

PUBLIC VERSION

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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 I

COMMON ISSUES AND INJURY

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

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**PETITIONS FOR THE IMPOSITION OF ANTIDUMPING AND COUNTERVAILING
DUTIES
ON DRILL PIPE FROM CHINA**

These petitions before the International Trade Administration of the U.S. Department of Commerce (the “Department”) and the U.S. International Trade Commission (the “ITC” or the “Commission”) are filed on behalf of the U.S. industry producing drill pipe (more specifically described below in section I.E). Petitioners, listed in section I.A below, on behalf of the U.S. industry, allege that subject drill pipe from China (the “subject country”) is being, or is likely to be, sold in the United States at less-than-fair-value within the meaning of Section 731 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1673. Petitioners also allege that the Government of China is providing, directly or indirectly, a countervailable subsidy with respect to the manufacture, production, or export of drill pipe imported, or sold (or likely to be sold) for importation, into the United States within the meaning of Section 701 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1671. Petitioners further allege that the domestic drill pipe industry is being materially injured and is also threatened with material injury by reason of such less-than-fair-value and subsidized imports. These petitions set forth the information reasonably available to Petitioners in support of these allegations.

Separate volumes regarding the allegations of dumping by Chinese producers, as well as countervailable subsidies provided to Chinese producers, are being filed simultaneously at both the Department and the Commission. Petitioners request that antidumping and countervailing duties be imposed to offset the dumping and subsidy margins detailed in the specific antidumping and countervailing duty volumes.

I. COMMON ISSUES

A. Petitioners (19 C.F.R. §§ 207.11(a) & 351.202(b)(1))

Petitioners consist of companies that produce the domestic like product in the United States, as well as a certified union that is representative of the domestic industry. Accordingly, Petitioners are all domestic interested parties within the meaning of 19 U.S.C. § 1677(9) and 19 C.F.R. § 351.102(b). Petitioners' addresses and telephone numbers are provided in Exhibit I-1.

B. Description of the Domestic Industry (19 C.F.R. §§ 207.11(b)(2)(ii) & 351.202(b)(2))

This petition is filed on behalf of the domestic industry producing drill pipe. The names, addresses, and telephone numbers of those domestic producers who are not petitioners are provided in Exhibit I-2. According to the best information available to Petitioners, Exhibits I-1 and I-2 identify all known producers of drill pipe in the United States.

C. Industry Support for the Petition (19 C.F.R. § 351.202(b)(3))

Table 1 indicates the volume and Table 2 indicates the value of domestic like product produced by petitioning companies, and estimated total U.S. industry output derived from public sources, from 2006 through the first nine months of 2009. The petitioning union represents workers at petitioning company TMK IPSCO, and non-petitioning companies Timken and United States Steel, but Petitioners do not have publicly available data on exact production for those two companies.

Table 1

Volume of production of domestic like product 2006 through first half 2009 (net tons)

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
VAM Drilling USA	[]
Texas Steel Conversions	[]
Rotary Drilling Tools	[]
TMK IPSCO	[]
Total Petitioners	[]
Grant Prideco*	86,958	81,428	74,792	61,559	29,688
All others**	[]
Total Industry	[]
Industry minus Grant Prideco	[]
Petitioners as % of industry minus Grant Prideco	[]

Table 2

Value of production of domestic like product 2006 through first half 2009 (\$000s)

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
VAM Drilling USA	[]
Texas Steel Conversions	[]
Rotary Drilling Tools	[]
TMK IPSCO	[]
Total Petitioners	[]
Grant Prideco*	\$ 120,890	\$ 115,084	\$ 174,191	\$ 146,301	\$ 64,751
All others**	[]
Total Industry	[]
Industry minus Grant Prideco	[]
Petitioners as % of industry minus Grant Prideco	[]

* Because Grant Prideco sources its unfinished drill pipe from Voest Alpine Tubulars in Austria (see Exhibit I-3), imports of drill pipe from Austria are used as a proxy for Grant Prideco production. For value, value added from processing unfinished tubes into finished drill pipe calculated from [] raw materials as percentage of total cost of goods sold plus SG&A.

** Rest of U.S. industry estimated by []

Based on publicly available estimates, Petitioners believe they account for the great majority of domestic production except for the output of Grant Prideco, Inc. Petitioners believe Grant Prideco is the largest domestic producer. However, the statute directs that the Department will ignore a U.S. producer's output for purposes of determining industry support for the Petition if it is related to foreign producers. The statute provides:

In determining industry support under subparagraph (A), the administering authority shall disregard the position of domestic producers who oppose the petition, if such producers are related to foreign producers, as defined in section 1677(4)(B)(ii) of this title, unless such domestic producers demonstrate that their interests as domestic producers would be adversely affected by the imposition of a countervailing duty order.

19 U.S.C. § 1671a(c)(4)(B)(i). Grant Prideco is a foreign producer of subject merchandise and is related to other foreign producers, so the Department will need to disregard its output for calculating industry support.

According to Grant Prideco, “we manufacture and sell drill pipe locally through our Chinese operations.”¹ It has a drill pipe manufacturing plant in Tianjin, and another in Jiangsu that makes drill stem products (which could include anything on the drill stem, including tool joints, collars, and drill pipe).² Overall, it reported deriving 42% of its revenues from facilities outside the United States.³ Grant Prideco has a joint venture with Tianjin Pipe (Group) Stock

¹ Grant Prideco 2007 10-K, item 1A (Exhibit I-3).

² *Id.* at Item 2.

³ *Id.* at Item 1A. China was Grant Prideco's third-largest market and sixth-largest investment location in 2007. *Id.* at Note 21.

Company (“TPCO”), one of the world’s largest seamless pipe producers.⁴ The joint venture’s primary business purpose is making drill pipe and related equipment.⁵ Grant Prideco also has commitments to make additional investments in China in its Jiangsu joint venture, Jiangsu Grant Prideco Oil and Gas Equipment Co., Ltd.⁶

In 2008, Grant Prideco’s parent company, National Oilwell Varco, Inc. (“NOV”) reported expansion of its manufacturing capabilities in China.⁷ NOV has a joint venture with the Huabei Petroleum Administration Bureau to coat drill pipe, “an important factor” in the success of NOV’s drill pipe, making NOV and Grant Prideco a partner of the Chinese government in the manufacture of drill pipe.⁸

Accordingly, Grant Prideco is a foreign producer, so the Department should ignore its production for calculating standing. As publicly available data indicate that Petitioners account for the great majority of domestic production other than Grant Prideco’s, the Petition has adequate industry support regardless of any position that Grant Prideco might take on its filing.

⁴ *Id.* at Note 1.

⁵ *Id.*

⁶ *Id.* at Note 7. Grant Prideco reports that it bought out the minority shareholder in this venture in 2005 for cash plus a commitment to invest unspecified amounts in China. *Id.* This indicates that the minority shareholder was a government, because private shareholders do not normally sell out business assets for commitments to invest in a particular country. This simply illustrates one way in which the Government of China indirectly subsidizes Chinese drill pipe production.

⁷ National Oilwell Varco Inc. 2008 10-K at “Rig Technology” (Exhibit I-4).

⁸ *Id.* at “Tubular Coating.”

D. Other Import Relief Sought (19 C.F.R. § 351.202(b)(4))

Petitioners have not filed for relief under Section 337 of the Tariff Act of 1930 (19 U.S.C. §§ 1337, 1671a), Section 301 of the Trade Act of 1974 (19 U.S.C. §§ 2251, 2411), or Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862), with respect to the subject merchandise from China.

On June 22, 2001 the Commission instituted a safeguard investigation under Section 201 of the Trade Act of 1974, following receipt of a request from the United States Trade Representative,⁹ to determine whether certain steel products, including OCTG (and including drill pipe among OCTG products) were being imported into the United States in such increased quantities to be a substantial cause of serious injury, or threat thereof, to domestic industries producing articles like or directly competitive with the imported article. The Commission also received a Senate Finance Committee resolution making a similar request. On December 20, 2001, the Commission issued its determination and remedy recommendations, reaching a negative determination regarding OCTG.¹⁰

The recently instituted investigation of *Certain Oil Country Tubular Goods from China* specifically excludes drill pipe.¹¹

⁹ See *Steel*, Inv. No. TA-201-73, USITC Pub. 3479, Vol. I at 28 (December 2001).

¹⁰ *Id.* at 18.

¹¹ Investigation Nos. 701-TA-463 and 731-TA-1159 (Preliminary), USITC Pub. 4081, at 5-6.

E. Scope of Commerce Department Investigation of Subject Merchandise, Description, and Physical Characteristics of Merchandise (19 C.F.R. § 351.202(b)(5))

The product subject to the scope of these investigations is drill pipe, including heavy weight drill pipe and drill collars, of iron (other than cast iron) or steel, whether or not conforming to American Petroleum Institute (API) or non-API specifications, whether finished (with or without tool joints attached) or unfinished (including green tubes), and without regard to the specific chemistry of the steel (i.e., carbon, alloy or stainless steel). The scope does not include tool joints not attached to drill pipe.

The subject products are normally classified in the following HTS categories: 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, 7304.23.6060 and also enters under 8431.43.8040 and may enter under 8431.43.8060. Excerpts from the current HTS are attached as exhibit I-5. These HTS classifications became effective on February 3, 2007. Subsequent editions of the HTS have not resulted in revisions to the code listed above.

Prior to February 2, 2007, these imports entered under slightly different tariff classifications. Those tariff classifications include 7304.21.3000, 7304.21.6030, 7304.21.6045, 7304.21.6060 and also entered under 8431.43.8040 and may have entered under 8431.43.8060. Excerpts from the previous editions of the HTS are attached as exhibit I-6. The most favored nation duty rate for imports under these HTS numbers is 0%.

The tariff numbers are provided for the convenience of the U.S. government and do not define the scope of the petitions.

1. Specifications, Characteristics, and Uses

Drill pipes, each normally about thirty feet long with an outer diameter (OD) ranging from 2.375 to 6.625 inches, are joined to one another by tool joints to form the drill string. Drill pipe can also be produced to approximately forty feet (Range 3) depending upon customer drilling rig requirements. The drill string is normally 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. Drill pipe normally must have sufficient tensile strength to support its own weight, the weight of the contained drilling fluids, and the drill bit. Drill pipe is subject to stress caused by shearing vibration, and consequently fatigue. Normally a drill string is composed of drill collars at the bottom, which are connected to heavy weight drill pipe, which are then connected to standard weight drill pipe, which normally accounts for the vast majority of the drill string. The standard weight drill pipe, heavy weight drill pipe, and drill collars all normally perform the same purposes; they just vary by wall thickness and can also vary by production methods.

Drill pipe is normally produced to conform to American Petroleum Institute (API) specification 5D, 5DP or BSEN ISO 11961. Heavy weight drill pipe and drill collar are normally produced to conform to API specification 7. Other non-API or ISO specifications include NS1 (originally developed by Shell Oil) and IRP (originally developed by the Canadian

Government for sour service applications).¹² Many producers have proprietary grades that meet or exceed API specifications. For example, VAM Drilling offers VAM EIS and VAM Express pipe that feature high-torque connections,¹³ while Grant Prideco offers TSS-95 and XD-105 proprietary grades for sour service and extreme drilling applications.

2. Production methodology

Drill pipe is manufactured by seamless tube manufacturers, and then further processed by finishing manufacturers. These two types of manufacturers are generally separate companies.

Green tube, or semi-finished drill pipe, is manufactured by either of two high temperature methods to form a central cavity in the solid steel billet, namely, the rotary piercing method and the hot extrusion method. Starting material for green tube is a round or square steel billet. If square billet is used, it is first forced through a single circular roll pass, producing a round billet for the piercing operation.

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 mandrill, forming a hollow shell. The hollow shell produced by either method is then rolled with

¹² Sour crude oil (sour crude) or sour gas is defined as an oil/gas containing common impurities such as water, carbon dioxide, hydrogen sulfide, and oxygen which are thoroughly mixed in with the oil during extraction, and are very difficult to eliminate. These impurities corrode and cause cracking in steel, albeit without any observable change in appearance prior to failure. Sour service drill pipe must have physical, chemical, and metallurgical characteristics that ensure their appropriate resistance to corrosion and/or hydrogen sulfide cracking. *See Oil Country Tubular Goods from Argentina, Italy, Japan, Korea, and Mexico*, Investigations Nos. 731-TA-711 and 713-716 (Second Review), USITC Publication 3923 (June 2007), at I-35, n. 61.

¹³ *See* VAM Drilling Catalog, Exhibit I-9.

either a fixed plug or a continuous mandrill inside the shell to reduce the wall thickness, increasing the length. Finally, the shell is rolled in the sizing mill or a stretch reducing mill is formed to size.

Drill collars begin with a round steel bar which is then bored or trepaned in order to form a continuous seamless product.

The producers of finished drill pipe are normally different than the producers of green tube for producing drill pipe. These companies purchase unfinished green pipe to certain steel chemistries that allow the drill pipe processor to produce the appropriate API grade of drill pipe. The pipe ends on the green tubes are first processed by heating the ends of the pipe to forging temperature and then quickly inserting the pipe ends 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 are required for the various pipe sizes and upset configurations, all of which are controlled by API dimensional tolerances. The upset pipe is then heat treated by any of several methods of thermal processes to the desired API grade, with the drill pipe processor using a specific green tube chemistries to produce the final API drill pipe grade, depending upon their thermal treatment process.

A tool joint is then welded to each end of the pipe; the male tool joint section (or pin) is attached to one end of the length of drill pipe and the female tool joint section (or box) is attached to the other end. A tool joint is a heavy coupling element having robust, tapered threads and designed to sustain the weight of the drill stem, withstand the strain of repeated connection and disconnection, and provide a leak-proof seal. This welding is done by rotational friction.

The heat for the weld is created by pressuring one piece of metal against another piece which is rotated at high speed. No filler is used. Tool joints may be welded to the pipe, screwed onto the pipe, or a combination of screwed on and welded. Most commonly, tool joints are permanently welded to the pipe.

F. Country of Exportation (19 C.F.R. § 351.202(b)(6))

The merchandise subject to this petition is produced in China. Petitioners have no specific knowledge of drill pipe produced in the subject country being trans-shipped through any third country to the United States.

G. Producers and Exporters of Subject Merchandise (19 C.F.R. § 351.202(b)(7)(i)(A))

The names and addresses of the entities that Petitioners believe to be producing and exporting drill pipe subject to these petitions are provided in Exhibit I-7. These are the companies that have API certifications to produce the subject drill pipe. Information reasonably available to Petitioners does not allow them to identify the proportion of total exports to the United States accounted for during the most recent 12-month period by the producers listed in this exhibit. Petitioners believe, however, that those companies account for the vast majority of subject exports.

H. Names and Addresses of Importers (19 C.F.R. §§ 207.11(b)(2)(iii) & 351.202(b)(9))

Some U.S. firms import drill pipe into the United States. Petitioners have no way of knowing all of the importers that recently imported the subject drill pipe from China. Petitioners have listed in Exhibit I-8 the major importers of the subject drill pipe based on information

reasonably available to Petitioners. Petitioners have provided addresses and telephone and facsimile numbers for these importers and World Wide Web addresses when available.

Numerous firms may import subject drill pipe products from various sources that may not be identified to sellers in price quotes or advertising. Therefore, the list provided in Exhibit I-8 is not intended to be exhaustive.¹⁴ Further information that might identify additional importers is available to the Department and the Commission from import documents filed with the U.S. Customs Service.

I. For the preliminary investigation, Petitioners request that the Commission obtain pricing information on the following products:

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 ½" O.D., 16.6 lbs./ft., grade G-105 with tool joints attached.

Product 3: Heavy weight drill pipe, finished, 5" O.D., 50.1 lbs./ft., with tool joints attached.

Product 4: Drill collars, finished, 6 ½" O.D. x 2 13/16" I.D., with connections attached.

¹⁴ It is also possible that a company appears on that list of importers based on Petitioners' information and belief that is not actually an importer. If that is the case, we apologize in advance.

II. INJURY AND THREAT OF INJURY

A. The Like Product is Drill pipe

In its original investigation and in both reviews of *Oil Country Tubular Goods From Argentina, Italy, Japan, Korea, and Mexico*, the Commission determined that drill pipe was a separate like product distinct from OCTG casing and tubing, with no party disagreeing with the distinction.¹⁵ Further, no party has ever contended that there should be separate like products within the category of drill pipe. All drill pipe, from standard weight to heavy weight to drill pipe collars, as well as the tool joints that are welded to the drill pipes, are simply parts of a drill string 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 for removal.¹⁶

B. Subject Imports from China Have Increased Substantially

Imports from China of drill pipe have increased in an absolute sense as well as with respect to apparent domestic consumption and U.S. production.

As the following table shows, imports of drill pipe from China have increased every year since 2006, and they are substantially higher in interim 2009 compared to interim 2008. In every year, China has accounted for an increasing share of total imports.

¹⁵ Investigations Nos. 701-TA-364 and 731-TA-711 and 713-716 (Review), USITC Publication 3434 (June 2001), at 3-4; Investigations Nos. 731-TA-711 and 713-716 (Second Review), USITC Publication 3923 (June 2007) at 8. See also *Oil Country Tubular Goods from Argentina, Austria, Italy, Japan, Korea, Mexico, and Spain*, Investigations Nos. 701-TA-363 and 364 (Final) and 731-TA-711-717 (Final), USITC Publication 2911 (August 1995) (the original investigations—the Commission made negative determinations with respect to Austria and Spain).

¹⁶ See *id.* at I-30.

Table 3
Drill Pipe Imports, 2006 to September 2009

<u>Net Tons</u>					
Country	2006	2007	2008 Jan-Sep 2008	Jan-Sep 2009	
China	31,493	45,100	64,900	34,400	61,182
All others	120,172	126,195	130,216	100,207	44,380
Total Imports	151,665	171,295	195,116	134,607	105,562
China as % of total	20.8%	26.3%	33.3%	25.6%	58.0%
<u>\$000's</u>					
Country	2006	2007	2008 Jan-Sep 2008	Jan-Sep 2009	
China	\$91,453	\$139,061	\$174,802	\$105,307	\$100,695
All others	\$144,693	\$168,332	\$247,237	\$188,964	\$84,388
Total value	\$236,146	\$307,393	\$422,039	\$294,271	\$185,083
China as % of total	38.7%	45.2%	41.4%	35.8%	54.4%

Source: AIS Imports 2

HTS Nos. 7304.21.3000, 7304.21.6030, 7304.21.6045, 7304.21.6060 used for 2006

HTS Nos. 7304.22.0030, 7304.22.0045, 7304.22.0060, 7304.23.3000, 7304.23.6030, 7304.23.6045, 7304.23.6060 used for 2007 - 2009

Imports of Drill Pipe 8431438040 (Drill pipe fitted with tool joints)

<u>Quantity in Pieces</u>					
Country	2006	2007	2008 Jan-Sep 2008	Jan-Sep 2009	
China	10,996	41,172	13,624	10,027	8,083
All others	70,617	158,192	113,991	90,538	21,899
Total Imports	81,613	199,364	127,615	100,565	29,982
China as % of total	13.5%	20.7%	10.7%	10.0%	27.0%
<u>\$000's</u>					
Country	2006	2007	2008 Jan-Sep 2008	Jan-Sep 2009	
China	\$15,610	\$15,969	\$19,718	\$12,673	\$11,544
All others	\$52,070	\$83,621	\$73,213	\$51,050	\$16,977
Total Imports	67,680	99,590	92,931	63,723	28,521
China as % of total	23.1%	16.0%	21.2%	19.9%	40.5%

Source: Department of Commerce, Bureau of Census

China's share of the total U.S. drill pipe market is even greater when it is considered that nearly all of the imports of drill pipe from countries other than China consist of green tubes that are feedstock for U.S. drill pipe processors. Petitioners believe that virtually all imports of drill pipe from Austria have been green tubes for processing by Grant Prideco,¹⁷ while a substantial proportion of imports of drill pipe from France, Germany, and Brazil have been green tubes for processing by VAM Drilling¹⁸ and other U.S. drill pipe producers. Thus, China's share of both imports and the U.S. market is much higher when the double-counting of green tubes and finished drill pipe is accounted for.

As domestic production and consumption have plummeted in 2009, imports from China have continued to grow, so that Chinese drill pipe has taken an increasing proportion of the U.S. drill pipe market. Chinese drill pipe [] its market share between 2006 and 2008, and then it [] between 2008 and interim 2009, [

] in that time period. Note that Chinese market share is understated because imports under HTS item 8431.43.8040, which are reported on a piece basis rather than a tonnage basis, are not included in Table 4. From Table 3, above, imports of drill pipe under that HTS item accounted for approximately 10 percent of the value of total drill pipe imports from China in interim 2009.

¹⁷ See Grant Prideco 2007 10K, attached as Exhibit I-3.

¹⁸ See VAM Drilling Catalog, at 8, attached as Exhibit I-9.

Table 4
Imports From China As A Share Of U.S. Apparent Consumption
(Quantities in Net Tons)

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
Petitioners' production					
Estimated Grant Prideco production*	86,958	81,428	74,792	61,559	29,688
Estimated Rest of Industry production**					
Total production					
Petitioners' domestic shipments					
Estimated Grant Prideco domestic shipments*	86,958	81,428	74,792	61,559	29,688
Estimated rest of industry domestic shipments**					
Total domestic shipments					
Imports from China	31,493	45,100	64,900	34,400	61,182
Imports from rest of world, net of feedstock***	3,299	7,067	8,298	7,055	4,855
Total non-feedstock imports	34,792	52,167	73,198	41,455	66,037
Apparent U.S. consumption					
China as % U.S. consumption					

* Production and shipments for Grant Prideco estimated by assuming that all imports of drill pipe from Austria were used by Grant Prideco to produce finished drill pipe.

** Rest of U.S. industry estimated by []

*** All imports of drill pipe from Brazil, France, Germany, and Austria are assumed to be feedstock for U.S. drill pipe processors. To avoid double counting of these pipes, they have not been included in the calculation of apparent consumption.

C. Imports from China Have Caused Material Injury to the Domestic Industry

1. Imports from China compete with domestic production and have injured domestic producers.

Petitioners believe that most drill pipe imported from China is finished drill pipe,

[

] Most of this drill pipe is manufactured to API

specifications, although some may also be manufactured to other specifications, such as NS1 or IRP. As such, drill pipe from China competes directly with drill pipe produced in the United States, which is most commonly compatible with API specifications but is also sold in some other grades for specific applications.

Imports from China are priced well below the drill pipe sold by domestic producers.

Table 5 shows that imported Chinese drill pipe undersold domestic drill pipe by substantial margins in every period, and that the price disparity became particularly pronounced in 2009, as imports from China fought for an increasing share of a dwindling market.

Table 5
Average Unit Value (AUV) Per Net Ton Comparisons of Domestic and Chinese Drill Pipe

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
Domestic AUV					
Chinese AUV	\$2,998	\$3,237	\$2,812	\$3,187	\$1,696
Margin of Underselling					

Sources: Domestic prices = petitioners' total U.S. commercial sales value / sales quantity
Chinese prices = CIF value / imports volume

2. Domestic industry shipments, production and capacity data indicate material injury caused by imports from China.

Imports of drill pipe from China surged into the United States just as the market for drill pipe was collapsing at the end of 2008. Thus, while, as Table 4 above shows, the U.S. drill pipe market was steadily improving between 2006 and 2008, U.S. commercial shipments declined over the same period as imports from China increased. Then in 2009, when demand declined, Chinese imports remained strong, sending an already weakened U.S. industry into a tailspin. Domestic production, shipments, and capacity utilization all declined precipitously in 2009.

Table 6
Domestic Capacity Utilization, Production and Shipments
(Quantities in Net Tons)

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
Domestic Capacity	[]
Domestic Production	[]
Capacity Utilization	[]
U.S. Commercial Shipments	[]

Source: Petitioners' data

3. Domestic industry financial data indicate material injury caused by imports from China.

The U.S. drill pipe industry had been able to maintain profitability while the market for oil well drilling was good, but increasing Chinese competition began to erode profitability in 2008. Then in 2009, as the market deteriorated rapidly and imports from China continued to capture market share, domestic profitability plunged.

Table 7
Financial Results of U.S. Drill Pipe Producers
(\$000s)

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
Commercial Sales	[]
Cost of Goods Sold	[]
Gross Profit	[]
SG&A	[]
Operating Profit (Loss)	[]
Net Profit (Loss)	[]
Operating Profit as % of Sales	[]

Source: Petitioners' data

4. Domestic industry employment data indicate material injury caused by imports from China.

Employment in the drill pipe industry had been relatively steady, or even improving, until the significant decline in the industry in the last year. As imports of Chinese drill pipe continued to pour into the market in the face of declining demand, the downward pressure on employment was exacerbated. Employment, hours worked, and wages paid all declined precipitously in interim 2009.

Table 8
Employment in U.S. drill pipe industry

	2006	2007	2008	Q1 - 3 2008	Q1 - 3 2009
Average number of Production Related Workers (PRWs) (<i>number</i>)	[]
Hours worked by PRWs (<i>1,000 hours</i>)	[]
Wages paid to PRWs (<i>value</i>)	[]
Average hourly wage	[]

Source: Petitioners' data

5. Imports of drill pipe from China have resulted in lost sales and lost revenue

Petitioners have identified examples of lost sales and lost revenues in Exhibit I-11.

Furthermore, as demonstrated above, the industry-wide data leave no doubt that domestic mills have lost market share to unfairly traded imports from China, and that drill pipe pricing fell as a result of the tremendous surge of drill pipe imports from China that have flooded this market.

D. Imports From China Threaten Further Material Injury

The factors normally considered by the Commission support a determination that the U.S. drill pipe industry is threatened with material injury by reason of imports or sales for imports of drill pipe from China.

1. China encourages export of drill pipe through countervailable subsidies

The Government of China and local and provincial governments in China are providing numerous export subsidies to producers of drill pipe that are described by Articles 3 and 6.1 of the Subsidies Agreement. These subsidies are described in detail in Volume III of these Petitions. Among the most significant examples are:

- **Subsidies Provided to Companies Located in Economic Development Zones and Industrial Development Zones:** The Government of China, together with provincial and local governments in China, have created economic development zones and industrial development zones strategically located on China's seacoasts to support drill pipe exports. Drill pipe producers located in such regions receive a variety of significant subsidies, including reduced taxes, tax rebates, and free or discounted land.
- **Subsidies for Development of Famous Export Brands and China World Top Brands:** The Government of China provides grants, loans, and other incentives to China's drill pipe producers that have been designated by the government as "Famous

Export Brands” and “China World Top Brands.” These subsidies are explicitly designed to promote the development of Chinese exports.

- **Export Interest Subsidies:** Provincial governments in China subsidize exports of drill pipe through grants that offset the interest paid on loans used to support the drill pipe producers’ export operations.

These subsidies, which will be described in detail in Volume III of these Petitions, provide the incentive to continue to increase the volume of exports of drill pipe from China.

2. China possesses substantial capacity to increase exports to the United States

Drill pipe is a seamless pipe product, and as with other seamless pipe products, China has far too much capacity, and yet China continues to add to that capacity. Unfinished drill pipe can be manufactured on the same production lines as seamless OCTG tubes. The producers of seamless OCTG tubes have launched massive expansion plans, as detailed by [

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²⁰

Id.

• []²²

Together, just these projects add substantial new seamless OCTG capacity in China.

Not only is the capacity to produce unfinished, green tube drill pipe expanding rapidly, but the capacity to process the green tube into finished drill pipe has expanded enormously. The number of friction welding lines, used to attach tool joints to finished drill pipe, has expanded rapidly over the last few years in China. Each welding line can typically process 25,000 tons of drill pipe per year,²³ meaning that just the capacity increase alone in China overwhelms total exports of drill pipe to the United States. DP Masters, believed to be China's largest exporter to the United States, increased capacity by one-third, from 75,000 to 100,000 tons in mid-2008.²⁴ Petitioners believe that total Chinese drill pipe capacity is several times greater than demand in China.

3. The significant rate of increase of the volume and market penetration of Chinese drill pipe supports a finding of threat of material injury

As Table 4, above, shows, imports of drill pipe from China have increased every year since 2006, and by 2008 were more than double the 2006 volume. Given the enormous capacity in China to produce seamless pipe, including drill pipe, discussed above, China could increase its

²¹ *Id.*

²² *Id.*

²³ *See* Exhibit I-13.

²⁴ *Id.*

exports of drill pipe to levels far above the already high levels of 2009, especially if non-drill pipe OCTG is constrained by antidumping and countervailing duty orders around the world.

4. Chinese drill pipe imports 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.

As Table 5, above, shows, imported Chinese drill pipe has consistently undersold U.S.-produced drill pipe. This trend shows no sign of abating. In one email to a U.S. drill pipe distributor, attached as Exhibit I-10, a representative of a company selling Chinese drill pipe wrote in August of this year:

[

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[

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(Emphasis added.)

This appears to be typical of the attitude of suppliers of Chinese drill pipe, since the industry is constantly encountering such pricing practices.

5. Inventories of Chinese drill pipe threaten the U.S. industry with additional material injury

Petitioners have no specific information on total drill pipe inventories in China or in the United States of drill pipe imported from China. Individual distributors, however, may post

information about their Chinese-produced drill pipe in their inventory in the United States,²⁵ making it evident that such drill pipe is being stockpiled in the United States rather than all of it being produced and shipped to order. It is very likely that this inventory has grown in the last year, as imports surged into a market that was declining in size.

6. The potential for product shifting is significant

As discussed in II.D.2. above, a large number of drill pipe producers also make non-drill pipe OCTG. Unfinished drill pipe is made, or can be made, on the same production lines as seamless OCTG tubing. There is also ample capacity in China to process unfinished drill pipe into finished drill pipe.

The United States is currently investigating Certain Oil Country Tubular Goods from China, including seamless OCTG except drill pipe.²⁶ In September, 2009, the European Commission imposed final dumping duties between 49 percent and 73 percent on seamless pipes and tubes from China, including OCTG and drill pipe.²⁷ In March 2008, Canada imposed final antidumping duties of between 45 percent and 91 percent, and countervailing duties between 2 percent and 38 percent, on Chinese seamless casing.²⁸ In 2009, the Canadian Government

²⁵ See, e.g., Exhibit I-14.

²⁶ See, e.g., *Certain Oil Country Tubular Goods from China*, Investigation Numbers 701-TA-463 and 731-TA-1159 (Preliminary), USITC Publication 4081 (June 2009).

²⁷ *Official Journal of the European Union*, Commission Regulation (EC) No. 926/2009, L262/19 October 6, 2009.

²⁸ Canadian International Trade Tribunal, *Dumping and Subsidizing Finding and Reasons, Inquiry No. NQ-2007-001, Seamless Carbon or Alloy Steel Oil and Gas Well Casing*, findings issued March 10, 2008 and Reasons issued March 25, 2008.

initiated investigations of OCTG tubing from China, and on November 23, 2009, made a preliminary determination of dumping margins between 34 and 141 percent, and a subsidy margin of 12 percent.²⁹ Russia concluded an antidumping investigation on steel pipe from China in October 2009, and proposed duties of 29.4 percent.³⁰ In short, the export markets for Chinese seamless OCTG and drill pipe have been shrinking, leaving drill pipe exported to the United States as one of the few major export markets left for the production lines of many seamless OCTG producers and drill pipe finishers.

7. Chinese drill pipe imports are hindering the existing development and production efforts of the U.S. industry

Because of the trend of oil well drilling taking place in more and more extreme environments, the industry needs to continually improve the performance characteristics of drill pipe.³¹ The industry therefore needs a robust research and development effort. The lack of profitability in the U.S. drill pipe industry, caused to a significant degree by increased imports of drill pipe from China, will hinder the industry's ability to continue to invest in R&D, leading to a decline in the competitiveness of the industry.

²⁹ Canadian Border Services Agency, Preliminary Determinations of Dumping and Subsidizing, *Certain Oil Country Tubular Goods Originating In or Exported From the People's Republic of China*, AD 1385, CVD 125 (December 8, 2009).

³⁰ "Russia may impose an antidumping tariff on China's steel pipe," Ali Baba, October 19, 2009.

³¹ See VAM Drilling Catalog, Exhibit I-9, at 4.

III. CONCLUSION

All statutory factors support a finding that subject imports of drill pipe from China have caused material injury to the U.S. drill pipe industry. Moreover, the U.S. drill pipe industry is threatened with additional material injury from subject imports. Accordingly, the Commission should make an affirmative determination in these preliminary investigations.

Respectfully submitted,



Roger B. Schagrin
John W. Bohn
Michael Brown
Paul W. Jameson

Schagrin Associates
900 7th Street, N.W., Suite 500
Washington, DC 20001
(202) 223-1700
Counsel to Petitioners