petitioners' postconference brief, p. 41 and exh. 6. Friction weld lines join the tool joints to the tube body, creating finished drill pipe. Id.

[11] Respondents' postconference brief, p. 26.

[12] Respondents' postconference brief, pp. 26-27 and exh. 11.

[13] Id.

[14] Petitioners' postconference brief, p. 42.

Table VII-2 presents the names of the responding manufacturers/exporters in China, along with their estimated total production and estimated total exports to the United States of drill pipe and drill collars.

Table VII-2
Drill pipe and drill collars: Reporting manufacturers/exporters in China, and quantities and shares of reported production and exports to the United States, 2008

* * * * * * *

Tables VII-3a and VII-3b present information on Chinese producers' drill pipe and drill collars operations, respectively, as compiled from responses to the Commission's questionnaires. All foreign producers *** reported production of drill pipe. Three firms, *** responded that they produce drill collars. *** accounted for all reported internal consumption of drill pipe.[15] In 2008, internal consumption of drill pipe accounted for *** percent of total shipments of Chinese drill pipe. *** internally consumed a small amount of drill collars throughout the period examined. Most of China's exports of drill pipe and drill collars are to markets other than the United States. Chinese exports of drill pipe to non-U.S. markets increased from 2006 through 2008 by *** percent. During the same period, Chinese exports of drill pipe to the United States increased by *** percent. With a limited number of reporting drill collar producers, Chinese exports of drill collars increased noticeably in 2008 from 2007.

Table VII-3a
Drill pipe: Chinese production capacity, production, shipments, and inventories, 2006-08, January-September 2008, January-September 2009, and projected 2009-10

* * * * * * *

Table VII-3b
Drill collars: Chinese production capacity, production, shipments, and inventories, 2006-08, January-September 2008, January-September 2009, and projected 2009-10

* * * * * * *

U.S. IMPORTERS' INVENTORIES OF DRILL PIPE AND DRILL COLLARS

Data collected in these investigations on U.S. importers' end-of-period inventories of drill pipe and drill collars are presented in tables VII-4a and VII-4b, respectively. Five U.S. importers reported holding inventories of drill pipe from China in December 2008, and five in September 2009.

Table VII-4a
Drill pipe: U.S. importers' end-of-period inventories of imports, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

[15] *** reported that its drill pipe volumes include semi-finished (upset to grade) drill pipe produced and then sold to a related firm, ***, where it is finished. *** foreign producer questionnaire response.

Table VII-4b
Drill collars: U.S. importers' end-of-period inventories of imports, 2006-08, January-September 2008, and January-September 2009

* * * * * * *

U.S. IMPORTERS' CURRENT ORDERS

The Commission requested importers to indicate whether they imported or arranged for the importation of drill pipe and drill collars from China after September 30, 2009. Importers reported drill pipe imports of *** short tons from China. Importers reported drill collar imports of *** short tons from China. The Commission also requested importers to indicate whether they imported or arranged for the importation of drill pipe and drill collars from all other countries after September 30, 2009. Importers reported drill pipe imports of *** short tons from all other countries. Importers reported drill collar imports of *** short tons from all other countries.

ANTIDUMPING INVESTIGATIONS IN THIRD-COUNTRY MARKETS

The European Union conducted an investigation on seamless pipe (including drill pipe) from China, and in April 2009, imposed provisional antidumping duties with margins ranging from 35 to 51 percent on seamless pipe "used in a wide variety of applications, like for mechanical uses (including automotive and engineering), in the construction business for piling, for power generation like boiler tubes, as oil country tubular goods ("OCTG") used for drilling, casing and tubing in the oil industry, and as line pipes to transport liquids or gases."[16] Subsequently, the European Union imposed definitive antidumping duties ranging from 17 to 39 percent.[17]

Russia reportedly concluded its own antidumping duty investigation on steel pipe from China in October 2009. The investigation found that Chinese market share of steel pipe increased from 8.9 percent in 2007 to 14 percent in 2008. A five-year antidumping duty of 29.4 percent has been proposed.[18]

Argentina reportedly instituted an antidumping duty investigation on steel pipe from China on November 4, 2009. The scope of the investigation includes seamless and welded steel pipe with an external diameter less than 10¾ inches. Alloy, carbon, spiral, and straight-seam steel pipe and CR and HR pipes are included in the investigation.[19]

INFORMATION ON NONSUBJECT COUNTRIES

Supply Considerations

Seamless tube is produced throughout the world, as noted previously in table VII-1. Between 2005 and 2007, global production of all seamless tubular products increased by 30 percent to 32.4 million

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[16] *Official Journal of the European Union*, Commission Regulation (EC) No. 289/2009, L 94/48, April 8, 2009.

[17] *Official Journal of the European Union*, Commission Regulation (EC) No. 926/2009, L 262/19, October 6, 2009.

[18] "Russia may impose an anti-dumping tariff on China's steel pipe." Alibaba. October 19, 2009, http://news.alibaba.com/article/detail/metalworking/100186174-1-russia-may-impose-an-anti-dumping.html, retrieved on February 4, 2010.

[19] "Argentina carried out anti-dumping investigation on China's steel pipe." Alibaba. November 5, 2009, http://news.alibaba.com/article/detail/metalworking/100195594-1-argentina-carried-out-anti-dumping-investigation.html, retrieved on February 4, 2010.

short tons. China's growth in the production of seamless tube has outpaced that of all other global producers. China's share of world seamless tubular production increased from about 50 percent in 2005 to 62 percent in 2008.

*** publishes historical and forecasted production of seamless OCTG, by region. According to this source, world seamless OCTG production is projected to decline in 2010 from 2008 (table VII-5).

Table VII-5
Seamless OCTG: Projected production, by region, 2008-10

* * * * * * *

Demand Considerations

Changes in energy prices affect new drilling activities that, in turn, influence worldwide demand for drill pipe. As shown in table VII-6, worldwide drilling increased by almost 7 percent between 2007 and 2008, led primarily by growth in drilling in the United States. However, in 2009, worldwide rig counts declined by over 31 percent from 2008. *** maintains that drilling activities are mostly concentrated in the big oil and gas producing regions, especially in those countries where oil production is more efficient.[20] In terms of consumption for OCTG, North America has been the world's leading region. ***, however, contends that the Far East is the next most important region as its share of global consumption is increasing. In this region, China has become the increasingly dominant market.[21]

Table VII-6
Operating rigs: Global and regional annual averages, 2006-09

Region	2006	2007	2008	2009
	Quantity (*number of rigs*)			
Latin America	324	355	384	356
Europe	77	78	98	84
Africa	58	66	65	62
Middle East	238	265	280	252
Far East	228	241	252	243
Canada	470	343	379	221
United States	1,648	1,768	1,878	1,086
Total	3,043	3,116	3,336	2,304

Note.–Baker Hughes data do not include operations in China. However, one estimate places the number of rigs in China at more than ***. Respondents' postconference brief, exh. 12.

Source: Baker Hughes, Inc., *Worldwide Rig Count*, January 30, 2010.

[20] ***.

[21] ***.

In the United States, demand for drill pipe and drill collars remained at low levels through the end of 2009.[22] Similar weak demand in 2009 was reported in South America, Europe, the C.I.S. and Asia.[23] Overall market conditions are expected to remain difficult in 2010, although it appears that prospects may have improved for seamless pipe generally in the United States and in Europe.[24]

Leading Nonsubject Countries

The leading producers and exporters of drill pipe and drill collars are Austria, France, Germany, Mexico, and Japan. Table VII-7 summarizes the primary suppliers while table VII-8 presents rig count as a measure of demand.

Table VII-7
Drill pipe and drill collars: Producers of drill pipe (API-5D) in certain nonsubject countries

Country/Company	Location	Tube capacity (*short tons*)[1]	API products	Remarks
Austria				
Voestalpine Tubulars	Kinberg Aumehl	***[2]	5D, 5CT,5L	Rotary piercing, Drill pipe groups 1&3
France				
VAM Drilling-France	Aulnoye	1 million tons[3]	5D, 5CT, 7	Green tube, tool joints, collars
Germany				
Benteler Staht/Rohr GmbH	Dinlaken	***[4]	5D, 5CT, 5L	Rotary piercing, drill pipe groups 1&3
ESW - Röhrenwerke GmbH	Eschweiler	***[4]	5D, 5CT, 5L	Drill pipe groups 1&3
TPS-Technitube Rohrenwerke GmbH	Nerdlen	not available	5D, 5CT,5L	Drill pipe groups 1&3
V&M Deutschland GmbH	Muelheim an der Ruhr	***[4]	5D, 5CT, 5L	Drill pipe groups 1&3
Japan				
JFE Steel Corp.	Handa City	***[5]	5D, 5CT, 5L	Drill pipe groups 1&3
Nippon Steel Corp.	Tokyo	***[6]	5D, 5CT,5L,	Drill pipe groups 1&3
Petromaterials Corp.	Wakayama	not available	5D, 5CT, 5L,7, 7.1,	Drill pipe groups 1&3
Sumitomo Metal Industries Ltd.	Wakayama	***[6]	5D, 5CT,5L	Drill pipe groups 1&3
Tenaris	Kawasaki	***[6]	5D,5CT,5L,7	Drill pipe groups 1&3

Table continued on next page.

[22] Metal Bulletin Research, *Seamless Steel Tube and Pipe Monthly*, Issue 51, December 2009, p. 1.

[23] Tenaris S.A., "Half-Year Report 2009—Interim Management Report," pp. 1-7.

[24] Metal Bulletin Research, *Seamless Steel Tube and Pipe Monthly*, Issue 51, December 2009, p. 1; and issue 52, January 2010.

Table VII-7
Drill pipe and drill collars: Producers of drill pipe (API-5D) in certain nonsubject countries

Country/Company	Location	Tube capacity (*short tons*),[1]	API products	Remarks
Mexico				
Tenaris Tamsa	Veracruz	***[7]	5D, 5CT, 5L	Drill pipe groups 1&3

[1] Capacity covers subject and nonsubject products and may overstate the actual data for drill pipe.
[2] ***.
[3] The Simdex Steel Tube Manufacturers Worldwide Guide, Simdex Publishing, 2009.
[4] ***.
[5] ***.
[6] ***.
[7] ***.

Note.--API standards: 5D is for drill pipe; 5L for line pipe; 5CT for casing and tubing; 7, 7.1 and 7.2 for related equipment including tool joints.

Source: Except as shown in footnotes, all data are from the API Composite List, 2010, found at http://compositlist.api.org/companylist.asp/, retrieved January 30, 2010.

Table VII-8
Operating rigs: Baker Hughes International Rig Count for selected countries, December 2009

Country	Rig counts		
	Highest (date)	Lowest (date)	December 2009
Austria	3 (12/09)	0 (8/09)	3
France	2 (3/08)	0 (9/09)	1
Germany	12 (11/08)	2 (12/04)	5
Mexico	130 (9/09)	112 (8/04)	122
Japan	6 (6/08)	1 (1/09)	3
Canada	715 (2/06)	72 (5/09)	313
United States	2,014 (9/08)	895 (6/09)	1,172

Note.–Highest and lowest rig counts are for the last 6 years. Data for China and Korea are not available from Baker Hughes. Rig counts on January 29, 2010, for the United States and Canada were 1,317 and 531, respectively.

Source: Baker Hughes International Rig Count, January 2010, found at http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm; retrieved January 30, 2010.

Austria

Austria's domestic market for drill pipe is limited since the country has few active rotary rigs.[25] Voestalpine Tubulars ("Voestalpine") is the only known seamless OCTG manufacturer. Its annual

[25] According to Baker Hughes Austria has 3 active rigs but 2 of these are classified as "miscellaneous" (i.e., not for the oil or gas industry).

production amounts to 352,000 tons covering a wide range of seamless tubes and pipes, including drill pipe and line pipe, up to an outside diameter of 7 inches.[26] According to Global Trade Atlas, in 2008, Austria exported approximately 17,000 short tons of drill pipe.[27] Voestalpine is a joint venture between the Voestalpine AG, a steel group located in Austria and the U.S.-based NOV-Grant Prideco, one of the world's largest manufacturers of drill pipe and related products.[28] According to an industry source, Voestalpine is a high-quality producer focusing on the high end of the market and its production lines are equipped with modern automatic facilities.[29]

France

Similar to Austria, Germany, and Japan, France has no significant oil or natural gas resources and thus no domestic exploration activities (table VII-8). The WSA reported that France produced approximately 930,000 short tons of seamless tubes in 2007, as shown in table VII-1. According to *** estimate, France produced *** short tons of seamless OCTG that year.[30]

In France, VAM Drilling-France (VAM) is the only drill pipe producer. VAM Drilling is part of the oil and gas division of Vallourec & Mannesmann Tubes, a subsidiary of the Vallourec Group. VAM is supported by annual production of 2.5 million short tons of steel pipe worldwide. This global network includes 15 production facilities for seamless OCGT production in many countries, including the United States.[31] VAM claims to be one of the world's largest fully integrated manufacturers of drill pipe and related drill stem products.[32] In the United States, VAM Drilling-United States receives green tubes from V&M Tubes' mills in France, Germany, and Brazil. The green tubes are processed according to the required API standards. Tool joint forgings are made in France and the United States and are machined and phosphated before friction welding in VAM Drilling's facilities in Houston and Aulnoye, France.[33] VAM produces a wide range of seamless tubular products including drill pipe, tool joint, line pipe, and casing and tubing.

Germany

According to WSA, Germany produced approximately 2 million short tons of seamless pipe and tube in 2007, ranking third in the world, behind China and Japan (table VII-1). *** estimates that the country produced *** short tons of seamless OCTG that year.[34] According to Global Trade Atlas,

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[26] Voestalpine's website, found at http://www.vatubulars.com, retrieved May 4, 2009; and staff telephone interview with ***, May 1, 2009.

[27] Global Trade Atlas, January 2010. This figure appears to be limited to drill pipe that has been heat-treated, upset, and /or tool-joined.

[28] In this joint venture, each partner owns 50 percent of the total equity. Voestalpine's website, found at http://www.vatubulars.com, retrieved May 4, 2009.

[29] Staff telephone interview with ***, May 1, 2009.

[30] ***.

[31] The Simdex Steel Tube Manufacturers Worldwide Guide, Simdex Publishing, 2009. Houston-base VAM Drilling USA is an affiliate of the Vallourec Group.

[32] VAM Drilling Catalogue, p. 2.

[33] VAM Drilling Catalogue, p. 2.

[34] ***.

Germany was the world's second leading exporter of drill pipe following China in 2008.[35] There are four known producers of drill pipe in Germany: Benteler Stahl/Rohr GmbH, ESW - Röhrenwerke GmbH, TPS-Technitube Rohrenwerke, and V&M Deutschland GmbH ("VMD").[36] All four also produce other seamless tubular products, including OCTG, boiler tubing, tubing suitable for ball or roller bearings, mechanical tubing, structural tubing, and tube hollows on the same equipment.[37]

Japan

Although Japan is the third largest oil consumer behind the United States and China, it has very limited oil and natural gas resources and must rely almost completely on imports to meet its needs.[38] As of September 2009, Japan had only 3 active rotary rigs (table VII-8). As such, Japan exports almost all of its drill pipe production. According to ***, Japan produced *** of seamless OCTG in 2007, ranking fourth, behind China, the United States, and Russia.[39] Global Trade Atlas reports that, in 2008, Japan exported about 57,000 short tons of drill pipe, ranking seventh in the world.[40] Japan has five manufacturers of drill pipe, including Sumitomo Metal Industries, Nippon Steel, JFE Steel Corp., Petromaterials Corp., and Tenaris, a facility jointly owned by Tenaris and NKK. Most Japanese tube capacity is controlled by major integrated mills.[41]

Mexico

According to WSA, Mexico produced 732,000 short tons of seamless pipe and tube in 2007, as noted in table VII-1. *** estimates that the country produced almost *** short tons of seamless OCTG that year.[42] According to Global Trade Atlas, Mexico exported approximately 53,385 short tons of drill pipe in 2008, an increase of 20 percent compared with 2006.[43]

Tubos de Acero de Mexico ("TAMSA"), wholly owned by Tenaris, is reportedly the only manufacturer of drill pipe and other OCTG products in Mexico.[44] TAMSA has an annual production capacity of approximately 875,000 short tons of finished products, which include seamless pipe

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[35] According to Global Trade Atlas, China and Germany exported 390,000 short tons and 110,000 short tons of drill pipe, respectively. Trade data reported at the HS 6-digit subheading level for subheadings 7304.22, 7304.23, and 8431.43. These subheadings include nonsubject products and therefore data likely overstate the volume of the country's exports of drill pipe.

[36] VMD is affiliated with seamless pipe producers V&M Star (United States), V&M Brazil (Brazil), V&M France (France), and V&M Tubes (wholly-owned by Groupe Vallourec (France)).

[37] *Certain Seamless Carbon and Alloy Steel Standard, Line, and Pressure Pipe from Argentina, Brazil, and Germany, Inv. Nos. 731-TA-707-709 (Second Review)*, USITC Publication 3918, May 2007, p. IV-16.

[38] Energy Information Administration, Japan Energy Profile, April 10, 2009, found at http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=Ja, retrieved December 1, 2009.

[39] ***.

[40] Global Trade Atlas, January 2010. Data may be overstated

[41] ***.

[42] ***.

[43] Global Trade Information Services, Inc., *Global Trade Atlas* online database. Trade data reported at the HS 6-digit subheading level for subheadings 7304.22, 7304.23, and 8431.43. These subheadings include nonsubject products and therefore data are likely to overstate the volume of Mexico's exports of drill pipe.

[44] However, NOV Grant Prideco has a related producer (100 percent subsidiary) in Mexico, NOV Grant Prideco de Mexico, S.A. de C.V., that is capable of processing drill pipe.

(excluding OCTG), OCTG casing, drill pipe, fittings, mechanical tubing, and automotive components.[45] In September 2008, TAMSA announced plans to increase production capacity by installing a new facility capable of producing seamless pipe up to 7 inches in outside diameter.[46] The new $1.6 billion pipe mill, which will reportedly include iron and steelmaking facilities, will have an annual production capacity of approximately 500,000 short tons of finished tubular products, and is expected to begin production in 2011.[47] In November 2009, TAMSA reportedly has signed a contract for two heat treatment facilities to be installed at its Veracruz plant.[48]

[45] Tenaris Dalmine information sheet, found at http://www.tenaris.com/shared/documents/files/CB286.pdf, retrieved October 19, 2009; *Steel Guru*, "Production Pruning—Tenaris Tamsa Operating At 80% Capacity," March 12, 2009.

[46] Tenaris, *Annual Report 2008*, p. 9; Tenaris press release, "Tenaris To Expand Production Capacity," September 2, 2008.

[47] *Metal Bulletin*, "Tenaris plans to build $1.6B pipe mill in Mexico," September 3, 2008. *Steel Guru*, "Tenaris Tamsa To Continue Pursuing Its Investment Plans," March 15, 2009.

[48] Steel Guru, "Tenaris Tamsa Inks Deal With Tenova LOI For Two Bfs," November 3, 2009.

APPENDIX A

FEDERAL REGISTER NOTICES

INTERNATIONAL TRADE COMMISSION

[Investigation Nos. 701–TA–474 and 731–TA–1176 (Preliminary)]

Drill Pipe From China

AGENCY: International Trade Commission.

ACTION: Institution of antidumping and countervailing duty investigations and scheduling of preliminary phase investigations.

SUMMARY: The Commission hereby gives notice of the institution of investigations and commencement of preliminary phase antidumping and countervailing duty investigations Nos. 701–TA–474 and 731–TA–1176 (Preliminary) under sections 703(a) and 733(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a) and 1673b(a)) (the Act) to determine

whether there is a reasonable indication that 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 from China of drill pipe, provided for in subheadings 7304.22, 7304.23, and 8431.43 of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value and alleged to be subsidized by the Government of China. Unless the Department of Commerce extends the time for initiation pursuant to sections 702(c)(1)(B) or 732(c)(1)(B) of the Act (19 U.S.C. 1671a(c)(1)(B) or 1673a(c)(1)(B)), the Commission must reach a preliminary determination in antidumping and countervailing duty investigations in 45 days, or in this case by February 16, 2010 (as a result of an intervening weekend and Federal holiday). The Commission's views are due at Commerce within five business days thereafter, or by February 23, 2010.

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

DATES: *Effective Date:* December 31, 2009.

FOR FURTHER INFORMATION CONTACT: Angela M. W. Newell (202–708–5409), 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 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its Internet server (*http://www.usitc.gov*). The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov.*

SUPPLEMENTARY INFORMATION:

Background.—These investigations are being instituted in response to a petition filed effective December 31, 2009, by VAM Drilling USA Inc., Houston, TX; Rotary Drilling Tools, Beasley, TX; Texas Steel Conversions, Inc., Houston, TX; TMK IPSCO, Downers Grove, IL; and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL–CIO–CLC, Pittsburgh, PA.

Participation in the investigations and public service list.—Persons (other than petitioners) wishing to participate in the investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the Commission's rules, not later than seven days after publication of this notice in the **Federal Register**. Industrial users and (if the merchandise under investigation is sold at the retail level) representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses 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 investigations available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigations under the APO issued in the investigations, provided that the application is made not later than seven 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.

Conference.—The Commission's Director of Investigations has scheduled a conference in connection with these investigations for 9:30 a.m. on January 21, 2010, at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC. Parties wishing to participate in the conference should contact Angela M. W. Newell (202–708–5409) not later than January 15, 2010, to arrange for their appearance. Parties in support of the imposition of antidumping and countervailing duties in these investigations and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

Written submissions.—As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before January 26, 2010, a written brief containing information and arguments pertinent to the subject matter of the investigations. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II (C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a 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 title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

By order of the Commission.

Issued: December 31, 2009.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E9–31412 Filed 1–5–10; 8:45 am]

BILLING CODE 7020–02–P

DEPARTMENT OF COMMERCE

International Trade Administration

[C–570–966]

Drill Pipe from the People's Republic of China: Initiation of Countervailing Duty Investigation

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

DATES: *Effective Date:* January 27, 2010.

FOR FURTHER INFORMATION CONTACT: John Conniff and Eric B. Greynolds, AD/CVD Operations, Office 3, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Room 4014, Washington, DC 20230; telephone: (202) 482–1009, (202) 482–6071, respectively.

SUPPLEMENTARY INFORMATION:

The Petition

On December 31, 2009,[1] the Department of Commerce (the Department) received a petition concerning imports of drill pipe from the People's Republic of China (PRC) filed in proper form by VAM Drilling USA, Inc., Texas Steel Conversions, Inc., Rotary Drilling Tools, TMK IPSCO, and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL–CIO-CLC (collectively, the petitioners). *See* Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the People's Republic of China, dated December 31, 2009 (Petition). On January 6, 2010, the Department issued additional requests for information and clarification of certain areas of the Petition. Petitioners filed timely additional information pertaining to general issues on January 11, 2010. *See* Petition for the Imposition of Antidumping Duties on Drill Pipe from the PRC: Response to Department's Letter of January 6, 2010 (Supplement to the AD/CVD Petitions). On January 8, 2010, the Department issued a request for additional information pertaining to countervailing duty (CVD) issues. Petitioners filed timely information regarding countervailing issues on January 13, 2010. *See* Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to Pre–initiation CVD questions (Supplement to the CVD Petition). On January 14, 2010, the Department issued an additional request for information and clarification regarding general issues and dumping. Petitioners filed a response containing additional information related to both general issues and dumping on January 15, 2010. *See* Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to the Department's Letter of January 14, 2010 (Second Supplement to the AD/CVD Petitions). Petitioners also filed additional information pertaining to general issues on January 15, 2010. *See* Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to Department's Letter of January 14, 2010: Additional Affidavit (Third Supplement to the AD/CVD Petitions). On January 19, 2010, petitioners filed further clarifications related to general issues. *See* Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to Department's Letter of January 14, 2010: Additional Affidavit: (Fourth Supplement to the AD/CVD Petitions). In addition, on both January 15, and January 19, 2010, we received comments filed by Lehnardt & Lehnardt, LLC, on behalf of Downhole Pipe & Equipment, LP (Downhole Pipe) and Command Energy Services International (Command Energy), U.S. importers of drill pipe from China. Downhole Pipe and Command Energy are interested parties per section 771(9)(A) of the Act.

In accordance with section 702(b)(1) of the Act, petitioners allege that manufacturers, producers, or exporters of drill pipe in the PRC receive countervailable subsidies within the meaning of section 701 of the Act, and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that petitioners filed the Petition on behalf of the domestic industry because they are interested parties as defined in section 771(9)(C) and (D) of the Act, and petitioners have demonstrated sufficient industry support with respect to the CVD investigation (*see* "Determination of Industry Support for the Petition" section below).

Period of Investigation

The proposed period of investigation (POI) is January 1, 2009, through December 31, 2009.

Scope of Investigation

The products covered by this investigation are drill pipe from the PRC. For a full description of the scope of the investigation, *see* the "Scope of the Investigation" in Appendix I of this notice.

Comments on Scope of Investigation

During our review of the Petition, we discussed the scope with petitioners to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the Department's regulations (*Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department encourages all interested parties to submit such comments by Wednesday, February 10, 2010, twenty calendar days from the signature date of this notice. Comments should be addressed to Import Administration's APO/Dockets Unit, Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230. The period for scope consultations is intended to provide the Department with ample

[1] Petitioners filed the Petition at the International Trade Commission (ITC) after 12:00 noon on December 30, 2009, therefore, pursuant to 19 CFR 207.10(a), the ITC deemed the Petition to have been filed on the next business day, December 31, 2009. Section 702(b)(2) of the Tariff Act of 1930, as amended (the Act) requires simultaneous filings of countervailing duty petitions with the Department of Commerce and the ITC, therefore, we deem the Petition to have been filed with Commerce on December 31, 2009. This file date will change the initiation date from January 19, 2009, to January 20, 2009. *See* Memorandum to Ronald K. Lorentzen, entitled "Decision Memorandum Concerning Petitions Filing Date," dated concurrently with this checklist.

opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determination.

Consultations

Pursuant to section 702(b)(4)(A)(ii) of the Act, on January 8, 2010, the Department invited representatives of the Government of the PRC (GOC) for consultations with respect to the CVD petition. On January 15, 2010, the Department held consultations with representatives of the GOC in Beijing.

Determination of Industry Support for the Petition

Section 702(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 702(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for: (i) at least 25 percent of the total production of the domestic like product; and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 702(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method to poll the industry.

Section 771(4)(A) of the Act defines the "industry" as the producers as a whole of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The ITC, which is responsible for determining whether "the domestic industry" has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. *See USEC, Inc. v. United States*, 132 F. Supp. 2d 1, 8 (Ct. Int'l Trade 2001), *citing Algoma Steel Corp., Ltd. v. United States*, 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), *aff'd* 865 F.2d 240 (Fed. Cir. 1989), *cert. denied* 492 U.S. 919 (1989).

Section 771(10) of the Act defines the domestic like product as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title." Thus, the reference point from which the domestic like product analysis begins is "the article subject to an investigation" (*i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition).

With regard to the domestic like product, petitioners do not offer a definition of domestic like product distinct from the scope of the investigation. Based on our analysis of the information submitted on the record, we have determined that drill pipe constitutes a single domestic like product and we have analyzed industry support in terms of that domestic like product. For a discussion of the domestic like product analysis in this case, *see* "Countervailing Duty Investigation Initiation Checklist: Drill Pipe from the People's Republic of China" (Initiation Checklist), at Attachment II, Analysis of Industry Support for the Petitions Covering Drill Pipe from the People's Republic of China, on file in the Central Records Unit (CRU), Room 1117 of the main Department of Commerce building.

In determining whether petitioners have standing under section 702(C)(4)(A) of the Act, we considered the industry support data contained in the Petition with reference to the domestic like product. To establish industry support, petitioners provided their production of the domestic like product in 2008, and compared this to the estimated total production of the domestic like product for the entire domestic industry. *See* Volume I of the Petition, at 2–3; *see also* Supplement to the AD/CVD Petitions at 6–13 and Exhibit 3; Second Supplement to the AD/CVD Petitions at 1–4 and Exhibits 1–3; Third Supplement to the AD/CVD Petitions at Exhibit 1, and Fourth Supplement to the AD/CVD Petitions at Exhibit I. To estimate 2008 production of the domestic like product, petitioners used their own data and industry specific knowledge. *See* Second Supplement to the AD/CVD Petitions at 1–4 and Exhibits 1–3; *see also* Initiation Checklist at Attachment II. We have relied upon data petitioners provided for purposes of measuring industry support. For further discussion, *see* Initiation Checklist at Attachment II.

Based on information provided in the Petition, supplemental submissions, and other information readily available to the Department, we determine that the domestic producers and workers have met the statutory criteria for industry support under section 702(c)(4)(A)(i) of the Act because the domestic producers (or workers) who support the Petition account for at least 25 percent of the total production of the domestic like product. Because the Petition and supplemental submissions did not establish support from domestic producers (or workers) accounting for more than 50 percent of the total production of the domestic like product, the Department was required to take further action in order to evaluate industry support. See section 702(c)(4)(D) of the Act. In this case, the Department was able to rely on other information, in accordance with section 702(c)(4)(D)(i) of the Act, to determine industry support. *See* Initiation Checklist at Attachment II. Based on information provided in the Petition and other submissions, the domestic producers and workers have met the statutory criteria for industry support under section 702(c)(4)(A)(ii) of the Act because the domestic producers (or workers) who support the Petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the Petition. Accordingly, the Department determines that the Petition was filed on behalf of the domestic industry within the meaning of section 702(b)(1) of the Act. *See* Initiation Checklist at Attachment II.

The Department finds that petitioners filed the Petition on behalf of the domestic industry because they are an interested party as defined in sections 771(9)(C) and 771(9)(D) of the Act and has demonstrated sufficient industry support with respect to the CVD investigation that it is requesting the Department initiate. *See* Initiation Checklist at Attachment II.

Injury Test

Because the PRC is a "Subsidies Agreement Country" within the meaning of section 701(b) of the Act, section 701(a)(2) of the Act applies to this investigation. Accordingly, the ITC must determine whether imports of subject merchandise from the PRC materially injure, or threaten material injury to, a U.S. industry.

Allegations and Evidence of Material Injury and Causation

Petitioners allege that imports of drill pipe from the PRC are benefitting from countervailable subsidies and that such imports are causing, or threaten to cause, material injury to the domestic industry producing drill pipe. In addition, petitioners allege that subsidized imports exceed the negligibility threshold provided for under section 771(24)(A) of the Act.

Petitioners contend that the industry's injured condition is illustrated by reduced market share, reduced production, reduced shipments, reduced capacity and capacity utilization, underselling and price depression or suppression, reduced employment, hours worked, and wages paid, decline in financial performance, lost sales and revenue, and increase in import penetration. We have assessed the allegations and supporting evidence regarding material injury, threat of material injury, and causation, and we have determined that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. *See* Initiation Checklist at Attachment III (Analysis of Injury Allegations and Evidence of Material Injury and Causation).

Initiation of Countervailing Duty Investigation

Section 702(b) of the Act requires the Department to initiate a CVD proceeding whenever an interested party files a petition on behalf of an industry that: (1) alleges the elements necessary for an imposition of a duty under section 701(a) of the Act; and (2) is accompanied by information reasonably available to the petitioner(s) supporting the allegations.

The Department has examined the CVD Petition on drill pipe from the PRC and finds that it complies with the requirements of section 702(b) of the Act. Therefore, in accordance with section 702(b) of the Act, we are initiating a CVD investigation to determine whether manufacturers, producers, or exporters of drill pipe in the PRC receive countervailable subsidies. For a discussion of evidence supporting our initiation determination, *see* Initiation Checklist.

We are including in our investigation the following programs alleged in the Petition to have provided countervailable subsidies to producers and exporters of the subject merchandise in the PRC:

A. Preferential Loans and Interest Rates

1. Policy Loans To The Drill Pipe (DP) Industry
2. Export Loans from Policy Banks and State–Owned Commercial Banks (SOCBs)
3. Treasury Bond Loans
4. Preferential Loans for State–Owned Enterprises (SOEs)
5. Preferential Loans for Key Projects and Technologies
6. Preferential Lending to DP Producers and Exporters Classified as "Honorable Enterprises"

B. Debt-To-Equity Swaps and Loan Forgiveness

1. Debt–to-Equity Swaps
2. Loan and Interest Forgiveness for SOEs

C. Income Tax and Other Direct Tax Benefit Programs

1. Income Tax Credits for Domestically–Owned Companies Purchasing Domestically Produced Equipment
2. Reduction In Or Exemption From Fixed Assets Investment Orientation Regulatory Tax

D. Subsidies for Foreign Invested Enterprises (FIES)

1. "Two Free, Three Half" Program
2. Local Income Tax Exemption and Reduction Programs for "Productive" FIEs
3. Preferential Tax Programs for FIEs Recognized as High or New Technology Enterprises
4. Income Tax Reductions For Export–Oriented FIEs

B. Indirect Tax and Tariff Exemption Programs

1. Indirect Tax And Tariff And Vat Exemptions For FIEs And Certain Domestic Enterprises Using Imported Equipment In Encourage Industries
2. Deed Tax Exemption for SOEs Undergoing Mergers or Restructuring
3. Export Subsidies Characterized as "VAT Rebates"

F. Government Provision of Goods and Services for Less Than Adequate Remuneration (LTAR)

1. Provision of Land to SOEs for LTAR
2. Provision of Land Use Rights Within Designated Geographical Areas for LTAR
3. Provision of Steel Rounds for LTAR
4. Provision of Hot–Rolled Steel (HRS) for LTAR
5. Provision of Green Tube for LTAR
6. Provision of Electricity for LTAR
7. Provision of Electricity and Water at LTAR to DP Producers Located in Jiangsu Province
8. Provision of Coking Coal for LTAR

G. Grant Programs

1. State Key Technology Project Fund
2. Export Assistance Grants
3. Programs to Rebate Antidumping Legal Fees
4. GOC and Sub–Central Government Grants, Loans, and Other Incentives for Development of Famous Brands and China World Top Brands
5. Grants and Tax Benefits to Loss–Making SOEs at National and Local Level

H. Subsidies To DP Producers Located in Economic Development Zones

1. Economic and Technological Development Zones (ETDZ) Located in Tianjin Binhai New Area (TBNA)
2. ETDZs Located in Tianjin Economic and Technological Development Area (TEDA)
3. ETDZs Located in Yangtze Riverside Economic Development Zone (YREDZ)
4. High–Tech Industrial Development Zones (HTDZ)

For further information explaining why the Department is investigating these programs, *see* the Initiation Checklist.

Respondent Selection

For this investigation, the Department expects to select respondents based on U.S. Customs and Border Protection (CBP) data for U.S. imports during the POI. We intend to release the CBP data under Administrative Protective Order (APO) to all parties with access to information protected by APO within five days of the announcement of the initiation of this investigation. Interested parties may submit comments regarding the CBP data and respondent selection within seven calendar days of publication of this notice. We intend to make our decision regarding respondent selection within 20 days of publication of this **Federal Register** notice. Interested parties must submit applications for disclosure under APO in accordance with 19 CFR 351.305(b). Instructions for filing such applications may be found on the Department's website at http://ia.ita.doc.gov/apo.

Distribution of Copies of the Petition

In accordance with section 702(b)(3)(A) of the Act and 19 CFR 351.202(f), copies of the public versions of the Petition have been provided to the representatives of the GOC. Because of the large number of producers/exporters identified in the Petition, the Department considers the service of the public version of the Petition to the

foreign producers/exporters satisfied by the delivery of the public version to the Government of the PRC, consistent with 19 CFR 351.203(c)(2).

ITC Notification

We have notified the ITC of our initiation, as required by section 702(d) of the Act.

Preliminary Determination by the ITC

The ITC will preliminarily determine, within 25 days after the date on which it receives notice of the initiation, whether there is a reasonable indication that imports of subsidized drill pipe from the PRC are causing material injury, or threatening to cause material injury, to a U.S. industry. See section 703(a)(2) of the Act. A negative ITC determination will result in the investigation being terminated; otherwise, the investigation will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: January 20, 2010.

Ronald K. Lorentzen,

Deputy Assistant Secretary for Import Administration.

Appendix I

Scope of the Investigation

The products covered by this investigation are steel drill pipe, and steel drill collars, whether or not conforming to American Petroleum Institute (API) or non–API specifications, whether finished or unfinished (including green tubes suitable for drill pipe), without regard to the specific chemistry of the steel (i.e., carbon, stainless steel, or other alloy steel), and without regard to length or outer diameter. The scope does not include tool joints not attached to the drill pipe, nor does it include unfinished tubes for casing or tubing covered by any other antidumping or countervailing duty order.

The subject products are currently classified in the following Harmonized Tariff Schedule of the United States (HTSUS) categories: 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, 7304.23.6060, 8431.43.8040 and may also enter under 8431.43.8060, 8431.43.4000, 7304.39.0028, 7304.39.0032, 7304.39.0036, 7304.39.0040, 7304.39.0044, 7304.39.0048, 7304.39.0052, 7304.39.0056, 7304.49.0015, 7304.49.0060, 7304.59.8020, 7304.59.8025, 7304.59.8030, 7304.59.8035, 7304.59.8040, 7304.59.8045, 7304.59.8050, and 7304.59.8055.[2]

While HTSUS subheadings are provided for convenience and Customs purposes, the written description of the scope of these investigations is dispositive.

[2] Prior to February 2, 2007, these imports entered under different tariff classifications, including 7304.21.3000, 7304.21.6030, 7304.21.6045, and 7304.21.6060.

[FR Doc. 2010–1629 Filed 1–26–10; 8:45 am]

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DEPARTMENT OF COMMERCE

International Trade Administration

[A–570–965]

Drill Pipe from the People's Republic of China: Initiation of Antidumping Duty Investigations

EFFECTIVE DATE: January 28, 2010.

FOR FURTHER INFORMATION CONTACT: Toni Dach or Scot T. Fullerton, AD/CVD Operations, Office 9, (202) 482–1655 or (202) 482–1386, respectively; Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230.

SUPPLEMENTARY INFORMATION: On December 31, 2009[1], the Department of Commerce (the "Department") received a petition concerning imports of drill pipe from the People's Republic of China ("PRC") filed in proper form by VAM Drilling USA, Inc., Texas Steel Conversion, Inc., Rotary Drilling Tools, TMK IPSCO, and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL–CIO-CLC ("Petitioners"). *See* "Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the People's Republic of China," dated December 31, 2009 ("Petition"). On January 6, 2010, the Department issued additional requests for information and clarification of certain areas of the Petition. Petitioners timely filed additional information on January 11, 2010. *See* "Drill Pipe from the People's Republic of China," dated January 11, 2010 ("Supplement to the PRC AD Petition"). In addition, Petitioners further timely filed additional information pertaining to general issues in the Petition on January 11, 2010. *See* "Petition for the Imposition of Antidumping Duties on Drill Pipe from the PRC: Response to Department's Letter of January 6, 2010," dated January 11, 2010 ("Supplement to the AD/CVD Petitions"). On January 14, 2010, the Department issued a second request for information and clarification of certain areas of the Petition. Petitioners timely filed additional information on January 15, 2010. *See* "Petitions for the Imposition of Antidumping and Countervailing Duties: Response to the Department's Letter of January 14, 2010," dated January 15, 2010 ("Second Supplement to the AD/CVD Petitions"); *see also* "Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to Department's Letter of January 14, 2010: Additional Affidavit, dated January 15, 2010 ("Third Supplement to the AD/CVD Petitions"). On January 19, 2010, Petitioners filed further clarifications related to general issues. *See* "Petitions for the Imposition of Antidumping and Countervailing Duties: Drill Pipe from the PRC: Response to the Department's letter of January 14, 2010: Additional Affidavit," dated January 19, 2010 ("Fourth Supplement to the AD/CVD Petitions").

In addition, on both January 15, and January 19, 2010, we received comments filed by Lehnardt & Lehnardt, LLC, on behalf of Downhole Pipe & Equipment, LP ("Downhole Pipe") and Command Energy Services International ("Command Energy"), U.S. importers of drill pipe from China. Downhole Pipe and Command Energy are interested parties as defined by section 771(9)(A) of the Act.

The period of investigation ("POI") is April 1, 2009, through September 30, 2009. See 19 CFR 351.204(b)(1).

In accordance with section 732(b) of the Act, Petitioners allege that imports of drill pipe from the PRC are being, or are likely to be, sold in the United States at less than fair value, within the meaning of section 731 of the Act, and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that Petitioners filed the Petition on behalf of the domestic industry because Petitioners are an interested party, as defined in section 771(9)(C) and (D) of the Act, and have demonstrated sufficient industry support with respect to the antidumping duty investigation that Petitioners are requesting the Department to initiate

[1] The Petitioners filed the Petition at the International Trade Commission ("ITC") after 12:00 noon on December 30, 2009, therefore, pursuant to 19 CFR 207.10(a), the ITC deemed the Petition to have been filed on the next business day, December 31, 2009. Section 732(b)(2) of the Tariff Act of 1930, as amended (the "Act") requires simultaneous filings of antidumping duty petitions with the Department and the ITC, therefore, we deem the Petition to have been filed with the Department on December 31, 2009. This file date will change the initiation date from January 19, 2009, to January 20, 2009. See Memorandum to Ronald K. Lorentzen, entitled "Decision Memorandum Concerning Petitions Filing Date," dated concurrently with this checklist.

(*see* "Determination of Industry Support for the Petition" section below).

Scope of the Investigation

The product covered by this investigation is drill pipe from the PRC. For a full description of the scope of the investigation, please *see* "Scope of Investigation," in Appendix I of this notice.

Comments on Scope of the Investigation

During our review of the Petition, we discussed the scope with Petitioners to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the regulations (*Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department encourages interested parties to submit such comments by Wednesday, February 10, 2010, which is twenty calendar days from the signature date of this notice. Comments should be addressed to Import Administration's APO/Dockets Unit, Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determination.

Comments on Product Characteristics for Antidumping Duty Questionnaires

We are requesting comments from interested parties regarding the appropriate physical characteristics of drill pipe to be reported in response to the Department's antidumping questionnaires. This information will be used to identify the key physical characteristics of the merchandise under consideration in order to more accurately report the relevant factors and costs of production, as well as to develop appropriate product comparison criteria.

Interested parties may provide information or comments that they believe are relevant to the development of an accurate listing of physical characteristics. Specifically, they may provide comments as to which characteristics are appropriate to use as: 1) general product characteristics; and 2) the product comparison criteria. We note that it is not always appropriate to use all product characteristics as product comparison criteria. We base product comparison criteria on meaningful commercial differences among products. In other words, while there may be some physical product characteristics utilized by manufacturers to describe drill pipe, it may be that only a select few product characteristics take into account commercially meaningful physical characteristics. In addition, interested parties may comment on the order in which the physical characteristics should be used in product matching. Generally, the Department attempts to list the most important physical characteristics first and the least important characteristics last.

In order to consider the suggestions of interested parties in developing and issuing the antidumping duty questionnaires, we must receive comments at the above–referenced address by February 10, 2010. Additionally, rebuttal comments must be received by February 17, 2010.

Determination of Industry Support for the Petition

Section 732(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 732(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for: (i) at least 25 percent of the total production of the domestic like product; and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 732(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A); or (ii) determine industry support using a statistically valid sampling method to poll the industry.

Section 771(4)(A) of the Act defines the "industry" as the producers as a whole of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The IITC, which is responsible for determining whether "the domestic industry" has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (see section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. *See USEC, Inc. v. United States*, 132 F. Supp. 2d 1, 8 (CIT 2001), citing *Algoma Steel Corp., Ltd. v. United States*, 688 F. Supp. 639, 644 (CIT 1988), *aff'd* 865 F.2d 240 (Fed. Cir. 1989), *cert. denied* 492 U.S. 919 (1989).

Section 771(10) of the Act defines the domestic like product as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title." Thus, the reference point from which the domestic like product analysis begins is "the article subject to an investigation" (*i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition).

With regard to the domestic like product, Petitioners do not offer a definition of domestic like product distinct from the scope of the investigations. Based on our analysis of the information submitted on the record, we have determined that drill pipe constitutes a single domestic like product and we have analyzed industry support in terms of that domestic like product. For a discussion of the domestic like product analysis in this case, see Antidumping Duty Investigation Initiation Checklist: Drill Pipe from the People's Republic of China ("Checklist"), at Attachment II, Industry Support, on file in the Central Records Unit, Room 1117 of the main Department of Commerce building.

In determining whether Petitioners have standing under section 732(c)(4)(A) of the Act, we considered the industry support data contained in the Petition with reference to the domestic like product as defined in the "Scope of Investigations" section above. To establish industry support, Petitioners provided their production of the domestic like product in 2008, and compared this to the estimated total production of the domestic like product for the entire domestic industry. *See* Volume I of the Petition at 2–3; *see also* Supplement to the AD/CVD Petitions at 6–13 and Exhibit 3; Second Supplement to the AD/CVD Petitions at 1–4 and Exhibits 1–3; Third Supplement to the AD/CVD Petitions at Exhibit 1; and Fourth Supplement to the AD/CVD Petitions at Exhibit 1. To estimate 2008 production of the domestic like product, Petitioners used their own data and

industry specific knowledge. *See* Second Supplement to the AD/CVD Petitions at 1–4 and Exhibits 1–3; *see also* Checklist at Attachment II. We have relied upon data Petitioners provided for purposes of measuring industry support. For further discussion, *see* Checklist at Attachment II.

Based on information provided in the Petition, supplemental submissions, and other information readily available to the Department, we determine that the domestic producers and workers have met the statutory criteria for industry support under section 732(c)(4)(A)(i) of the Act because the domestic producers (or workers) who support the Petition account for at least 25 percent of the total production of the domestic like product. Because the Petition and supplemental submissions did not establish support from domestic producers (or workers) accounting for more than 50 percent of the total production of the domestic like product, the Department was required to take further action in order to evaluate industry support. *See* section 732(c)(4)(D) of the Act. In this case, the Department was able to rely on other information, in accordance with section 732(c)(4)(D)(i) of the Act, to determine industry support. *See* Checklist at Attachment II. Based on information provided in the Petition and other submissions, the domestic producers and workers have met the statutory criteria for industry support under section 732(c)(4)(A)(ii) of the Act because the domestic producers (or workers) who support the Petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the Petition. Accordingly, the Department determines that the Petition was filed on behalf of the domestic industry within the meaning of section 732(b)(1) of the Act. *See* Checklist at Attachment II.

The Department finds that Petitioners filed the Petition on behalf of the domestic industry because it is an interested party as defined in section 771(9)(C) and (D) of the Act and it has demonstrated sufficient industry support with respect to the antidumping duty investigations that it is requesting the Department initiate. *Id.*

Allegations and Evidence of Material Injury and Causation

Petitioners allege that the U.S. industry producing the domestic like product is being materially injured, or is threatened with material injury, by reason of the imports of the subject merchandise sold at less than normal value ("NV"). In addition, Petitioners allege that subject imports exceed the negligibility threshold provided for under section 771(24)(A) of the Act.

Petitioners contend that the industry's injured condition is illustrated by reduced market share, reduced production, reduced shipments, reduced capacity and capacity utilization, underselling and price depression or suppression, reduced employment, hours worked, and wages paid, decline in financial performance, lost sales and revenue, and increase in import penetration. *See* Vol. I of the Petition, at 13–25. We have assessed the allegations and supporting evidence regarding material injury, threat of material injury, and causation, and we have determined that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. *See* Checklist at Attachment III, Injury.

Allegations of Sales at Less Than Fair Value

The following is a description of the allegations of sales at less than fair value upon which the Department based its decision to initiate this investigation of imports of drill pipe from the PRC. The sources of data for the deductions and adjustments relating to the U.S. price and the factors of production are also discussed in the initiation checklist. *See* Checklist.

U.S. Price

Petitioners calculated export price ("EP") based on documentation of offers for sale obtained from a confidential source. *See* Checklist; *see also* Vol. II of the Petition, at 2–4 and Exhibits II–3–B and II–3–C. Based on the terms of sale, Petitioners adjusted the export price for brokerage and handling and foreign domestic inland freight. *See* Checklist; *see also* Supplement to the AD PRC Petition at 4–5 and Exhibit 5.

Petitioners also calculated margins based on the weighted average unit value data for the POI of imports from the PRC of drill pipe. Based on the terms of sale, Petitioners adjusted the export price for brokerage and handling and foreign domestic inland freight. *Id.*

Normal Value

Petitioners claim the PRC is a non–market economy ("NME") country and that no determination to the contrary has been made by the Department. *See* Vol. I of the Petition, at 1. In accordance with section 771(18)(C)(i) of the Act, the presumption of NME status remains in effect until revoked by the Department. The presumption of NME status for the PRC has not been revoked by the Department and, therefore, remains in effect for purposes of the initiation of this investigation. Accordingly, the NV of the product for the PRC investigation is appropriately based on factors of production valued in a surrogate market–economy country in accordance with section 773(c) of the Act. In the course of this investigation, all parties, including the public, will have the opportunity to provide relevant information related to the issue of the PRC's NME status and the granting of separate rates to individual exporters.

Petitioners contend that India is the appropriate surrogate country for the PRC because: 1) it is at a level of economic development comparable to that of the PRC and 2) it is a significant producer and exporter of comparable merchandise. *See* Vol. II of the Petition, at 1–2. Based on the information provided by Petitioners, we believe that it is appropriate to use India as a surrogate country for initiation purposes. After initiation of the investigation, interested parties will have the opportunity to submit comments regarding surrogate country selection and, pursuant to 19 CFR 351.301(c)(3)(i), will be provided an opportunity to submit publicly available information to value factors of production within 40 days after the date of publication of the preliminary determination.

Petitioners calculated NV and the dumping margins using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C) and 19 CFR 351.408. Petitioners calculated NV based on consumption rates of the factors of production on the average consumption rates of a drill pipe producer in the United States ("Surrogate Domestic Producer") for identical or similar merchandise. *See* Vol. II of the Petition, at 5–6 and Exhibit II–1–B. In calculating NV, Petitioners based the quantity of each of the inputs used to manufacture drill pipe in the PRC on product–specific production costs and/or consumption rates of the Surrogate Domestic Producer during the POI. *See* Vol. II of the Petition, at 6–12 and Exhibits II–1–B, II–4. Petitioners state that the actual usage rates of the foreign manufacturers of drill pipe are not reasonably available; however, Petitioners note that according to the information available, the production of drill pipe relies on similar production methods to the Surrogate Domestic Producer. *See* Vol. II of the Petition, at 5; *see also* Supplement to the AD/CVD Petitions at 3–4.

As noted above, Petitioners determined the consumption quantities of all raw materials based on the

production experience of the Surrogate Domestic Producer. Petitioners valued the factors of production based on reasonably available, public surrogate country data, specifically, Indian import statistics from the Global Trade Atlas ("GTA").[2] *See* Vol. II of the Petition, at 6; *see also* Supplement to the AD/CVD Petitions at 5 and Exhibit 5. Petitioners excluded from these import statistics imports from countries previously determined by the Department to be NME countries. Petitioners also excluded import statistics from Indonesia, the Republic of Korea, and Thailand, as the Department has previously excluded prices from these countries because they maintain broadly available, non–industry-specific export subsidies.[3] *Id.* In addition, Petitioners made currency conversions, where necessary, based on the POI–average rupee/U.S. dollar exchange rate, as reported on the Department's web site. *See* Vol. II of the Petition, at Exhibit II–5. Petitioners determined labor costs using the labor consumption, in hours, derived from the Surrogate Domestic Producer's experience. *See* Vol. II of the Petition, at 12 and Exhibit II–4–C–1. Petitioners valued labor costs using the Department's NME Wage Rate for the PRC at *http://ia.ita.doc.gov/wages/07wages/final/final–2009–2007–wages.html*. *Id.* For purposes of initiation, the Department determines that the surrogate values used by Petitioners are reasonably available and, thus, acceptable for purposes of initiation.

Petitioners determined electricity costs using the electricity consumption, in kilowatt hours, derived from the Surrogate Domestic Producer's experience. *See* Vol. II of the Petition, at 11–12 and Exhibit II–4–C–1; *see also* Supplement to the AD/CVD Petitions at 3 and Exhibit 3. Petitioners valued electricity using the Indian electricity rate reported by the Central Electric Authority of the Government of India. *See* Vol. II of the Petition, at 11–12 and Exhibit II–4–C–2.

Petitioners did not identify packing materials used in preparing finished drill pipe. Consequently, Petitioners did not include packing materials in its calculation of normal value. *See* Second Supplement to the AD/CVD Petitions at 5.

Petitioners based factory overhead, selling, general and administrative, and profit on data from Oil Country Tubular Ltd., a producer of similar merchandise, for the 2008 – 2009 fiscal year. *See* Vol. II of the Petition, at 12 and Exhibit II-4–D–1.

Fair–Value Comparisons

Based on the data provided by Petitioners, there is reason to believe that imports of drill pipe from the PRC are being, or are likely to be, sold in the United States at less than fair value. Based on a comparison of U.S. prices and NV calculated in accordance with section 773(c) of the Act, the estimated dumping margins for drill pipe from the PRC, using GTA values for all inputs, range from 429.53 percent to 496.93 percent. *See* Checklist and Second Supplement to the AD/CVD Petitions at Exhibit 5. In addition, Petitioners provided estimated dumping margins using POI average–unit values for imports of PRC–origin drill pipe into the United States, and Petitioners' own cost data for tool joints. *See* Checklist at 10.

Initiation of Antidumping Investigation

Based upon the examination of the Petition on drill pipe from the PRC, the Department finds the Petition meets the requirements of section 732 of the Act. Therefore, we are initiating an antidumping duty investigation to determine whether imports of drill pipe from the PRC are being, or are likely to be, sold in the United States at less than fair value. In accordance with section 733(b)(1)(A) of the Act and 19 CFR 351.205(b)(1), unless postponed, we will make our preliminary determinations no later than 140 days after the date of this initiation.

Targeted–Dumping Allegations

On December 10, 2008, the Department issued an interim final rule for the purpose of withdrawing 19 CFR 351.414(f) and (g), the regulatory provisions governing the targeted-dumping analysis in antidumping duty investigations, and the corresponding regulation governing the deadline for targeted–dumping allegations, 19 CFR 351.301(d)(5). *See Withdrawal of the Regulatory Provisions Governing Targeted Dumping in Antidumping Duty Investigations*, 73 FR 74930 (December 10, 2008). The Department stated that "withdrawal will allow the Department to exercise the discretion intended by the statute and, thereby, develop a practice that will allow interested parties to pursue all statutory avenues of relief in this area." *Id.* at 74931.

In order to accomplish this objective, if any interested party wishes to make a targeted- dumping allegation in either of these investigations pursuant to section 777A(d)(1)(B) of the Act, such allegations are due no later than 45 days before the scheduled date of the preliminary determination.

Respondent Selection

For this investigation, the Department will request quantity and value information from known exporters and producers identified with complete contact information in the Petition. The quantity and value data received from NME exporters/producers will be used as the basis to select the mandatory respondents.

The Department requires that the respondents submit a response to both the quantity and value questionnaire and the separate–rate application by the respective deadlines in order to receive consideration for separate–rate status. *See Circular Welded Austenitic Stainless Pressure Pipe from the People's Republic of China: Initiation of Antidumping Duty Investigation*, 73 FR 10221, 10225 (February 26, 2008); *Initiation of Antidumping Duty Investigation: Certain Artist Canvas From the People's Republic of China*, 70 FR 21996, 21999 (April 28, 2005). On the date of the publication of this initiation notice in the **Federal Register**, the Department will post the quantity and value questionnaire along with the filing instructions on the Import Administration web site at *http://ia.ita.doc.gov/ia–highlights-and–news.html*, and a response to the quantity and value questionnaire is due no later than February 11, 2010. Also, the Department will send the quantity and value questionnaire to those PRC companies identified in the Petition at Exhibit I–7 and in the Second Supplement to the AD/CVD Petitions at Exhibit 4.

Interested parties must submit applications for disclosure under APO in accordance with 19 CFR 351.305. Instructions for filing such applications may be found on the Department's web site at *http://ia.ita.doc.gov/apo*.

Separate Rates Application

In order to obtain separate–rate status in NME investigations, exporters and producers must submit a separate–rate status application. See Policy Bulletin 05.1: Separate–Rates Practice and Application of Combination Rates in Antidumping Investigations involving Non–Market Economy Countries, dated April 5, 2005 ("Policy Bulletin"), available on the Department's web site at *http://ia.ita.doc.gov/policy/bull05–*

[2] Petitioners also provided NV calculations based on their purchase price for tool joints. *Id; see also* Checklist for more discussion on these calculations, as well as the "Fair-Value Comparison" section below.

[3] We adjusted Petitioners' data to exclude the inflators used to inflate the contemporaneous GTA data.

1.pdf. Based on our experience in processing the separate–rate applications in previous antidumping duty investigations, we have modified the application for this investigation to make it more administrable and easier for applicants to complete. *See, e.g., Initiation of Antidumping Duty Investigation: Certain New Pneumatic Off–the-Road Tires From the People's Republic of China*, 72 FR 43591, 43594–95 (August 6, 2007). The specific requirements for submitting the separate–rate application in this investigation are outlined in detail in the application itself, which will be available on the Department's web site at *http://ia.ita.doc.gov/ia–highlights-and–news.html* on the date of publication of this initiation notice in the **Federal Register**. The separate–rate application will be due 60 days after publication of this initiation notice. For exporters and producers who submit a separate–rate status application and subsequently are selected as mandatory respondents, these exporters and producers will no longer be eligible for consideration for separate rate status unless they respond to all parts of the questionnaire as mandatory respondents. As noted in the "Respondent Selection" section above, the Department requires that respondents submit a response to both the quantity and value questionnaire and the separate rate application by the respective deadlines in order to receive consideration for separate–rate status.

Use of Combination Rates in an NME Investigation

The Department will calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. The Policy Bulletin states:

> {W}hile continuing the practice of assigning separate rates only to exporters, all separate rates that the Department will now assign in its NME investigations will be specific to those producers that supplied the exporter during the period of investigation. Note, however, that one rate is calculated for the exporter and all of the producers which supplied subject merchandise to it during the period of investigation. This practice applies both to mandatory respondents receiving an individually calculated separate rate as well as the pool of non–investigated firms receiving the weighted–average of the individually calculated rates. This practice is referred to as the application of "combination rates" because such rates apply to specific combinations of exporters and one or more producers. The cash–deposit rate assigned to an exporter will apply only to merchandise both exported by the firm in question *and* produced by a firm that supplied the exporter during the period of investigation.

See Policy Bulletin at 6 (emphasis added).

Distribution of Copies of the Petition

In accordance with section 732(b)(3)(A) of the Act and 19 CFR 351.202(f), copies of the public versions of the Petition have been provided to the representatives of the Government of the PRC. Because of the large number of producers/exporters identified in the Petition, the Department considers the service of the public version of the Petition to the foreign producers/exporters satisfied by the delivery of the public version to the Government of the PRC, consistent with 19 CFR 351.203(c)(2).

ITC Notification

We have notified the ITC of our initiations, as required by section 732(d) of the Act.

Preliminary Determinations by the ITC

The ITC will preliminarily determine, no later than February 16, 2010, whether there is a reasonable indication that imports of drill pipe from the PRC are materially injuring, or threatening material injury to a U.S. industry. A negative ITC determination will result in the investigation being terminated; otherwise, this investigation will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated January 20, 2010.

Ronald K. Lorentzen,

Deputy Assistant Secretary for Import Administration.

Appendix I

Scope of the Investigation

The products covered by the investigation are steel drill pipe, and steel drill collars, whether or not conforming to American Petroleum Institute (API) or non–API specifications, whether finished or unfinished (including green tubes suitable for drill pipe), without regard to the specific chemistry of the steel (*i.e.*, carbon, stainless steel, or other alloy steel), and without regard to length or outer diameter. The scope does not include tool joints not attached to the drill pipe, nor does it include unfinished tubes for casing or tubing covered by any other antidumping or countervailing duty order.

The subject products are currently classified in the following Harmonized Tariff Schedule of the United States (HTSUS) categories: 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, 7304.23.6060, 8431.43.8040 and may also enter under 8431.43.8060, 8431.43.4000, 7304.39.0028, 7304.39.0032, 7304.39.0036, 7304.39.0040, 7304.39.0044, 7304.39.0048, 7304.39.0052, 7304.39.0056, 7304.49.0015, 7304.49.0060, 7304.59.8020, 7304.59.8025, 7304.59.8030, 7304.59.8035, 7304.59.8040, 7304.59.8045, 7304.59.8050, and 7304.59.8055.[4]

While HTSUS subheadings are provided for convenience and Customs purposes, the written description of the scope of the investigation is dispositive.

[FR Doc. 2010–1795 Filed 1–27–10; 8:45 am]

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[4] Prior to February 2, 2007, these imports entered under different tariff classifications, including 7304.21.3000, 7304.21.6030, 7304.21.6045, and 7304.21.6060.

APPENDIX B

CONFERENCE WITNESSES

CALENDAR OF PUBLIC CONFERENCE

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

Subject: Drill Pipe and Drill Collars from China

Inv. Nos.: 701-TA-474 and 731-TA-1176 (Preliminary)

Date and Time: January 21, 2010- 9:30 a.m.

The conference in connection with these investigations was held in Court Room A, 500 E Street, SW, Washington, D.C.

OPENING REMARKS:

Petitioners (Roger B. Schagrin, Schagrin Associates)
Respondents (Mark B. Lehnardt, Lehnardt & Lehnardt, LLC)

In Support of the Imposition of Antidumping Duties and Countervailing Duties:

Schagrin Associates
Washington, DC
on behalf of

VAM Drilling
Texas Steel Conversion, Inc.
Rotary Drilling Tools
TMK IPSCO
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC

In Support of the Imposition of – *Continued*
Antidumping Duties and Countervailing Duties:

Doug Fields, President,
VAM Drilling USA

Kevin Parks, Vice President of Sales,
VAM Drilling USA

Steve Williamson, Director of Strategic Development,
VAM Drilling USA

James Brand, Product Manager,
Texas Steel Conversion, Inc.

Sealy Morris, President,
Rotary Drilling Tools

Mike Ramsey, Product Manager, Seamless Industrial Products,
TMK IPSCO

Linda Andros, Legislative Counsel,
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC

Roger B. Schagrin, Esq.)
John W. Bohn, Esq.) – OF COUNSEL
Paul W. Jameson, Esq.)

In Opposition to the Imposition of
Antidumping Duties and Countervailing Duties:

Lehnardt & Lehnardt, LLC
Liberty, MO
on behalf of

Command Energy Services, Ltd.
Downhole Pipe & Equipment, L.P.

Charlie Garvey, CEO,
Command Energy Services, Ltd.

Jim Mostoway, VP Product Control,
Command Energy Services, Ltd.

David Lesco, General Manager,
Downhole Pipe & Equipment, L.P.

Bruce P. Malashevich, President
Economic Consulting Services, LLC

Mark B. Lehnardt, Esq.)
Mark D. Davis, Esq.) – OF COUNSEL
Irene H. Chen, Esq.)

REBUTTAL/CLOSING REMARKS:

Petitioners (**Roger B. Schagrin, Schagrin Associates**)
Respondents (**Mark B. Lehnardt, Lehnardt & Lehnardt, LLC**)

APPENDIX C

SUMMARY DATA

Table C-1
Unfinished drill pipe: Summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. consumption quantity:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. consumption value:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. imports from:									
China:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Average capacity quantity	166,721	172,147	158,236	120,556	104,110	-5.1	3.3	-8.1	-13.6
Production quantity	88,383	75,724	90,830	69,734	5,016	2.8	-14.3	19.9	-92.8
Capacity utilization (1)	53.0	44.0	57.4	57.8	4.8	4.4	-9.0	13.4	-53.0
U.S. shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Export shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Inventories/total shipments (1)	***	***	***	***	***	***	***	***	***
Production workers	163	176	202	176	38	23.9	8.0	14.8	-78.4
Hours worked (1,000s)	380	364	426	318	59	12.1	-4.2	17.0	-81.4
Wages paid ($1,000s)	8,240	7,420	10,005	7,324	1,285	21.4	-10.0	34.8	-82.5
Hourly wages	$21.68	$20.38	$23.49	$23.03	$21.78	8.3	-6.0	15.2	-5.4
Productivity (tons/1,000 hours)	232.6	208.0	213.2	219.3	85.0	-8.3	-10.6	2.5	-61.2
Unit labor costs	$93.23	$97.99	$110.15	$105.03	$256.18	18.1	5.1	12.4	143.9
Net sales:									
Quantity	83,628	78,561	90,178	67,865	7,823	7.8	-6.1	14.8	-88.5
Value	119,719	117,252	178,647	128,608	12,672	49.2	-2.1	52.4	-90.1
Unit value	$1,432	$1,492	$1,981	$1,895	$1,620	38.4	4.3	32.7	-14.5
Cost of goods sold (COGS)	84,646	82,356	116,292	87,926	13,878	37.4	-2.7	41.2	-84.2
Gross profit or (loss)	35,073	34,896	62,355	40,682	(1,206)	77.8	-0.5	78.7	(3)
SG&A expenses	6,312	6,468	9,039	6,052	1,751	43.2	2.5	39.7	-71.1
Operating income or (loss)	28,761	28,428	53,316	34,630	(2,957)	85.4	-1.2	87.5	(3)
Capital expenditures	***	***	***	***	***	***	***	***	***
Unit COGS	$1,012	$1,048	$1,290	$1,296	$1,774	27.4	3.6	23.0	36.9
Unit SG&A expenses	$75	$82	$100	$89	$224	32.8	9.1	21.7	151.0
Unit operating income or (loss)	$344	$362	$591	$510	($378)	71.9	5.2	63.4	(3)
COGS/sales (1)	70.7	70.2	65.1	68.4	109.5	-5.6	-0.5	-5.1	41.1
Operating income or (loss)/ sales (1)	24.0	24.2	29.8	26.9	(23.3)	5.8	0.2	5.6	-50.3

(1) "Reported data" are in percent and "period changes" are in percentage points.
(2) Not applicable/not available.
(3) Undefined.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

Table C-2
Finished drill pipe: Summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. consumption quantity:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. consumption value:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. imports from:									
China:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Average capacity quantity	189,393	239,046	241,203	186,574	191,268	27.4	26.2	0.9	2.5
Production quantity	182,560	216,718	193,827	143,847	88,485	6.2	18.7	-10.6	-38.5
Capacity utilization (1)	96.4	90.7	80.4	77.1	46.3	-16.0	-5.7	-10.3	-30.8
U.S. shipments:									
Quantity	135,667	167,827	121,092	88,761	49,858	-10.7	23.7	-27.8	-43.8
Value	635,689	927,758	738,658	527,289	310,723	16.2	45.9	-20.4	-41.1
Unit value	$4,686	$5,528	$6,100	$5,941	$6,232	30.2	18.0	10.3	4.9
Export shipments:									
Quantity	42,316	47,562	67,553	46,988	31,071	59.6	12.4	42.0	-33.9
Value	222,219	318,066	474,369	335,166	241,497	113.5	43.1	49.1	-27.9
Unit value	$5,251	$6,687	$7,022	$7,133	$7,772	33.7	27.3	5.0	9.0
Ending inventory quantity	12,814	14,142	19,325	22,240	26,882	50.8	10.4	36.6	20.9
Inventories/total shipments (1)	7.2	6.6	10.2	12.3	24.9	3.0	-0.6	3.7	12.6
Production workers	1,138	1,335	1,377	1,404	1,083	21.0	17.3	3.1	-22.9
Hours worked (1,000s)	3,017	3,595	3,596	2,525	1,860	19.2	19.2	0.0	-26.3
Wages paid ($1,000s)	46,783	59,106	63,623	42,721	28,868	36.0	26.3	7.6	-32.4
Hourly wages	$15.51	$16.44	$17.69	$16.92	$15.52	14.1	6.0	7.6	-8.3
Productivity (tons/1,000 hours)	60.5	60.3	53.9	57.0	47.6	-10.9	-0.4	-10.6	-16.5
Unit labor costs	$256.26	$272.73	$328.25	$296.99	$326.25	28.1	6.4	20.4	9.9
Net sales:									
Quantity	177,983	216,390	188,644	135,750	80,929	6.0	21.6	-12.8	-40.4
Value	857,907	1,245,824	1,213,027	862,455	552,221	41.4	45.2	-2.6	-36.0
Unit value	$4,820	$5,757	$6,430	$6,353	$6,824	33.4	19.4	11.7	7.4
Cost of goods sold (COGS)	567,517	758,482	736,955	504,909	434,447	29.9	33.6	-2.8	-14.0
Gross profit or (loss)	290,390	487,342	476,072	357,546	117,774	63.9	67.8	-2.3	-67.1
SG&A expenses	25,642	30,940	42,863	29,521	36,598	67.2	20.7	38.5	24.0
Operating income or (loss)	264,748	456,402	433,209	328,025	81,176	63.6	72.4	-5.1	-75.3
Capital expenditures	***	***	***	***	***	***	***	***	***
Unit COGS	$3,189	$3,505	$3,907	$3,719	$5,368	22.5	9.9	11.5	44.3
Unit SG&A expenses	$144	$143	$227	$217	$452	57.7	-0.8	58.9	108.0
Unit operating income or (loss)	$1,487	$2,109	$2,296	$2,416	$1,003	54.4	41.8	8.9	-58.5
COGS/sales (1)	66.2	60.9	60.8	58.5	78.7	-5.4	-5.3	-0.1	20.1
Operating income or (loss)/ sales (1)	30.9	36.6	35.7	38.0	14.7	4.9	5.8	-0.9	-23.3

(1) "Reported data" are in percent and "period changes" are in percentage points.
(2) Not available.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

Table C-3
Unfinished drill collars: Summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. producers':									
Average capacity quantity	***	***	***	***	***	***	***	***	***
Production quantity	***	***	***	***	***	***	***	***	***
Capacity utilization (1)	***	***	***	***	***	***	***	***	***
U.S. shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Export shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Inventories/total shipments (1)	***	***	***	***	***	***	***	***	***
Production workers	***	***	***	***	***	***	***	***	***
Hours worked (1,000s)	***	***	***	***	***	***	***	***	***
Wages paid ($1,000s)	***	***	***	***	***	***	***	***	***
Hourly wages	***	***	***	***	***	***	***	***	***
Productivity (tons/1,000 hours)	***	***	***	***	***	***	***	***	***
Unit labor costs	***	***	***	***	***	***	***	***	***
Net sales:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Cost of goods sold (COGS)	***	***	***	***	***	***	***	***	***
Gross profit or (loss)	***	***	***	***	***	***	***	***	***
SG&A expenses	***	***	***	***	***	***	***	***	***
Operating income or (loss)	***	***	***	***	***	***	***	***	***
Capital expenditures	***	***	***	***	***	***	***	***	***
Unit COGS	***	***	***	***	***	***	***	***	***
Unit SG&A expenses	***	***	***	***	***	***	***	***	***
Unit operating income or (loss)	***	***	***	***	***	***	***	***	***
COGS/sales (1)	***	***	***	***	***	***	***	***	***
Operating income or (loss)/ sales (1)	***	***	***	***	***	***	***	***	***

(1) "Reported data" are in percent and "period changes" are in percentage points.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Note.--***.

Source: Compiled from data submitted in response to Commission questionnaires.

Table C-4
Finished drill collars: Summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. consumption quantity:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. consumption value:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. imports from:									
China:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Average capacity quantity	45,551	53,369	57,688	43,266	43,266	26.6	17.2	8.1	0.0
Production quantity	38,106	51,212	44,175	28,880	19,080	15.9	34.4	-13.7	-33.9
Capacity utilization (1)	83.7	96.0	76.6	66.7	44.1	-7.1	12.3	-19.4	-22.7
U.S. shipments:									
Quantity	25,660	38,143	23,049	17,267	9,986	-10.2	48.6	-39.6	-42.2
Value	74,131	123,398	92,013	66,121	33,104	24.1	66.5	-25.4	-49.9
Unit value	$2,889	$3,235	$3,992	$3,829	$3,315	38.2	12.0	23.4	-13.4
Export shipments:									
Quantity	8,799	8,850	14,937	10,123	10,177	69.8	0.6	68.8	0.5
Value	26,628	31,014	57,202	41,276	35,252	114.8	16.5	84.4	-14.6
Unit value	$3,026	$3,504	$3,830	$4,077	$3,464	26.5	15.8	9.3	-15.0
Ending inventory quantity	14,999	19,081	24,807	19,506	21,791	65.4	27.2	30.0	11.7
Inventories/total shipments (1)	43.5	40.6	65.3	53.4	81.1	21.8	-2.9	24.7	27.6
Production workers	162	204	207	199	148	27.8	25.9	1.5	-25.6
Hours worked (1,000s)	410	517	547	350	279	33.4	26.1	5.8	-20.3
Wages paid ($1,000s)	8,595	11,767	12,855	8,647	5,565	49.6	36.9	9.2	-35.6
Hourly wages	$20.96	$22.76	$23.50	$24.71	$19.95	12.1	8.6	3.3	-19.3
Productivity (tons/1,000 hours)	92.9	99.1	80.8	82.5	68.4	-13.1	6.6	-18.5	-17.1
Unit labor costs	$225.56	$229.77	$291.00	$299.41	$291.67	29.0	1.9	26.6	-2.6
Net sales:									
Quantity	34,459	46,993	37,986	27,389	20,163	10.2	36.4	-19.2	-26.4
Value	100,759	154,411	149,215	107,397	68,357	48.1	53.2	-3.4	-36.4
Unit value	$2,924	$3,286	$3,928	$3,921	$3,390	34.3	12.4	19.5	-13.5
Cost of goods sold (COGS)	72,272	98,228	102,084	68,403	55,796	41.2	35.9	3.9	-18.4
Gross profit or (loss)	28,487	56,183	47,131	38,994	12,561	65.4	97.2	-16.1	-67.8
SG&A expenses	5,462	8,972	11,179	8,072	5,217	104.7	64.3	24.6	-35.4
Operating income or (loss)	23,025	47,211	35,952	30,922	7,344	56.1	105.0	-23.8	-76.2
Capital expenditures	***	***	***	***	***	***	***	***	***
Unit COGS	$2,097	$2,090	$2,687	$2,497	$2,767	28.1	-0.3	28.6	10.8
Unit SG&A expenses	$159	$191	$294	$295	$259	85.7	20.5	54.1	-12.2
Unit operating income or (loss)	$668	$1,005	$946	$1,129	$364	41.6	50.4	-5.8	-67.7
COGS/sales (1)	71.7	63.6	68.4	63.7	81.6	-3.3	-8.1	4.8	17.9
Operating income or (loss)/ sales (1)	22.9	30.6	24.1	28.8	10.7	1.2	7.7	-6.5	-18.0

(1) "Reported data" are in percent and "period changes" are in percentage points.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Note.--***.

Source: Compiled from data submitted in response to Commission questionnaires.

Table C-5
Finished drill pipe and drill collars: Summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. consumption quantity:									
Amount	186,777	239,484	185,561	128,773	80,419	-0.7	28.2	-22.5	-37.5
Producers' share (1)	86.4	86.0	77.7	82.3	74.4	-8.7	-0.4	-8.3	-7.9
Importers' share (1):									
China	11.5	11.6	20.9	16.1	22.9	9.3	0.1	9.3	6.8
All other sources	2.1	2.4	1.5	1.5	2.7	-0.6	0.3	-0.9	1.1
Total imports	13.6	14.0	22.3	17.7	25.6	8.7	0.4	8.3	7.9
U.S. consumption value:									
Amount	812,308	1,198,293	1,022,655	711,679	431,854	25.9	47.5	-14.7	-39.3
Producers' share (1)	87.4	87.7	81.2	83.4	79.6	-6.2	0.3	-6.5	-3.8
Importers' share (1):									
China	9.9	9.5	16.6	14.3	16.7	6.7	-0.4	7.1	2.5
All other sources	2.7	2.8	2.2	2.3	3.7	-0.6	0.1	-0.6	1.3
Total imports	12.6	12.3	18.8	16.6	20.4	6.2	-0.3	6.5	3.8
U.S. imports from:									
China:									
Quantity	21,561	27,773	38,694	20,750	18,434	79.5	28.8	39.3	-11.2
Value	80,424	113,974	169,996	101,548	72,249	111.4	41.7	49.2	-28.9
Unit value	$3,730	$4,104	$4,393	$4,894	$3,919	17.8	10.0	7.1	-19.9
Ending inventory quantity	4,764	6,850	11,896	5,441	15,414	149.7	43.8	73.7	183.3
All other sources:									
Quantity	3,889	5,741	2,726	1,995	2,141	-29.9	47.6	-52.5	7.3
Value	22,064	33,163	21,988	16,721	15,778	-0.3	50.3	-33.7	-5.6
Unit value	$5,673	$5,777	$8,066	$8,381	$7,369	42.2	1.8	39.6	-12.1
Ending inventory quantity	772	825	1,265	1,395	2,123	63.9	6.9	53.3	52.2
All sources:									
Quantity	25,450	33,514	41,420	22,745	20,575	62.8	31.7	23.6	-9.5
Value	102,488	147,137	191,984	118,269	88,027	87.3	43.6	30.5	-25.6
Unit value	$4,027	$4,390	$4,635	$5,200	$4,278	15.1	9.0	5.6	-17.7
Ending inventory quantity	5,536	7,675	13,161	6,836	17,537	137.7	38.6	71.5	156.5
U.S. producers':									
Average capacity quantity	234,944	292,415	298,891	229,840	234,534	27.2	24.5	2.2	2.0
Production quantity	220,666	267,930	238,002	172,727	107,565	7.9	21.4	-11.2	-37.7
Capacity utilization (1)	93.9	91.6	79.6	75.2	45.9	-14.3	-2.3	-12.0	-29.3
U.S. shipments:									
Quantity	161,327	205,970	144,141	106,028	59,844	-10.7	27.7	-30.0	-43.6
Value	709,820	1,051,156	830,671	593,410	343,827	17.0	48.1	-21.0	-42.1
Unit value	$4,400	$5,103	$5,763	$5,597	$5,745	31.0	16.0	12.9	2.7
Export shipments:									
Quantity	51,115	56,412	82,490	57,111	41,248	61.4	10.4	46.2	-27.8
Value	248,847	349,080	531,571	376,442	276,749	113.6	40.3	52.3	-26.5
Unit value	$4,868	$6,188	$6,444	$6,591	$6,709	32.4	27.1	4.1	1.8
Ending inventory quantity	27,813	33,223	44,132	41,746	48,673	58.7	19.5	32.8	16.6
Inventories/total shipments (1)	13.1	12.7	19.5	19.2	36.1	6.4	-0.4	6.8	16.9
Production workers	1,300	1,539	1,584	1,603	1,231	21.8	18.4	2.9	-23.2
Hours worked (1,000s)	3,427	4,112	4,143	2,875	2,139	20.9	20.0	0.8	-25.6
Wages paid ($1,000s)	55,378	70,873	76,478	51,368	34,433	38.1	28.0	7.9	-33.0
Hourly wages	$16.16	$17.24	$18.46	$17.87	$16.10	14.2	6.7	7.1	-9.9
Productivity (tons/1,000 hours)	64.4	65.2	57.4	60.1	50.3	-10.8	1.2	-11.8	-16.3
Unit labor costs	$250.96	$264.52	$321.33	$297.39	$320.11	28.0	5.4	21.5	7.6
Net sales:									
Quantity	212,442	263,383	226,630	163,139	101,092	6.7	24.0	-14.0	-38.0
Value	958,666	1,400,235	1,362,242	969,852	620,578	42.1	46.1	-2.7	-36.0
Unit value	$4,513	$5,316	$6,011	$5,945	$6,139	33.2	17.8	13.1	3.3
Cost of goods sold (COGS)	639,789	856,710	839,039	573,312	490,243	31.1	33.9	-2.1	-14.5
Gross profit or (loss)	318,877	543,525	523,203	396,540	130,335	64.1	70.4	-3.7	-67.1
SG&A expenses	31,104	39,912	54,042	37,593	41,815	73.7	28.3	35.4	11.2
Operating income or (loss)	287,773	503,613	469,161	358,947	88,520	63.0	75.0	-6.8	-75.3
Capital expenditures	***	***	***	***	***	***	***	***	***
Unit COGS	$3,012	$3,253	$3,702	$3,514	$4,849	22.9	8.0	13.8	38.0
Unit SG&A expenses	$146	$152	$238	$230	$414	62.9	3.5	57.4	79.5
Unit operating income or (loss)	$1,355	$1,912	$2,070	$2,200	$876	52.8	41.2	8.3	-60.2
COGS/sales (1)	66.7	61.2	61.6	59.1	79.0	-5.1	-5.6	0.4	19.9
Operating income or (loss)/ sales (1)	30.0	36.0	34.4	37.0	14.3	4.4	5.9	-1.5	-22.7

(1) "Reported data" are in percent and "period changes" are in percentage points.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

Table C-6
Drill pipe and drill collars, both unfinished and finished: Selected summary data concerning the U.S. market, 2006-08, January-September 2008, and January-September 2009

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2006	2007	2008	2008	2009	2006-08	2006-07	2007-08	2008-09
U.S. imports from:									
China:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Production workers	***	***	***	***	***	***	***	***	***
Hours worked (1,000s)	***	***	***	***	***	***	***	***	***
Wages paid ($1,000s)	***	***	***	***	***	***	***	***	***
Hourly wages	***	***	***	***	***	***	***	***	***
Gross profit or (loss)	***	***	***	***	***	***	***	***	***
Operating income or (loss)	***	***	***	***	***	***	***	***	***
Capital expenditures	***	***	***	***	***	***	***	***	***

(1) "Reported data" are in percent and "period changes" are in percentage points.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

APPENDIX D

SUPPLEMENTAL LIKE PRODUCT INFORMATION

Physical Characteristics and Uses

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Interchangeability

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Manufacturing Processes

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Channels of Distribution

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Customer and Producer Perceptions

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Price

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Notes

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APPENDIX E

NONSUBJECT PRICES

Weighted-average prices of products imported from Austria oversold the U.S. products in 36 out of 43 quarterly comparisons and undersold the U.S. products in the remaining 7 instances. Prices of imports from Austria oversold products imported from China in 26 out of 36 quarterly comparisons and undersold the imports from China in the remaining 10 instances.

Weighted-average prices of products imported from France oversold the U.S. products in 8 out of 12 quarterly comparisons and undersold the U.S. products in the remaining 4 instances. Prices of imports from France oversold products imported from China in 5 out of 9 quarterly comparisons and undersold the imports from China in the remaining 4 instances.

Weighted-average prices of products imported from the UAE oversold the U.S. products in 4 out of 7 quarterly comparisons and oversold the U.S. products in the remaining 3 instances. Prices of imports from the UAE undersold products imported from China in 5 out of 7 quarterly comparisons and oversold the imports from China in the remaining 2 instances.

Weighted-average prices of products imported from Singapore oversold the U.S. products in both of their quarterly comparisons. Prices of imports from Singapore oversold products imported from China in both of their quarterly comparisons.

Figure E-1
Drill pipe: Weighted-average f.o.b. prices of domestic and imported product 1, by quarters, January 2006-September 2009

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Figure E-2
Drill pipe: Weighted-average f.o.b. prices of domestic and imported product 2, by quarters, January 2006-September 2009

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Figure E-3
Drill pipe: Weighted-average f.o.b. prices of domestic and imported product 3, by quarters, January 2006-September 2009

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Figure E-4
Drill collars: Weighted-average f.o.b. prices of domestic and imported product 4, by quarters, January 2006-September 2009

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