PUBLIC VERSION

USDOC Inv. No. A-570-965
USITC Inv. No. 731-TA-1176
Total pages: 250
Investigation

Proprietary Information Deleted from
Pages 3-5, 10, 11, and 13 and Exhibits II-1-A-1-a, II-1-A-1-b, II-1-A-2-a, II-1-A-2-b, II-1-B-1-a, II-1-B-1-b, II-3-B, II-3-B-1, II-3-B-2, II-3-B-3, II-3-C, II-3-C-1, II-3-C-2, II-3-C-3, II-4-B-3, II-4-C, and II-4-C-1

PUBLIC VERSION

BEFORE THE UNITED STATES DEPARTMENT OF COMMERCE
UNITED STATES INTERNATIONAL TRADE COMMISSION

DRILL PIPE FROM CHINA

PETITIONS FOR THE IMPOSITION OF ANTIDUMPING DUTIES AND COUNTERVAILING DUTIES PURSUANT TO SECTIONS 701 AND 731 OF THE TARIFF ACT OF 1930, AS AMENDED

VOLUME II

SALES AT LESS THAN FAIR VALUE

Petitioners:

VAM Drilling USA, Inc., Texas Steel Conversions, Inc., Rotary Drilling Tools, TMK IPSCO, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC

Counsel for Petitioners

Schagrin Associates
900 7th Street, N.W.
Suite 500
Washington, D.C. 20001
(202)223-1700

Date: December 30, 2009

II. INFORMATION RELEVANT TO THE CALCULATION OF EXPORT PRICE, NORMAL VALUE, AND ESTIMATED MARGINS OF DUMPING (19 C.F.R. § 351.202(b)(7)(i)(B))

A. Dumping Margins on Imports of Drill Pipe from China

Antidumping margins were derived by comparing adjusted U.S. prices of imports from China to normal (*i.e.* constructed) values (CVs). Petitioners calculated dumping margins between 108.17 percent and 138.69 percent based on CV-to-price margins, and between 257.28 percent and 274.34 percent based on CV-to-AUV margins. *See* Exhibit II-1.

B. China Is a Non-Market Economy Country, and India Is the Appropriate Surrogate Country

The Department has long treated China as a non-market economy country ("NME"). The Department's determination of NME status with regard to China remains in effect until a contrary determination is made. *See* 19 U.S.C. §1677(18)(C)(i). Petitioners, accordingly, provide a dumping-margin calculation using the Department's NME methodology. *See* 19 C.F.R § 351.202(b)(7)(i)(c). Under this methodology, the prices or costs of factors of production from a surrogate country that is at a level of economic development comparable to that of China, and which is also a significant producer of comparable merchandise, are used to the extent possible in constructing the normal value. *See* 19 C.F.R. § 351.408. The quality and availability of data is also considered in selecting a surrogate country.

India is a significant producer of the subject merchandise. *See* Exhibit II-2-A. India is also at a stage of economic development comparable to that of China. In determining whether potential surrogates are at a comparable stage of economic development, the Department

considers per capita GDP as a measure of economic comparability. *See* 19 C.F.R. § 351.408(b). The Department has relied upon dollar-denominated per-capita GNP data supplied by the World Bank for this purpose, but now that the World Bank has replaced GNP with GNI, the Department ordinarily uses World Bank GNI data. Data from the World Bank's *World Development Indicators* (WDI) *2009* publication indicates that the GNI per capita for China was $2,360 in 2007, and that GNI per capita for India in 2007 was $950. *See* Exhibit II-2-B-1. The Department has also considered countries' rates of growth in determining whether countries are at a similar level of economic development. The average GDP growth in China from 2000-2007 was 10.2 percent, and was 7.8 percent in India. See *World Development Indicators* (WDI) *2009* report at Exhibit II-2-B-2. In recent cases the Department has ordinarily found that India is at a level of economic development similar to China.[1]

In sum, India is the most appropriate surrogate country. For the present petition normal values have been calculated by reference to the values of the factors of production in India.

C. United States Export Price

1. Export Price from Price Quotes

Petitioners have selected 5" O.D. sized drill pipe for determining constructed values and antidumping margins since it is one of the most commonly sold models. The International Trade Commission (ITC) has further selected 5" OD sized drill pipe for its underpricing analysis.[2] U.S.

---

1 *See Oil Country Tubular Goods from the People's Republic of China*, Initiation of Antidumping Duty Investigation, 74 Fed. Reg. 20671 (May 5, 2009)

2 *See Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico*; Inv. Nos 701-TA-364 (Review) and 731-TA-711 and 713-716 (Review), Pub. 3434 (June 2001) at page

export prices were derived from actual price quotes made in the normal course of business by Chinese producers of drill pipe or by U.S. distributors of Chinese-made subject merchandise. *See* Exhibit II-3. These quotes provide prices for 5" OD drill pipe in grades S135 and G105. The kilogram per meter weight of the tube component of the finished drill pipe assembly is the same for each of the two grades of finished drill pipe identified at Exhibit II-3. However, S135 grade drill pipe contains a heavier tool joint than G105 grade drill pipe.[3]

The first price quotation, at Exhibit II-3-B-1, was made by [

]

Therefore, petitioners have not adjusted the quoted price in deriving the export price. The export price is, therefore, [ ] per piece for grade S135 drill pipe in 5" OD size as stated on the price quote, and [ ] per piece for grade G105 drill pipe in 5" OD size. The per-piece prices were converted to dollars per metric ton for the margin calculations based on the per-piece weight of the 5" OD drill pipe in grades S135 and G105. *See* Exhibit II-B-3.

The second price quotation, at Exhibit II-3-C-1, was made by [

V-5.

3 For example, the weight of the tube component of drill pipe for both grades G105 and S135 is the same, (*i.e.* 26.66 kilograms per meter). But the weight of the finished drill pipe assembly with the tool joint attached is greater for the S135 grade drill pipe (*i.e.* 34.02 kg/m) than the weight of the finished drill pipe assembly for the G105 grade drill pipe product (*i.e.* 32.60 kg/m). *See* Exhibit II-3-A. The [ ] quote at Exhibit II-3-C-1 identifies the wall thickness in mm as 9.19; and also identifies the pounds per foot (PPF) as 19.5. The [ ] quote also identifies the PPF as 19.5.

] drill pipes with tool joints attached were quoted on an FOB per ton basis. In particular, grade S135 drill pipe in 5" OD size was quoted as [ ] per ton whereas grade G105 drill pipe in 5" OD size was quoted as [ ] per ton. The export prices were converted to dollars per metric ton for the margin calculations by multiplying the quoted short-ton prices by the ratio of the weight of a metric ton to the weight of a short ton, *i.e.* by (2,204.6 pounds / 2,000 pounds) = 1.1023. *See* Exhibit II-3-C-3.

2. AUV of Drill Pipe Imported into the United States

Petitioners derived the AUV of finished drill pipe of $2,056.80 per metric ton by dividing the customs value of imports from China into the United States during the POI, *i.e.* April 2009 through September 2009, for US HTS category 7304.23.60.30 by the metric tons imported. *See* Exhibit II-3-D. The customs value excludes import duties, freight, insurance, and other charges. *See* Exhibit II-3-D-2. Therefore, the customs values were not adjusted in determining the export price for the margin calculations. Products in US HTS 7304.23.60.30 range in diameter up to 6.625 inches which is 168.3mm (*i.e.* 6.625 inches * 25.4mm/inch) and have a wall thickness not exceeding 9.5mm (*i.e.* about three-eights of an inch). The drill pipe identified in the price quotes at Exhibit II-3 falls within this HTS category. Constructed values are provided for the drill pipe identified in the price quotes. An ITC report has stated that "drill pipes each about 30 feet long with an O.D. from 2.375 to 6.625 inches, are joined to one another by tool joints to form the drill string."[4] Finished drill pipe consists of the tube component of

4 *See Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico*, Inv. Nos 701-TA-364 (Review) and 731-TA-711 and 713-716 (Review), Pub. 3434, June 2001 at page 4.

finished drill pipe, to which a tool joint component of finished drill pipe is attached to each end of the tube.

D. Constructed Values

To calculate constructed values petitioners used the quantities of the factors of production used by the U.S. domestic producer and petitioner [ ] to attach the tool joint to the tube component in producing a short ton of drill pipe with tool joint attached. *See* Exhibit II-4-C-1. This data was used because information regarding the usage of the factors of production in manufacturing the subject merchandise in China was not reasonably available to petitioners. The constructed values for the margin calculations are provided at Exhibit II-1-B.

1. Factors of Production

Finished drill pipe is comprised of two components: (1) the pipe or tube component, and (2) the tool joint component. The ITC has stated that:

> drill pipes, each about 30 feet long with an O.D. from 2.375 to 6.625 inches, are joined to one other by tool joints to form the drill string. The drill string is used to transmit power from the drilling motor above ground to the drill bit, and to conduct drilling fluid down to the drill bit."[5] . . . "One of the fundamental physical characteristics distinguishing drill pipe from casing and tubing is the addition of a tool joint, which is welded onto the drill pipe during finishing operations. The tool joint is a high-value, precision engineered tool which is very different from the thread-and-couple connections used to finish casing and tubing.

Id. Petitioners have derived constructed values by adding the value of the tube component of finished drill pipe to the value of the tool joint component and also adding the energy and labor involved in attaching the tool joint to the tube. Financial ratios for manufacturing overhead,

---

5 *Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico.* ITC Inv. No. 701-TA-363 (Review), and 731-TA-711, and 713-716 (Review), Pub. 3434 (June 2001), at 4.

SG&A, and profit were then applied to the costs of the tube, tool joint, and costs associated with attaching the tool joint and tube together to determine the constructed values.

The majority of producers of finished drill pipe in China, and elsewhere, manufacture the product by purchasing the tube component of the finished drill pipe separate from the tool joint component, and then assembling the two together. The derivation of the constructed value for finished drill pipe with tool joint attached by separately adding the value of the pipe component, to the value of the tool joint component, and then adding the tool joint attachment costs is thus representative of the manner in which drill pipe is most often produced in China and elsewhere. The Indian producer of drill pipe, Oil Country Tubular Ltd., whose financial data was used to derive the financial ratios involved in calculating the constructed values, purchased the pipe and tool joint and attached them together. Oil Country Tubular Ltd. indicates in this regard that for its drill pipe production "Plain End Pipes and Tool Joint Forgings are ordered to specific metallurgical chemistries and are matched for physical properties, welding compatibility, welding strength and product integrity." *See* Exhibit II-2-A. This exhibit also identifies Oil Country Tubular Ltd. as a "processor of drill pipe / tool joints" and describes the production steps it used to produce drill pipe with the tool joint attached.

a) Tube Component of Finished Drill Pipe

Petitioners have constructed the costs of the tubing component of drill pipe by multiplying the weight of the tube component of finished drill pipe, per ton of finished drill pipe with the tool joint attached, times a surrogate value. The weight is based on the technical

specifications and measures for drill pipe provided at Exhibit II-4-A-1.[6] The surrogate value for the tube component of finished drill pipe was based on data reported in the Global Trade Atlas, which is an electronic database of the publication "Monthly Statistics of the Foreign Trade of India" issued by the government of India.[7] Excluded from the import data were imports from non-market economies, and the countries Indonesia, South Korea, and Thailand which provide non-industry specific export subsidies.

The Indian harmonized tariff schedule (HTS) contains a category specific to "drill pipe other than stainless" at 7304.23, which is subdivided into "of iron" at 7304.23.10 and "other" at 7304.23.90. The AUV for 7304.23.10 is 228.98 Rs/kg (*i.e.* about $4,815.12 / mt)[8] and for 7304.23.90 is 383.20 Rs/kg (*i.e.* about $8,058.15 / mt). *See* Exhibit II-4-A-2. Even though the HTS heading specifically identifies drill pipe, because these HTS categories may include finished drill pipe with the tool joint attached, rather than just the tube component of finished drill pipe,

---

6 These technical specifications were taken from the "Engineering Toolkit" for drill pipe at the Grant Prideco website. *See* Exhibit II-4-A-1.

7 At the time of the filing of this petition Indian import data are available through March 2009. Indian import data are, therefore, not yet available for the April 2009 through September 2009 POI. The Indian import data used for the constructed values are accordingly provided for the period October 2008 through March 2009, which is the most recent six-month period for which import data is available. The Department has consistently used pre-POI Indian trade data for initiation purposes. *See Oil Country Tubular Goods from the People's Republic of China*, Initiation of Antidumping Duty Investigation, 74 Fed. Reg. 20671 (May 5, 2009).

8 The U.S. dollar value is derived by multiplying the Rs/kg unit value, for the 10/1/08-3/31/09 period for which Indian import data are available, times the 10/1/08-3/31/09 exchange rate of .020515683 (Rs/$) {*See* Exhibit II-5} times the ratio of the wholesale price index for the POI (*i.e.* 4/1/09-9/30/09) to the wholesale price index for the period 10/1/08-3/31/09 {*See* Exhibit II-6} which is 1.025, or: 228.98 Rs/kg * .020515683 * 1.025 = $4.81512 / kg = $4,815.12 / mt.

these HTS categories for drill pipe itself were not used to value the tube component of finished drill pipe. Rather, the value for the tube component of drill pipe was derived from the value for the seamless tube used in producing the tube component of drill pipe.

The tube component for drill pipe under the United States Harmonized Tariff Schedule is found at 7304.29 which is captioned "Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) of steel: Casing, tubing and drill pipe, of a kind used in drilling for oil or gas." The Indian HTS at the six digit level, thus for 7304.29, is the same as the U.S. tariff schedule. However, beyond the six-digit level the U.S. tariff schedule further subdivides casing and tubing, with tubing for drill pipe classified at 7304.29.61, whereas the Indian tariff schedule further differentiates HTS 7304.29 between "Casing, tubing of iron" at 7304.29.10 with a AUV of 248.92 Rs/kg (*i.e.* $5,454.02 / mt) and "Other casing, tubing" with a AUV of 163.62 Rs/kg (*i.e.* $3,585.04 / mt). *See* Exhibit II-4-A-3. To value the tube component of drill pipe for constructing estimated normal values petitioners have used the 172.23 Rs/kg (*i.e.* $3,621.75 / mt) AUV of Indian HTS 7304.29, which has the heading "Casings, Tubing, Other Than Stainless Steel, Seamless, For Use in Drilling For Oil or Gas."[9] [10] *Id.*

---

9 The HTS category of pipes and tubes for casing and tubing reasonably describes the production of the tube component of drill pipe, since, as indicated by the ITC:

> There are substantial similarities between casing, tubing, and drill pipe at the green tube stage. Casing/tubing and drill pipe green tubes are often interchangeable and may be made on the same equipment. Green tube, i.e. OCTG prior to its finishing operations, is generally considered a commodity product. Drill pipe and casing/tubing at the green tube stage share similar chemical composition and overlap in terms of API minimum requirements. . . .
> The mechanical strength requirements for drill pipe, including yield and tensile strength, overlap with those from casing and tubing. However, at the upper end of the product spectrum, API mechanical strengths for high-end drill pipe are significantly more

b) Tool Joint Component of Finished Drill Pipe

Petitioners have constructed the cost of the tool joint component of drill pipe based on the weight of the tool joint component of the drill pipe per ton of finished drill pipe with the tool joint attached times a surrogate value. The weight is based on technical specifications and measures for drill pipe provided at Exhibit II-4A-1. The Court of International Trade has described the tool joint, citing from the American Petroleum Institute specification for rotary drilling equipment, stating that the tool joint is:

> a heavy coupling element for drilling pipe made of special-alloy steel. Tool joints have coarse, tapered threads and seating shoulders designed to sustain the weight of the drill stem, withstand the strain of frequent coupling and uncoupling, and provide a leakproof seal. The male section of the joint, or the pin, is attached to one end of length of drill pipe, and the female section, or box, is attached to the other end. The tool joint may be welded to the end of the pipe or screwed on or both. A hard-metal facing is often applied in band around the outside of the tool joint to enable it to resist abrasion from the walls of the borehole.[11]

The tool joints themselves are comprised of two parts. First, the "pin," with male threads on the outside of the pipe, is welded to one end of the tube. Second, the "box," with female threads on

---

stringent than those for casing and tubing.
Oil Country Tubular Goods (OCTG) from Austria, Brazil, China, France, Germany, India, Indonesia, Romania, South Africa, Spain, Turkey, Ukraine, and Venezuela. Inv. Nos. 701-TA-428 (Preliminary) and Inv. 731-TA-992-994 and 996-1005. (Preliminary) (May 2002) Pub. 3511 at 7 and 10.

10 It appears that tubes used in producing 5" OD drill pipe may also enter under Indian HTS category 7304.59.20 which identifies seamless pipe of alloy steel of circular cross section not cold rolled, above 114.3mm but up to 219.1mm diameter. The AUV for Indian HTS 7304.59.20 is 222.90 Rs/kg, or about $4,687.27 / mt. *See* Exhibit II-4-A-3. This category was not used for surrogate valuation because the lower-valued category at 7304.29 is more specific to drill pipe.

11 *See, Nissho Iwai American Corp. v. United States,* 602 F. Supp. 88 (CIT 1984).

the inside, is welded to the other end of the tube. The pin and box are screwed together when drilling to add to the length of the drill string.

The tool joint itself is covered by HTS category 8431.43 as "Parts of boring or sinking machinery." *See* Exhibit II-4-B-1. Under the U.S. tariff schedule the specific subcategory for tool joints is 8431.43.80.20 "Tool joints, whether or not forged." *Id.* The Indian HTS does not provide a specific subclassification for tool joints. The two subclassifications for the Indian HTS category 8431.43 captioned "Parts of boring or sinking machinery" are 8431.43.10 captioned "Parts of boring sinking machinery, self propelled" which has an AUV of 904.53 Rs/kg (*i.e.* $19,020.98 / mt), and 8431.43.90 captioned "Parts of boring sinking machinery, not self propelled" which has an AUV of 1,823.20 Rs/kg (*i.e.* $38,339.30 / mt). *See* Exhibit II-4-B-2. Tool joints are not self propelled. Thus, the tool joint is subsumed under the Indian HTS category 8431.43.90 with an AUV of $38,339.30 / mt.

Petitioners recognize that the Indian HTS category 8431.43.90 may include products other than tool joints for drill pipe. It may not, therefore, be possible to obtain a suitable value for just the tool joint from Indian import data. As an alternative to the Indian import data, therefore, petitioners have assigned as the surrogate value for tool joints the price that petitioner [ ] paid for tool joints purchased from unaffiliated producers in the United States and in Italy. *See* Exhibit II-4-B-3. While petitioners' costs are based on prices in countries that may not be economically similar to China, the economic comparability of the surrogate country to the NME is only required "to the extent possible." *See* 19 U.S.C. § 1677b(c)(4). It is not possible to use the Indian import data to ascertain the value of the tool joint because the broad

Indian tariff category under which the tool joint is subsumed is not reasonably specific to tool joints. Moreover, petitioners are not aware of publicly available official governmental sources of tool joint prices as required by the Department for surrogate valuation, in India or elsewhere that are reasonably available to petitioners with which to value the tool joint. Petitioners have constructed normal values by first using the value of the broad Indian HTS category in which the tool joints are subsumed since this is the Department's ordinary practice, and then by also using petitioners' own POI cost experience in purchasing tool joints from unaffiliated parties.

c) Tool Joint Welding and Attachment Costs

The ITC has stated that:

> In the case of drill pipe, friction welding – the process of welding the tool joint to the body of the pipe – requires dedicated equipment and technical expertise which further precludes threaders from performing these operations. In order to perform these operations, processors especially drill pipe processors, employ significant level of expertise, including metallurgical and engineering skills.[12]

Exhibit II-4-C-1 provides the quantities of energy (*i.e.* electricity) and labor used by U.S. producer and petitioner [ ] in welding and attaching the tool joint to the tube in producing finished drill pipe. Electricity in India was valued at 3.7442 rupees per kilowatt hour (KwH). This value was based on the rate used for the preliminary determination in an antidumping investigation involving *Certain Oil Country Tubular Goods from China* for the period October 1, 2008 through March 31, 2009. *See* Exhibit II-4-C-2. This is the same period as that for which Indian HTS values are available and used for the present petition. More

12 *Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico and Spain.* ITC Inv. No. 701-TA-363-364 and 731-TA-711-717 (Final).

particularly, the 3.6529 Rs per KwH rate used in *Certain Oil Country Tubular Goods from China* for the period 10/1/08 - 3/31/2009 was multiplied times the ratio of the wholesale price index for the POI of the present petition (*i.e.* 4/1/09 to 9/30/09) to the wholesale price index for the period 10/1/08 - 3/31/2009, of 1.025, to obtain the 3.7442 Rs / KwH value for the POI. This was multiplied by the 10/1/08 - 3/31/2009 rupee to dollar exchange rate of .020516 to obtain the .0768 $ / kwh value used in determining the constructed values. The number of labor hours used in welding and attaching the tool joint to the tube was based on petitioners' experience during the POI. The labor rate, of $1.39 per hour, for wages in China was taken from the Department's 2009 calculation of expected non-market economy wages. *See* 74 Fed. Reg. 65092-3 (Dec. 9, 2009).

d) Financial Ratios

The overhead, SG&A, and profit values used by petitioners in the CV calculations were obtained from the financial statements of the Indian drill pipe producer Oil Country Tubular Ltd. for the fiscal year ending March 31, 2009. *See* Exhibit II-4-D-2. The Department relied upon these financial statements to drive financial ratios for the preliminary determination of *Oil Country Tubular Goods from China. See* Exhibit II-4-D-1. These rates were: factory overhead 10.9702 percent; selling, general and administrative expenses 16.0960 percent; and profit 27.8643 percent.