

CANADA BORDER SERVICES AGENCY

SUCKER RODS

P U B L I C

COMPLAINT

OF

**DOVER CANADA ULC -
ALBERTA OIL TOOL DIVISION**

March 29, 2018

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1. IDENTIFICATION OF THE COMPLAINANT

Give the complete name, address, telephone and fax numbers of the Canadian producer or association that is making the complaint. Identify the person we should contact for more information.

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2. IMPORTED GOODS

2.1 Subject goods description

Precisely describe the imported goods that you are alleging are being dumped and/or subsidized. Identify and explain their uses and characteristics including those listed in Appendix 1.

If available, provide product literature for the imported goods.

The goods subject of this complaint are sucker rods, including pony rods, with or without couplings attached and with or without guides attached, manufactured to American Petroleum Institute (API) 11B specifications, equivalent standards or proprietary standards, including in a finished or semi-finished state, made of steel, including carbon, alloy and special grades of steel, of 2.5 inches (63.5 mm) or less in diameter of rod body, with stated measurements subject to permissible tolerances.

Sucker rods are used in oil and gas extraction. In an oil or gas well, the rod string connects the above-ground drive to the down well pump(s).

Overview of oil and gas wells

In extracting oil or gas from a well, some form of “drive” (which includes the motor) is required to provide the motive force and power for the extraction. The drive may be located above ground, or it may be located down well. Sucker rods are only used with drives that are located

above ground, and this complaint will not further discuss technologies or components relating to down well drives.

The above-ground drive is physically connected to the down well pump(s) by a rod string. The rod string is primarily composed of a series interconnected sucker rods. Annex A of the API 11B specification (included as Appendix 1) covers sucker rods.

The number and length of sucker rods may vary widely from well to well, depending on the various requirements established by engineers of the purchasing end users. A string of sucker rods could consist of dozens or even hundreds of sucker rods and have a total length of thousands of feet. Rod strings in Canada are typically in the range of 2,500 to 7,500 feet (roughly 100 to 300 sucker rods of 25 feet in length).

A down well pump will either be a reciprocating pump or a progressive cavity pump (“PCP”). Reciprocating pumps require the rod string to move up and down to extract oil and gas out. This style of pump is more traditional. For these kind of pumps, the drive will connect to “walking beam” and “horse head”, which will then reciprocate by pulling the rod string up and then pushing it down.

Appendix 2 – Part 1 provides a simplified diagram of an oil & gas reciprocating pump assembly with the sucker rods circled and indicated with a red arrow.

As this diagram shows, a single “polished rod” connects the rest of the rod string to the above-ground drive. A polished rod is a special rod required to endure exposure to the surface conditions, unlike sucker rods which remain below ground the entire time they are being used. The polished rod’s placement requires particularly sizing and characteristics which make it quite different from a sucker rod. Annex B of the API 11B spec covers polished rods. Polished rods are not subject goods for this complaint.

On the other extreme of the sucker rod string there is often a “sinker bar”. A sinker bar is similar to a polished rod and has special requirements based on its role. It connects the sucker rod string to the pump. Annex E of the API 11B spec covers sinker bars. Sinker bars used in weighting the rod string are not subject goods for this complaint.

In contrast to the up-down movement of sucker rods in a reciprocating pump application, PCPs require the rod string to spin. This spinning motion is what causes the PCP to extract oil and gas from the well. The basic layout and components of a PCP well are similar to a reciprocating pump well.

About sucker rods

Sucker rods are lengths of steel, usually with externally threaded (also referred to as male threaded) ends. Couplings are typically threaded hollow cylinders used to connect rods.

Fiber reinforced plastic (“FRP” or fiberglass) sucker rods also exist (see Annex D of API 11B). FRP sucker rods are substitutable for steel sucker rods. However, FRP sucker rods are not

covered by this complaint because there is currently very little use of FRP sucker rods in Canada, and little evidence of dumped and/or subsidized FRP sucker rods from China being sold in Canada. For the purpose of this complaint, “sucker rods” will refer to steel sucker rods, unless expressly indicated otherwise.

Sucker rods are “semi-finished” at any point following the forming of the ends of the material input into the essential sucker rod shape (e.g. forging) which typically creates the pin shoulder, wrench square and transition/upset of the sucker rod.

Sucker rod grades

Sucker rods are commonly manufactured to American Petroleum Institute (API) specifications 11B but may also be made to equivalent standards or proprietary standards. API-compliant goods are made to different API 11B grades, including grades C, K, D. A copy of the current API specification 11B is attached as Appendix 1 (in particular see Annex A and Tables A.4 and A.5).

Different manufacturers use different specifications to describe their sucker rods. The following table aligns three common classification systems of sucker rods for the most common types of sucker rods in Canada. The first is the API specification. The second is AOT’s specification. The third is a specification based on the type of steel used. See also Appendix 3 for additional information.

API grade (in ascending order of performance/quality)	AOT grade	American Iron and Steel Institute (AISI) steel-based grade	Examples of other comparable grades¹
C	(not produced in Canada)	1536-M	
K	(not produced in Canada)	4621-M	
D Carbon (or “DC”)	D 54	1541-M	S67
D Alloy (or “DA”)	D 78	4142-M	
D Special (or “DS”)	D 75	4330-M (but distinguished from a “High Strength” 4330-M)	KD3130
	D 90	4320-M	S87
Non-API proprietary - Special Service High Strength	HS 96	4138-M	S88
Non-API proprietary - Special Service High Strength	HS 97	High Strength 4330-M	

There is generally a high degree of substitutability between sucker rod grades. Typically, where a higher grade (e.g. D 78) is preferred for a particular well, sucker rods of a lower grade, such as D 54, or even a C or K grade, can often be used. Using these lower grades increases the likelihood

¹ See also AOT’s Sucker Rod Comparison Guide in Appendix 3, Part 2.

of premature failure, but sufficient cost savings on sucker rods could potentially offset this increased risk.

Similarly, higher grades are down-substitutable for lower grades. AOT only began producing grade D 54 in 2016. Before then, when clients requested grade D 54, AOT supplied D 78.

Because of this degree of substitutability across the range of sucker rod grades, this complaint covers all grades of sucker rods. Even though C and K grade sucker rods are not produced in Canada, the grades AOT produces compete with these grades and dumped and/or subsidized imports of these grades into Canada are causing injury to AOT.

The steel grade provided in the above table is what AOT uses to produce sucker rods of the relevant grades. Other steel grades can be used. The clearest example is that higher grade steels (e.g. 4142-M which AOT uses in D 78) can generally be used to produce lower grade rods (e.g. C, K or D 54). The API 11B specification at table A.4 provides for certain steel grade series (such as AISI 41XX for grade D alloy) that can be used for particular grades. In some cases the specification permits multiple series to be used. The specification also notes that equivalent “international series” can be used.

Since different steel grades can be used to produce a particular sucker rod grade, the focus of comparisons should be the sucker rod grade itself.

Sucker rod dimensions

Sucker rods are connected with couplings to obtain the required length. Sucker rods are usually 25 or 30 feet in length, with 25 feet being the more common length in Canada. The width of sucker rods in inches is usually 5/8, 3/4, 7/8, 1, 1.25 or 1.5.

This complaint covers sucker rods up to 2.5 inches in diameter. AOT believes that most (or possibly all) dumped and/or subsidized Chinese sucker rods imported to Canada are -1.5 inches or less in diameter. The upper bound of 2.5 inches was chosen because in some cases thicker sucker rods can be substituted for thinner sucker rods. AOT believes that above this upper bound for thickness, down-substitutability largely becomes impractical.

Sucker rod components

The components of a sucker rod are the pin (including threaded and unthreaded portion, and shoulder), wrench square, transition/upset and rod body. Both ends of the rod have a pin, wrench square and transition/upset.

The pin is the end of the sucker rod over which the coupling fits. The end of the pin is threaded, while the rest of the pin is unthreaded up to the pin shoulder. The top of the coupling cylinder is called the coupling face. When a coupling is fully attached, the coupling face will contact the pin shoulder.

A labeled diagram of a typical sucker rod is attached at Appendix 2 – Part 2. See also Appendix 1, Figure A.1 for a technical diagram showing these components.

Sucker rods may or may not have guides attached. Guides are molded plastic that provide a wear surface to protect the steel sucker rod from abrasion. The purpose of a rod guide is to minimize abrasion between the sucker rod and tubing and to help center the rod string in the tubing. Images of AOT's guides can be found at pages 24 – 29 of Appendix 3 – Part 1. AOT produces rod guides in Canada.

AOT produces guided pony rods in Canada. AOT does not normally sell guided full length (e.g. 25 or 30 feet) sucker rods, but will add guides to full length sucker rods on an as needed basis. AOT does not produce full length guided rods for inventory.

Guided rods compete with unguided rods, and guided rods can be used in place of unguided rods, and vice versa. Cost savings from dumped/subsidized Chinese sucker rods could justify using guided rods in place of unguided rods or vice versa.

A specific type of sucker rod - AOT's Drive Rods®:

AOT refers to certain larger sucker rods (usually over 1 inch in diameter) with non-standard pin sizes under the trademarked name of "Drive Rods®". AOT's Drive Rods® are merely a particular type of sucker rod, and are therefore like the subject goods in this complaint. Drive Rods® are typically used in progressive capacity pump applications (as opposed to the more conventional reciprocating pump applications). "Drive rod" is not an industry standard term, only AOT uses that term. Other manufacturers refer to sucker rods for both progressive cavity pump and conventional reciprocating pumps simply as sucker rods.

Pony rods:

Pony rods are shorter lengths of sucker rods used to obtain the proper length of rod string when a full sucker rod would make the string too long. Pony rods are connected to each other, or to sucker rods, with couplings. They are usually produced in lengths of 1, 2, 4, 6, 8, 10 or 12 feet. Pony rods are usually made in the same diameters as sucker rods in the rod string.

Pony rods may or may not have guides attached.

Appendix 3 contains further details and product literature relating to all types of sucker rods.

2.2 Tariff Classifications

If available to you, provide the tariff classification numbers used when the goods are imported into Canada.

The goods are properly classified under HS tariff code: 8413.91.00.10 "Pumps for liquids, whether or not fitted with a measuring device; liquid elevators.– Parts – Of Pumps ----- Sucker rods, pony rods or polished rods, designed for oilfield related pumps, parts thereof."

This tariff classification covers both subject and non-subject goods. Only sucker rods (including pony rods) are subject goods. Polished rods are not subject goods in this complaint.

AOT believes that some importers have declared goods as “sucker bars”. AOT is not familiar with this term and it is not a correct term in the oil and gas industry. AOT suspects that “sucker bars” likely (and more properly) refers “sucker rods” (and thus that such goods are subject to this complaint). It is possible that some goods have been improperly classified under other HS codes under heading 8413.91, or elsewhere.

2.3 Country of export/origin

Indicate the country where the imported goods are produced and where they are exported from.

The subject goods are produced in or exported from the People’s Republic of China (“China”).

2.4 Known exporters

Identify any known exporters that are shipping the goods to Canada.

A list of all suppliers in all countries certified by the API under specification 11B to produce sucker rods is attached as Appendix 4. Thirty-seven of those suppliers are Chinese, some or many of whom AOT believes are exporting subject goods to Canada.

AOT is not aware if any of those are fully integrated manufacturer who produce their own raw material.

2.5 Known importers

Identify any known Canadian importers of the goods.

AOT has evidence that Weatherford Canada Partnership is a significant importer of subject goods, including from related Chinese companies, such as Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.²

We also believe the following entities are likely importing Chinese sucker rods:

- Schlumberger Canada Limited;
- Exceed Canada Oilfield Equipment (affiliated with Chinese producer Nine Ring³);

² Given this affiliation, the declared export price may require adjustment under s. 25 of SIMA to ensure reliability.

³ See Appendix 46 for evidence of affiliation. Section 25 of SIMA may be applicable here as well.

- Apex Advanced Solutions Inc.;
- Lifting Solutions Inc. [
- Shawcor Ltd. (formerly Flint Field Services Ltd.); and
- Q2 Artificial Lift Services.

], see Appendix 17;

Appendix 5 provides a list including names and addresses of known possible importers of Chinese subject goods, though AOT does not have specific information on the activities of these companies.

2.6 Marketing and sale of subject goods

Explain how the imported goods are marketed, priced, and distributed, in Canada.

Dover Canada ULC (“Dover”) produces and markets a wide range of production service equipment solutions for the oil and gas industry. AOT is a division of Dover, and operates as part of the Dover Artificial Lift business unit along with Norris Rods (a US company). Organizational charts are attached in Appendix 6. Norris was founded in 1882, and the name is synonymous with the highest quality of production and performance in the oil industry for over 100 years. AOT produces and sells its products under the Norris brand, including sucker rods, pony rods, polished rods and couplings.

In addition to sucker rods (including pony rods and Drive Rods®), the AOT division of Dover also produces and sells pup joints, polished rods, tubing and casing fittings, butterfly valves and controls. The high reputation for quality and reliability of AOT products and those of related Dover companies is well known in the industry, and our products traditionally have been the first source option throughout the Canadian industry.

Marketing may take the form of price sheets, printed information catalogues/brochures, website, and personal selling. Pricing is usually determined through an established list price with volume discounts, or a negotiated net selling price.

Both domestically produced and imported subject goods are sold to oilfield distribution companies that sell and/or service down-hole equipment, including rod pumps and pump jacks. These service and supply companies, in turn, sell the products to end users. Sucker rods may also be sold to specialty manufacturing companies. The speciality manufacturing companies may resell sucker rods as part of their overall product package.

AOT sells the full line of its products to distributors; accordingly distributors who purchase sucker rods from AOT, may also purchase pup joints, polished rods, tubing and casing fittings, butterfly valves and controls. [

]

Owing to the long-standing reputation of AOT (and related operations) for product quality, we had in the past been able to maintain a price premium over imported goods. Chinese subject goods may be of high quality, but have not generally been known in the Canadian market. Accordingly, in order to increase market share, exporters of Chinese subject goods must rely on lower pricing than goods produced in Canada. More recently, dumped and subsidized Chinese imports have been increasingly displacing AOT goods on the basis of price, both at the larger oilfield distributor level and at smaller local supply stores that have begun to carry imported Chinese subject goods.

In terms of product characteristics, grade is the most significant determinant of pricing on a per foot basis. The next most important factor is the diameter of the sucker rod, because larger rods will require more steel, and steel is the largest cost component of a sucker rod.

3. GOODS PRODUCED IN CANADA

Action against dumped or subsidized imports can only be taken if the industry is producing goods in Canada that are identical or similar (i.e., like goods) to the imported goods.

Precisely describe the goods you produce. If not identical to the imported goods, explain how they differ in terms of uses and other characteristics (Uses and characteristics typically examined are listed in Appendix 1).

Provide product literature for the goods you produce.

Goods produced in Canada by AOT are generally identical to subject goods from China. The majority of sucker rods used in Canadian oil and gas operations conform to the API 11B specification.

Both the Canadian industry (meaning AOT, since it is the sole Canadian producer) and Chinese producers manufacture goods to the API 11B specification. This specification imposes requirements relating to most aspects of the goods, including dimensions (e.g. length, width) tolerances, chemistry, mechanical properties (yield strength, tensile strength and hardness) and threading.

Certain AOT products have some improved characteristics over Chinese subject goods, but the Chinese products generally remain fully interchangeable with Canadian produced goods.

AOT's manufacturing process

The following outlines AOT's manufacturing process:

Steel bars are the raw material for sucker rods. In North America, suitable steel bars are typically referred to as Special bar quality (SBQ), however this is not a rigidly standardized term. In some cases, including in other countries, the input material could be referred to as engineered bar or

merchant bar. Ultimately, any steel bar that meets the relevant requirements (chemical, mechanical, dimensional and so forth) can be used as input material.

AOT's sucker rods are manufactured from micro-alloy, modified SBQ hot rolled carbon or alloy steel bar. AOT's specifications for raw material bars are included at Appendix 37. Raw material for sucker rods is generally of a significantly higher quality than most concrete reinforcing bar, for example, and with much lower chances of defects or flaws.

SBQ is supplied as long steel bars. SBQ arrives at AOT's facility and is inspected and received into inventory. The SBQ is cut to length for 25 foot sucker rods.

The SBQ is transferred to a straightener, and where it is straightened by passed through straightener rollers.

Bars then get passed through an Eddy Current tester to check for any surface quality defects. All good bars are collected to form a bundle and rejected rods are kicked out in reject pockets.

Good bars are then transferred to forge machines. Each bar end (between 8 – 14 inches of material) is induction heated to $2300^{\circ}\text{F} \pm 50^{\circ}\text{F}$ and upset forged to dimensions specified by the drawing for one end. The bar end is measured and documented on AOT's quality plan. After one end is completed, the bar is rotated 180 degrees and the same processes are performed on the other end.

During the forging process, the sucker rods are stamped with: AOT's name as the manufacturer, the size, pin type, grade, heat code and date of manufacturing.

After forging, the rod is transferred to the normalizing furnace. Forged bars are put on conveyor chains which take them through the furnace at a preset speed and furnace temperatures above the critical transformational temperature (1550F – 1675F, depending on the desired finished grade) where it undergoes beneficial microstructure changes. Essentially, normalizing allows for the recrystallization of steel to offset any defects arising from the working of the metal (particularly the prior forging).

Upon exiting the normalizing furnace, the rods will be brittle and have poor ductility, so the rods are then tempered. When the rods come out of the normalizing furnace, they are then slowly moved (to allow air cooling for a certain time) to the tempering furnace at preset speed and temperature. Again the speed and temperatures are governed by the finished grades, but are approx. 500F lower than normalizing temperatures. Tempering improves the ductility and toughness of the steel.

The rods are then transferred on another conveyor which takes them through the shot peener. In this process the rods are blasted with tiny metal balls which produce compressive residual

stresses on the rod surface which improves the fatigue life⁴ of the rod making them a superior quality product over non peened rods.

Rods are then settled in output table pockets to allow for cooling to room temperatures. Once cooled, rod bundles are moved to computer numerical control (“CNC”) machines where they are machined and threaded on the ends. AOT uses cold-formed rolled threads on its sucker rods. The cold-formed process displaces, rather than removes metal, to maintain consistent steel grain follow. This strengthens the shear, yield, and fatigue resistance of the threads. As necessary, couplings are attached on one ends and pin protector plastic caps are added to the others.

Machined rods are then sent to paint tables where they are inspected for straightness. Rods that are out of straightness are straightened. The rods are then dipped into a paint vat.

Painted rods are then arranged in a stack for bundling and strapping. Rods are covered in an oil-soluble coating to reduce atmospheric corrosion in storage. Rods are bundled to prevent handling damages during transportation. Bundled rods are then moved to the storage area from where they get loaded onto trucks for shipping out to distributors.

About AOT’s production

With its current equipment, AOT is capable of producing sucker rods of thickness 5/8 – 1.5 inches, and in lengths up to 25 feet. The limiting factor on length is that AOT’s furnace rooms are only wide enough to accommodate a 25 foot rod and not a rod that is 30 feet or longer.

AOT’s top selling sucker rod, [] and 25 feet in length, takes approximately [] to produce. This is consistent with the time for AOT’s other top selling 25 foot sucker rod models, which range from [] to produce. Please note that pony rods (which are effectively shorter sucker rods) may [] to produce. For example [].

Refurbished sucker rods in Canada

Sucker rods can be refurbished and reused, but that this is an uncommon practice in Canada because sucker rods typically spend an extended period of time in the well, usually until the rod is replaced proactively to avoid failure or reactively because of failure, or until the well becomes inactive. AOT estimates that refurbished sucker rods account for a maximum of [] of the market. Pricing of new subject goods from China is even undercutting pricing of used rods.

⁴ Sucker rods may fail (bend or break) when the metal becomes “fatigued” from the repeated stresses the sucker rod experiences. Improving the fatigue life means that the product will last longer before being prone to a fatigue related failure.

Product literature for sucker rods produced by AOT is attached as Appendix 3.

4. CLASSES OF GOODS

Both the imported goods and the like goods produced in Canada, taken as a whole, may sometimes be divided into smaller "classes" or "sub-groupings" of goods.

It is necessary for us to determine whether there is more than one class of goods involved in this complaint.

As an example, plant seeds produced in Canada could be considered as like goods to imported plant seeds because they have similar characteristics and uses. That is, they have the same general uses, to grow plants, and they may have similar physical characteristics and methods of production. However, it is likely that these goods, as a whole, could be sub-divided into separate classes of goods such as flower seeds, vegetable seeds and grain seeds. These classes of goods do not directly compete with one another for the same customer, they do not fulfill the same needs and they are not substitutable.

Can the imported goods and the like goods produced in Canada be sub-divided into separate classes of goods? If yes, explain in detail.

The present complaint covers a single class of goods. All sucker rods (including pony rods and Drive Rods®) serve the same purpose of connecting the above-ground drive (either a reciprocating walking beam/horse head, or a rotating drive for a progressive cavity pump) to the down-hole pump. These are all finished goods with compatible threading intended to be connected together. They are all subject to the API 11B or a comparable specification. They all consist of specific types of carbon or alloy steel. These goods are also all produced on the same machinery using essentially the same production process. They are all sold through the same channels of distribution to the same oil and gas company end-users.

5. CANADIAN INDUSTRY

Your complaint must have the support of Canadian industry before an investigation can be started. In brief, producer support for the complaint should be greater than opposition and represent not less than 25% of all Canadian production.

5.1 Canadian producers of like goods

Identify all known Canadian producers of like goods.

To the best of AOT's knowledge, AOT is the only Canadian producer of subject goods. This is demonstrated by the fact that AOT is the only company in Canada with API approval to produce these goods. The API composite list for all companies certified to produce to API specification

11B anywhere in the world is attached as Appendix 4. AOT is the only Canadian producer on that list.

5.2 Associations of producers of like goods

Identify all the known associations of producers of like goods in Canada.

There are no producer associations in Canada.

5.3 Volume and value of complainant’s production

Provide the total volume and value of your production of like goods for the last three fiscal years and the current year to date.

The following table lists the volume of sucker rods produced by AOT in Canada and sold in Canada (therefore excluding any sales of imported sucker rods) in the last four fiscal years, along with their sales value.

	2014	2015	2016	2017
Pieces	[
Sale Value (C\$)]

AOT’s income statements for domestic and export sales are provided in Appendix 10. These are presented in a format compatible with the requirements of the Canadian International Trade Tribunal (“CITT”). AOT’s total firm audit financial statements from 2014 – 2017 are attached as Appendix 8. Given the diversity of products it produces and sells in Canada, it was not practical to create an AOT-wide income statement in the same format as the income statements for domestic and export sucker rod sales that AOT prepared.

For full year 2017, the breakdown of AOT’s domestic sales revenue by grade was:

Grade	% of domestic revenue
[
]

5.4 Volume and value of other Canadian producers

Estimate the total volume and value of the like goods produced in Canada by each of the other known producers for the last three fiscal years and the current year to date. Explain how you estimated these figures.

Not applicable, there are no other Canadian producers.

5.5 Position of other Canadian producers on subject goods

Do you have any information on the views of the other Canadian producers regarding the imported goods? If you have discussed the matter with them, provide the name and telephone number of the person or persons contacted.

Not applicable, there are no other Canadian producers.

5.6 Complainant relationship to importer of subject goods

Are you, or any other known Canadian producer, related to an exporter or an importer of the goods? If yes, identify the company and the relationship.

Neither AOT nor any of its affiliates import subject goods from China.

5.7 Imports of subject goods by Canadian producers

Do you, or any other known Canadian producer, import the goods in question? If yes, provide details.

AOT has occasionally imported a small volume of sucker rods from a US affiliate. These imports are used to meet short term demand surges where insufficient Canadian inventory is on hand and sufficient goods cannot be produced in time to meet a specific customer need. In recent years, from 2015 forward, such imports by AOT has been very infrequent and accounted for [] of AOT's domestic sales by value.

As AOT is the only Canadian producer, AOT believes this small amount of imported sucker rods are the only sucker rods imports by Canadian producers.

6. DUMPING

6.1 Normal Value

a) Section 19 Normal Values

Normal values for Chinese subject goods were first estimated using a constructed cost analysis in accordance with section 19(b) of *SIMA*. AOT costs of production were used. Seven models were chosen, including the top six selling models. These were supplemented with the strongest selling pony rod to provide a broader range of representative products. These models represent approximately [] of the total volume by pieces of AOT's domestic sales of sucker rods in 2017 and more than [] of total sales dollars (see Appendix 11). A full breakdown of all

sucker rods sold by AOT domestically in 2017 and the percentage of sales by pieces and revenue they represent is attached as Appendix 21.

The costs of production for each of these selected seven models may be found in Appendix 12.

AOT sells competitively in markets around the world (see Appendix 10 for export volumes), accordingly, its cost structure is considered to reflect those in other competitive markets.

AOT's standard costing for model specific costs

AOT's financials for its domestic and export sucker rod operations in aggregate is primarily based on total actual overhead and labour expenditures, average direct material costs and reasonable allocations for other sucker rod related expenses.

To cost specific models, AOT's costing model again uses average direct material costs, but for direct labour and overhead, AOT uses a standard costing model, and calculates absorption and variances based on actual costs incurred.

Standard costing is done on the basis of the hours spent by machine operators actually producing goods ("Applied Hours"). Actual hours of direct labour by machine operators are necessarily higher than Applied Hours. For AOT in 2017, approximately [] actual hours of direct labour by machine operators were required to accomplish 1 Applied Hour. Overhead costs (including indirect labour) are expressed as a cost in relation to Applied Hours. AOT applies the [] on the labour time needed to make a product [].

AOT uses a standard cost of [] for sucker rod production (again, this is a per Applied Hour measure, not per actual hours). That typically divides as [] for direct labour with an additional [] overhead cost. AOT only has small annual variances against the total standard cost after combining direct labour and overhead. Therefore AOT uses these [] standard costs for internal management and costing purposes.

These standard costs are representative of 2017 cost, as explained below.

AOT has determined the known production time for a particular good at the SKU level. For example, as noted above, AOT SKU [] is known to take [] minutes to produce. Based on these known processing time and on the goods produced during a particularly year it can calculate how many hours of direct labour were spent producing goods. For 2017, [] hours of direct labour were spent producing sucker rods (i.e. Applied Hours). Obviously not every second of direct labour time can be spent producing goods. Direct labour time is also spent on changeovers between products, maintenance (including preventative maintenance and station cleaning), machine down-time (broken or maintenance), training, team meetings and paid breaks. AOT paid for [] direct labour hours for sucker rods in 2017. The ratio of Applied hours to total direct hours is the Overall Equipment Effectiveness (OEE). In 2017, AOT's OEE was [], which AOT believes is a reasonably competitive number for its industry.

In 2017, AOT paid [] in direct and indirect hourly labour costs, including both wages and benefits. [] of this was direct labour (i.e. machine operators) and [] was indirect labour (overhead-related labour, such as supervisors, maintenance, shipping & receiving, janitorial, material handlers, etc). For AOT, approximately [] of hourly labour costs are wages and the remaining [] is benefits. AOT's average hourly labour cost in 2017 was [], with average hourly salary being [], which are well within reason for Canadian manufacturing jobs.

When AOT's 2017 direct labour cost (including wages and benefits) of [] is divided by AOT's 2017 Applied Hours of [], the direct labour cost per Applied Hour is []. This aligns closely with the [] direct labour portion of AOT's standard cost for direct labour.

In 2017, AOT's total overhead costs (including indirect labour, rent, utilities, maintenance, service department and similar) was []. Dividing this amount by AOT's Applied Hours, produced a per Applied Hour overhead standard cost of [], which also matches with the [] overhead component of AOT's total per hour [] standard cost.

In aggregate, AOT's standard cost of [] is (within []) of AOT's actual aggregate direct labour and overhead cost of [].

General, selling and administrative expenses (which include financial expenses) used were based upon AOT's total SG&A, allocated to sucker rods based on its share sales dollars, recognizing that AOT only incurs SG&A for domestic sales because AOT's export sales of sucker rods are coordinated by affiliated companies. Sucker rods SG&A was calculated on a per piece basis, which for 2017 was [].

Adjustments to AOT's costs for s. 19(b) normal values

Labour costs in China have risen dramatically over the last few years, though they remain lower than in Canada. A November 2015 article in the Wall Street Journal reported on China's manufacturing labour costs (see Appendix 14). The article relied on information gathered by the Boston Consulting Group. After adjusting for productivity, the article stated that manufacturing labour costs per hour in China were US\$14.60 compared to US\$29.58 in Canada (which is in line with AOT's current labour cost of C\$44/hour). The ratio of these two numbers (49.4%) was used to deflate AOT's labour costs to account for lower Chinese labour costs. The CBSA accepted this same methodology and data in initiating the recent FISC complaint (see CBSA's Statement of Reasons for Initiation, para. 98 and Public Complaint in FISC para. 152).

For the purpose of the s. 19(b) constructed value, this deflation by 50.6% (i.e. to 49.4%) was applied to AOT's total labour costs attributable to the goods. Total labour consist of direct labour costs, the indirect labour cost component of overhead and to the indirect labour cost component of SG&A.

The labour cost component of overhead was calculated at [] of total overhead cost. This comprised direct labour and benefits, indirect labour and benefits and salary & wages and benefits.

Based on total labour components included in SG&A (such as management salaries, sales person salaries etc), the labour component of SG&A was [] of total SG&A (or []).

The total direct labour and the labour components of overhead and SG&A were all deflated to reflect 49.4% of AOT labour costs.

The remaining non-labour components of overhead and SG&A were added to the direct material costs and the deflated labour costs to determine total fully loaded cost of production of the goods.

An amount for profit of 21.9% was added, based upon the 2016 financial performance of John Crane. Up to the end of 2016, John Crane was a large multinational producer⁵ of oil and gas components, including sucker rods, pony rods, polished rods and couplings, and had operations in China (Appendix 15, refer to p. 34 of 2016 Smiths Annual Report). As a point of comparison, this amount for profit is roughly consistent with []].

Appendix 12 provides the normal values along with the underlying calculations.

b) Section 20 conditions apply in China

AOT submits that the President of the CBSA should apply section 20 of *SIMA* to the determination of normal values for Chinese subject goods. Pursuant to sub-section 17.1(1) of the *Special Import Measures Regulations*, China is a prescribed country for the purposes of section 20 of *SIMA*. Chinese domestic prices are substantially determined by the Government of China (“GOC”) and those prices are not substantially the same as they would be if they were determined in a competitive market.

There is significant evidence of control of domestic steel prices and of components for the oil and gas industry by GOC. Some key factors in this regard are:

- i) The CBSA has recently and repeatedly recognized a high degree of government control over domestic Chinese prices for steel goods intended for the oil and gas sector. The circumstances upon which those decisions were made have not changed.
- ii) GOC exercises a high degree of government control of domestic prices in the Chinese steel industry generally.
- iii) Chinese domestic prices for long steel products are significantly lower than in market economies because of government influence;

⁵ John Crane sold the artificial lift component of its business, including production of sucker rods, pony rods, polished rods and couplings, in 2017.

- iv) Major producers of subject goods are state-owned enterprises (“SOEs”), including companies owned by the China National Petroleum Corporation (“CNPC”) or Sinopec.
- v) The vast majority of Chinese demand for subject goods comes from three GOC SOE oil companies: China National Petroleum Corporation (“CNPC”) (which includes its subsidiary PetroChina), China National Offshore Oil Corporation (“CNOOC”) and Sinopec. As noted above, CNPC/PetroChina and Sinopec have subsidiaries producing these goods.
- vi) All major input costs are controlled by GOC, including iron ore, coal and electricity.

Each of these will be addressed in detail below.

Previous determinations of section 20 applying to related Chinese steel products

Sucker rods have similarities to both steel oil and gas products (such as OCTG) and with long steel products (such as rebar).

Sucker rods are similar to tubular steel oil and gas products (such as OCTG, line pipe and pup joints) because:

- Both are relatively high-valued added components;
- Both are primarily made to specifications governed by the American Petroleum Institute (API);
- Both are sold to the same oil and gas extraction customers;
- Both are typically sold through the same distribution network, and sucker rods are often sold together with OCTG, line pipe and pup joints; and
- Sucker rods work together with oil and gas casing and tubing in the oil and gas well, because the sucker rods go inside the tubing, which is in turn, inside the casing.

Sucker rods are similar to long steel products (such as rebar) because:

- The input material for the rods is a long steel bar;
- The input bars are also generally hot-rolled to the required diameter for the sucker rods; and
- The resulting product is a long steel rod, that is generally solid.

In the last seven findings concerning steel products for the oil and gas sector, CBSA has consistently determined, pursuant to s. 20 of *SIMA*, that prices in China were substantially determined by the government of China, and there was sufficient reason to believe that prices in

China were not substantially the same as they would be if they were determined in a competitive market. This justified applying s. 20 to China for the anti-dumping findings.

These case are:

- November 2008 - *Seamless Casing*
- March 2010 – *Oil Country Tubular Goods I (OCTG I)*
- March 2012 – *Pup joints*
- December 2015 – Re-investigation in *OCTG I, Seamless Casing and Pup Joints (OSP)* confirmed the section 20 conditions continued to exist
- March 2016 – *Small diameter carbon and alloy steel line pipe*
- October 2016 – *Large diameter carbon and alloy steel line pipe*
- May 2017 - *Fabricated Industrial Steel Components (FISC)* (one of the specific end-uses covered was for “oil and gas extraction”)

The subject goods in this case are made of carbon or alloy steel and produced for use in the oil and gas sector. The same conditions exist in China for the subject goods as for all these other steel products for the oil and gas industry.

Further, many of the same companies found to have operated under s. 20 conditions also produce subject goods.

Of the 37 producers of API 11B subject goods in China, 10 also produce OCTG or line pipe at the same facility. Both OCTG and line pipe are products for which CBSA has recently determined that s. 20 conditions exist (see Appendix 4 showing API 11B certified producers that are also certified under API 5CT for OCTG, or API 5L for line pipe, at the same facility). This shows that production of subject goods is also under s. 20 conditions.

As an example, Shandong Molong Petroleum Machinery Co., Ltd. also received normal values for OCTG in the most recent OSP Re-investigation (Appendix 18) and produces subject goods in the present case (Appendix 4). It was therefore also already found to have been subject to s. 20 conditions.

The Chinese SOE Shengli Oil Field Freet Petroleum Equipment Co., Ltd. is one of the dozen Chinese producers who cooperated and obtained normal values for OCTG in the OSP Re-investigation. The OSP Re-investigation concluded in December of 2015 and confirmed the continued existence of s. 20 conditions in China for the purposes of the *OCTG I, Seamless Casing and Pup Joint* findings. Freet also claims to be the second largest producer of sucker rods in China (Appendix 19) and is already known to be active in Canada through its OCTG exports. Freet produces both OCTG and sucker rods at different plants in Dongying City. Freet is

therefore an important producer in the context of the present case and has already been found to be subject to s. 20 conditions.

In the last two cases regarding long steel products from China, CBSA also found that s. 20 applied:

- December 2014 - *Rebar I* (see paras 94-127 of the FD, confirmed again in the Notice of Conclusion of Re-investigation, dated September 1, 2017)
- August 2013 - *Galvanized Steel Wire* (see paras 79-114 of the FD)

Given CBSA's past findings of s. 20 applying in China for the production of steel oil and gas components and long steel products, and that many production facilities for subject goods have already been found to operate in s. 20 conditions, CBSA should apply s. 20 in this case.

Government controls over the steel sector in China generally

The Government of China has extensive control over the steel sector in China. Through previous investigations, CBSA has gathered an extensive body of evidence showing this. CBSA investigations have in some cases yielded better information than is reasonably available to AOT in preparing this complaint.

The World Steel Association published its World Steel in Figures 2017 listing the top 50 producers of crude steel worldwide (see Appendix 20). Five of the ten largest producers are in China. Of these, four are state-owned enterprises ("SOEs"); these four account for 84% of Chinese production reported among the top ten producers in the world.

Extending the analysis to the 50 largest producers worldwide identified in 2016, 16 are Chinese SOEs. These 16 companies produced 330.47 million metric tonnes of crude steel in 2016, representing 41% of total Chinese production. The top 6 Chinese SOEs alone represent more than a quarter of all crude steel production in China. Appendix 22 includes a table listing the major SOEs, with their affiliates and total crude steel production for 2016, as well as for the 8 largest private companies. It is noteworthy that total production by all 8 listed private companies is only about half of the production of the 6 largest SOEs alone. Appendix 22 provides these data as well as a listing of major SOEs and affiliated companies, with supporting documentation.

It should be noted that there has been significant consolidation in the Chinese steel industry, with Baowu consolidating the assets of a number of other SOEs, including Baosteel and Wuhan ("WISCO"). Similarly, Hesteel (or HBIS, formerly Hebei Iron & Steel) also reflects growth through recent acquisitions. It should also be noted that not all SOEs listed in Appendix 22 have data because their size falls below the top 50 worldwide. Appendix 22 also includes supporting information providing evidence of the identify of these SOEs, of plants owned by members of the Communist Party of China or in joint ventures with an SOE enterprise.

The dominant position of SOEs can be seen in the report on the steel market in China prepared for the China Metallurgical Industry Planning and Research Institute (see Appendix 24). This document indicates that of seven companies with production exceeding 20 million tonnes, only

one (Sha Steel or Shagang) is not a state-owned enterprise. As noted above, since this report was made, WISCO was combined with Baosteel to create Baowu, now the second largest steel company in the world.

While the Chinese Government claims that the steel industry is “market-oriented”, the 13th Five Year Plan clearly explains the role of SOEs in controlling and shaping the Chinese market (see excerpts in Appendix 25). Chapter 11 of the 13th Five Year Plan explains the principles to guide China’s economy, the report states:

“We will ensure that public ownership is dominant and that economic entities under diverse forms of ownership developed side by side. We will remain dedicated to strengthening and developing the public sector of the economy while also encouraging, supporting, and guiding the development of the non-public sector. We will exercise oversight over economic entities under all forms of ownership in accordance with the law.” [emphasis added]

In purporting to discuss the reform of SOEs, the 13th Five Year Plan continues on to state:

“We will remain firmly committed to ensuring that state-owned enterprises (SOEs) grow stronger, better and bigger and work to see that a member of such enterprises develop the capacity for innovation and become internationally competitive, thereby injecting a greater life into the state-owned sector, helping it exercise a greater level of influence and control over the economy, increasing its resilience against risk, and enabling it to contribute more effectively to accomplishing national strategic objectives.” [emphasis added]

Chapter 13, section 2 of the 13th Five Year Plan speaks of reforms of pricing mechanisms generally. At the very outset, the document states that China “will reduce government intervention in pricing”. This expressly acknowledges that there is ongoing direct Chinese government intervention in a wide range of sectors including those that effect inputs for the production of steel, such as power, natural gas and other price adjustments for public utilities.

In November of 2016, China released the Iron and Steel Industry Adjustment and Upgrade Plan (2016-2020). An analysis of a draft of this document, (by steel associations around the world) remarked that the Chinese government intends to continue “its top-down management” of all aspects of the steel industry including the number and location of enterprises, of products that they produce and the technologies as they should use to produce them. The analysis and the copy of a draft policy may be found at Appendix 26.

Thus, while public utterances claim the existence of a market economy, the 13th Five Year Plan clearly sets out the role of SOEs in controlling economic activities to further national strategic objectives. Given the market power of the steel industry SOEs and the influence of these organizations on steel pricing in China, government control of pricing is evident.

As the CBSA recently noted in its Notice of Re-investigation, dated May 1, 2017 relating to the *Rebar I* finding:

The CBSA has conducted several recent section 20 inquiries on the Chinese steel industry and information available to the CBSA indicated that the domestic prices are substantially determined by the Government of China (GOC) and there is sufficient reason to believe that they are not substantially the same as they would be if they were determined in a competitive market. During this re-investigation, the CBSA will once again examine the long products steel industry sector in China as, based on currently available information, there is continued reason to believe that the conditions of section 20 remain.

In its Notice of Conclusion in the *Rebar I* re-investigation, CBSA confirmed that section 20 conditions continue to exist in the long steel sector in China:

At the conclusion of the section 20 inquiry, information on the administrative record revealed that section 20 conditions continue to exist in the long products steel industry sector in China. As a result, on September 1, 2017, the CBSA formed the opinion that the conditions of section 20 apply to the industry sector under investigation in China.

Information relating to government control over rebar pricing and production is particularly informative since the subject goods are also primarily long steel products with numerous similarities to rebar. Certain key applicable portions of CBSA findings in *Rebar I* relating to government control over the long steel are as follows:

[101] The GOC classifies the iron and steel industry to be a "fundamental or pillar" industry and therefore the government maintains a degree of control over the industry, through a minimum of 50% equity in the principal enterprises.

[102] Information on the record indicates that in 2010 eight of the top ten steel companies in China were state-owned. In 2013 it is estimated that the top ten steel companies accounted for 45% of the total Chinese crude steel production. The complainants also provided supporting documentation that demonstrates that state owned enterprises produce steel billet and/or rebar themselves or through their subsidiaries. This indicates that the GOC exerts control over the Chinese steel industry, which encompasses the long products steel sector, including concrete reinforcing bar.

[...]

[111] Therefore the main task of the 2011-2015 Development Plan for the Steel Industry is to control total volume by eliminating obsolete production and controlling new production capacity. The scope of the GOC's reforms in the steel sector in China is to be obtained by industry concentration targets through mergers and acquisitions by the end of 2015. These GOC objectives are likely to conflict with the commercial interests of producers in the long products steel sector, which includes concrete reinforcing bar. These objectives will likely affect production volumes, competition and ultimately prices.

[...]

[118] The GOC does not provide any VAT export rebate for steel billets or non-alloy rebar, while alloy rebar currently receives a VAT export rebate. Steel billet and non-alloy rebar are both subject to an export tax. The absence of a VAT export rebate, coupled with an export tax, on steel billets further demonstrates the GOC's objective of increasing the domestic supply of unfinished steel products by discouraging their export. A higher supply of steel products such as billets in the domestic market causes a downward pressure on domestic prices of these goods. Further since billet comprises a large percentage of the cost of rebar, the low cost of billet in China impacts the price of rebar in China. [emphasis added, footnotes omitted]

The CBSA's most recent section 20 finding relating to steel in China was in FISC, reasons dated May 10, 2017.

In particular, AOT suggests that CBSA should consider the following Government of China policies, all of which were on CBSA's record in the FISC investigation, in determining that s. 20 conditions exist for the production of subject goods:

- 13th Five-Year National Plan on National Economic and Social Development;

The 13th Five-Year National Plan "supports GOC intentions to further consolidate the steel industry through mergers and restructuring and that the GOC views SOEs as having an important role to play in the economy." (FISC FD, para. 119)

- The National Steel Policy and the Steel Revitalization/Rescue Plan;

In this plan, "the GOC asserts its strict control over new or additional steel production capacity, promotes new GOC directed mergers and acquisitions to reform the Chinese steel industry into larger conglomerates, along with an increased emphasis on steel product quality." (FISC FD, para. 122)

- The 12th Five-Year Development Plans for the Steel Industry;

Under the 12th Five-Year Development Plan, shows how "as a result of the GOC's administration of steel production capacity, the Chinese steel industry is very much under the purview of the GOC." (FISC FD, para. 128)

- Iron and Steel Industrial Restructuring Policy (2015);

Under the Restructuring Policy, “the GOC intends to continue the acceleration the restructuring of the steel industry; set capacity requirements and profitability and productivity targets. The CBSA views the role of the GOC in the management and supervision over the Chinese steel industry as indicative of control of the steel industry by the GOC.” (FISC FD, para. 135).

- List of Industries, Products and Technologies Currently Encouraged by the State for Development (2000);

The list of “encouraged” industries includes iron and steel, petrochemical, and oil and natural gas. (FISC FD, para. 137).

Given that the subject goods in this complaint are both “iron and steel” and used in the “oil and nature gas” industries, the production of sucker rods, pony rods, polished rods and couplings falls under multiple types of state “encouraged” industries.

- State Council Decision on Accelerating the Development of Strategic Emerging Industries (see Appendix 27 for information relating to this State Council Decision).

AOT submits that production of subject goods falls squarely under the “Strategic Emerging Industries” identified in this decision for two main reasons.

First, the energy efficiency and environmental objectives of the decision will necessarily affect steel producers because energy is such a significant input for the production of steel. Steel production can also have significant environmental impacts.

Second, the decision directs the “development of high-quality special steel, new alloy materials ...”. Given the demanding applications in which sucker rods are used, they can benefit greatly from advances in steel technology (such as in AOT’s type 96 and 97 Special Service High Strength products).

These published directives and policies show that the Government of China exercises significant control over the market for subject goods in China, and that it substantially determines domestic prices for subject goods.

Long steel product pricing in the Chinese domestic market is substantially lower than it would be in a competitive market economy

As noted above, sucker rods are a form of long steel product. Steel bars, a long steel product, represent the majority of the cost of production of sucker rods. AOT has included pricing information from Steel Business Briefing that compares Chinese domestic pricing for long products (specifically rebar and wire rod) to domestic pricing in North America, Europe and Brazil (see Appendix 48).

Chinese domestic prices for long steel products are consistently significantly lower than in any of the three comparator markets. Compared to the three region monthly average of market pricing from the North American, European and Brazilian benchmarks, Chinese domestic pricing is as much as 49% lower for wire rod and 52% lower for rebar. This shows that the pricing of long steel products in China, including sucker rods, is not substantially the same as it would be in a competitive market economy.

Major Chinese producers of subject goods are SOEs

The oil and gas sector in China is dominated by the three massive state owned producers: Sinopec, CNPC (including PetroChina) and CNOOC. Together they are estimated to account for 92% of Chinese oil production (Appendix 28). AOT has been able to find publicly available evidence that both Sinopec and CNPC own significant producers of subject goods in China, meaning these producers are SOEs. The limited publicly available ownership information alone shows that six of the 37 known Chinese producers of subject goods are state-owned, including the second largest producer in China.

Sinopec:

As noted above, Freet is a subsidiary of the Chinese SOE Sinopec. Freet claims to be is the second largest producer of sucker rods in China. Freet has a production capacity of 5,000,000 meters of sucker rods per year. (Appendix 19).

Similarly, the Sinopec Oilfield Equipment Corporation (listed in Appendix 4) is a subsidiary of Sinopec. It produces subject goods at its FRP Plant at the Shashi Steel Pipe Works Facility.

CNPC/PetroChina:

CNPC has explained its strategy and involvement in manufacturing (and exporting) of oil & gas equipment as:

Petroleum Equipment Manufacturing

In 2016, the “Manufacturing + Service” mode was adopted in our equipment manufacturing sector. We promoted international cooperation in production capacity, enhanced product lifecycle management, expanded our business into maintenance, repair, and remote diagnosis, and increased exports of our core products such as drilling rigs and steel pipes. Our overseas marketing networks were further optimized. Our petroleum materials and equipment were exported to 82 countries and regions around the world. (CNPC 2016 Annual Report, p. 47)

CNPC subsidiary China Petroleum Technology & Development Corporation (CPTDC) boasts that it is the “largest supplier of Chinese petroleum and petrochemical materials and equipment in the world.” (see Appendices 30 & 31). CPTDC produces all specifications of API and special structure sucker rods. AOT has been unable to determine which Chinese API producers are subsidiaries of CPTDC.

The PetroChina Yumen Oilfield Company Machine Plant is a subsidiary of PetroChina, which in turn is a subsidiary of CNPC and therefore owned by the Government of China. PetroChina Yumen produces 3,500,000 meters per year of sucker rods (see Appendix 32).

CNPC Bohai Equipment Manufacturing Co., Ltd. is another sucker rod producer owned by CNPC. It has an annual sucker rod production capacity of 2,500,000 meters. (see Appendix 31). AOT is not aware of the name under which it holds its API 11B licence.

CNPC also owns Daqing Powerlift Petro-equipment Group, another Chinese producer of sucker rods (Appendix 31).

Tieling Machinery & Equipment Manufacturing Co., Ltd of CNPC (“Tieling”) is owned by the CNPC. Tieling states that it has an annual output of 110 million RMB (C\$20,000,000). One of Tieling’s primary products is sucker rods. In terms of actual production, given Chinese export offers of sucker rods from other suppliers as low as C\$21/piece⁶, Tieling’s annual output of C\$20,000,000 could be production of 950,000 pieces of 8 meter sucker rods, representing up to 7,600,000 meters of actual production.

The Tuha Oilfield Company is also subsidiary of CNPC and PetroChina. (see Appendix 32.1). This entity has two API 11B licensed facilities: one in the city of Hami and the other in the city of Shanshan.

To summarize, AOT has provided evidence that the following major Chinese sucker rods producers are state-owned:

Producer	Chinese SOE owner
China Petroleum Technology & Development Corporation*	CNPC
CNPC Bohai Equipment Manufacturing Co., Ltd.*	CNPC
Daqing Powerlift Petro-equipment Group	CNPC
PetroChina Yumen Oilfield Company Machine Plant	CNPC/PetroChina
Shengli Oil Field Freet Petroleum Equipment Co., Ltd.	Sinopec
Sinopec Oilfield Equipment Corporation	Sinopec
Tieling Machinery & Equipment Manufacturing Co., Ltd of CNPC	CNPC
Tuha Oilfield Company - The Machinery Plant (Hami)	CNPC/PetroChina
Tuha Oilfield Company - The Machinery Plant (Shanshan)	CNPC/PetroChina

*The registered name for its API 11B certification is not known.

⁶ Such as those Chinese export offers shown in Appendix 12, [where the lowest was \$21.05 for 3/4” D54 from Shengli Oil Field Highland, see Appendix 13, part 6].

Chinese SOEs control consumption of subject goods in China

As noted above, the three large Chinese SOEs (CNPC/PetroChina, CNOOC and Sinopec) account for approximately 92% of oil production in China. Not only do subsidiaries of these SOEs produce a significant portion of the subject goods, but because they account for almost all the oil production in China, the SOEs also control the vast majority of purchases of subject goods. This gives the GOC monopsonist power. Economic theory demonstrates that monopsonist power results in market and pricing control.

To summarize, the Government of China has been found by CBSA to exert substantial control over the price of steel, which constitutes the most important component of the cost of producing subject goods. In addition, there is evidence that the GOC intends to use SOEs for government policy objectives; a condition which CBSA has found makes it difficult to presume that the GOC would not become involved in pricing strategies. Major producers of subject goods exported to Canada include SOEs. The Chinese Government's own iron and steel policies acknowledge interference in market forces, and the CBSA has found that these policies affect steel pricing. Despite having changed this practice in other sectors, China continues to use export taxes and selective VAT rebates on finished steel products to exercise control over domestic pricing, with these policies particularly favouring exporters of subject goods (see Appendix 33).

For all of these reasons, AOT requests that the President of the CBSA form an opinion that normal values for Chinese subject goods should be determined pursuant to section 20 of *SIMA*. In the alternative it is requested that the CBSA investigate government control of pricing in the Chinese OCTG industry, and that in conducting this analysis, a request for information should be directed to the Government of China and to state-owned enterprises in the industry in order that the Directorate may have a full appreciation of the conditions affecting prices in the Chinese domestic market for subject goods.

c) Possible surrogate country pricing

China and the United States are the two largest sucker rod producing and using countries. Worldwide, there are 49 API 11B certified producers of subject goods. 37 are in China and three are in the USA. No other country has more than two sucker rod producers.⁷

The United States is likely the most best surrogate country for Chinese subject goods.

The CBSA has previously used the United States as a surrogate country for Chinese steel oil and gas products. These cases are *OCTG I* (paras. 88 – 93 of the Final Determination), *Pup Joints* (paras. 105 – 106 of the Final Determination), *Small Diameter Line Pipe from China* (paras. 105 – 111, 124 - 126)

⁷ Russia has two API 11B licensed facilities. Beyond Canada, each of Argentina, Brazil, Kazakhstan, India, Mexico and Romania have one API licensed facility.

In both *OCTG I* and *Small Diameter Line Pipe from China* case it was found that the appropriate surrogate country for a determination of normal values for Chinese goods was the United States. This was based upon, *inter alia*, the fact that the United States and China were both among the largest producers and consumers of OCTG in the world and the similarities between their industries.

In *Pup Joints*, the CBSA used its internal information regarding goods imported from the United States into Canada to determine normal values.

Some countries beyond the United States may also be potentially suitable surrogates. Argentina is the headquarters of Tenaris, one of the largest oil and gas product manufacturers in the world. The size and sophistication of Tenaris' sucker rod production in Argentina may also make it an appropriate surrogate for Chinese sucker rod production normal values.

AOT suggests that various market conditions existing in Russia would make it a poor surrogate. Production volumes and sophistication in Kazakhstan and India are understood to be sufficiently different to also make them poor surrogates for China.

Because the conditions of section 20 of *SIMA* are present, CBSA should seek information from US, and likely Argentinean, producers of sucker rods to determine normal values. If no complete information is provided, CBSA should have recourse to s. 20(1)(d) of *SIMA* to determine normal values.

6.2 Export price

Export prices were mostly⁸ calculated based on actual quotations obtained []. AOT []. These quotations were for subject goods FOB China port. These were converted to Canadian dollars using the relevant Bank of Canada rates in effect on the date of the quotation. Appendix 16 contains the Bank of Canada exchange rate quotations on the relevant dates.

The export prices were then compare to s. 19(b) normal values calculated based on AOT's costs, adjusted for labour and profit conditions in China. In the interest of being conservative, no inland Chinese freight was deducted for the cost of transporting the goods from the mill to the port, nor was any allowance made for insurance or brokerage fees. These estimates of export pricing are even more conservative because no allowance is made for insurance or brokerage fees.

Appendix 12 provides calculated export prices and Appendix 13⁹ contains the supporting Chinese quotations and related emails received.

⁸ Being the quotes in Appendix 13, parts 4 – 7.

⁹ Certain important explanatory information about the Appendix 13 quotes is contained in the footnotes (FNs) in the “EPs and NVs” tab of Appendix 12.

6.3 Margin of dumping

The margins of dumping found are in Appendix 12. The margins of dumping based on the section 19(b) normal values analysis were 74% on average, and ranged from 27% to 155%, with all goods being dumped.

7. SUBSIDIZING

The Complainant submits that the President of the CBSA should investigate the subsidization of Chinese sucker rods.

7.1 Consistent subsidization of steel products from China

There is much evidence of subsidization of steel in China. In the last decade, since 2008, there have been a number of cases increasingly demonstrating subsidization of Chinese goods. Previous CBSA investigations have turned up many countervailable subsidies conferred at the federal, provincial and local levels in China. Twelve such investigations specifically found extensive subsidies relating to Chinese steel products and seven relating to steel oil and gas products:

Chinese steel oil and gas products:

- i. Seamless Casing*
- ii. OCTG I*
- iii. Pup Joints*
- iv. Small Diameter Line Pipe*
- v. Large Diameter Line Pipe*
- vi. Fabricated Industrial Steel Components*
- vii. Carbon Steel Welded Pipe I*

Other Chinese steel products:

- viii. Steel Grating*
- ix. Stainless Steel Sinks*
- x. Steel Piling Pipe*
- xi. Galvanized Steel Wire*
- xii. Rebar I*

At least a quarter of Chinese manufacturers of subject goods also manufacture OCTG and/or line pipe at the same facility (see Appendix 4). CBSA has repeatedly determined that those producers are subsidized by the GOC.

We would submit that the circumstances of these other cases, particularly *Seamless Casing* and *OCTG I*, establish a *prima facie* justification for the initiation of a countervail investigation, on the basis that numerous Chinese producers of subject goods have already been found to have received countervailable subsidies.

Chinese producers of goods subject to this investigation fall directly within the scope of the CBSA subsidy investigations in respect of products for the oil and gas industry, including *Seamless Casing*, *OCTG I*, *Small Diameter Line Pipe* and *Large Diameter Line Pipe*. Thus, the CBSA findings of subsidies in these cases are directly applicable to producers of subject goods in these proceedings.

7.3 Most recent evidence of Chinese subsidies on steel goods for use in the oil and gas industry

a) CBSA's most recent findings

In the most recent of the Chinese pipe cases *Large Diameter Line Pipe*, the CBSA identified 160 potentially actionable subsidy programs for Chinese producers of line pipe in its October 5, 2016 reasons for final determination. The GOC and all Chinese exporters refused to provide information required by the CBSA to determine specific amounts of subsidy. Presumably this occurred at least in part because the Chinese entities did not want to disclose the high level of subsidization Chinese steel producers of goods for the oil and gas industry received. CBSA estimated subsidies at 1657.11 RMB/tonne or 30.3% of export price).

Similarly, in its March 10, 2016 reasons for final determination in *Small Diameter Line Pipe*, CBSA identified 162 actionable or potentially actionable subsidy programs (including those programs initially identified which the CBSA then split into multiple programs based on information from cooperating exporters). In responses from only eight cooperating exporters, the CBSA confirmed that 62 of those programs were specific and had actually provided benefits to one or more exporters. The amount of subsidies found for cooperating exporters was as high as 986.85 RMB/tonne (15.5% of the export price), with the all others being rate 989.97 RMB/MT (17.32% the export price). CBSA determined that the overall amount of subsidization was 7.6% of the export price.

FISC is CBSA's most recent subsidy decision relating to Chinese steel products which are used in the oil and gas industry, with reasons for final determination dated May 10, 2017. CBSA again identified 160 actionable or potentially actionable Chinese subsidy programs. Based on responses from only three cooperating exporters, CBSA identified 10 subsidy programs that those exporters had used. Subsidy amounts for cooperating exporters were as high as 675.47 RMB/tonne, and the rate for all other exports was a staggering 11,656.06 RMB/tonne. Overall, Chinese subsidies on fabricated industrial steel components were determined to be 34.6% of the export price.

China is not a developing country (see *Small Diameter Line Pipe* – SOR for initiation, para. 116), so the applicable standard for a significant subsidy is 1% or greater, as set out in the definition of insignificant under s. 2(1) of *SIMA*. All of the above subsidy amounts, and all amounts found in recent subsidy case in respect of China, are well in excess of this threshold. The evidence from these cases demonstrates that the GOC consistently provides significant actionable subsidies to its steel producers.

b) Consolidated list of subsidy programs from CBSA as well as US, EU and Australian investigating authorities

AOT has also compiled a consolidated list of all subsidy programs that have been found to apply to Chinese steel producers since 2008, not only by Canada, but by investigating authorities in the US, the EU and Australia. This list comprises 610 Chinese subsidy programs that have been specifically found to apply to steel (the remaining 41 additional programs have not yet been found applicable to the steel industry). See Appendix 38 for a complete list, along with available information, including the description and the amount of subsidy found. Of these 610 steel subsidy programs, 364 have been found to benefit Chinese steel producers who are making products for the oil and gas industry.

AOT requests that CBSA investigate all of these programs, particularly the ones that investigating authorities around the world have already found applicable to Chinese producers of steel goods for the oil and gas industry.

7.4 Amount of subsidy

AOT does not know and is not able to determine the actual amounts of subsidy. Three pieces of information assist in estimating the level of subsidisation of subject goods.

First, 10 of the 37 API 11B certified producers of subject goods are also API 5CT certified producers of OCTG and pup joints, therefore CBSA's previous findings for those goods are likely directly applicable to subsidization of those same producers when producing other goods. In its final determination in *Pup Joints*, CBSA determined that subsidization was 31.4% of the export price. In *OCTG I*, CBSA determined that subsidization was 25.7% of the export price. In *Seamless Casing*, CBSA's determination was 19%. Subsidization of these producers (more than a quarter of whom are also sucker rod producers) appears to be in the range of 19 – 31.4%, with the amount of subsidies determined rising over time.

Second, the US DOC (and less frequently, the EU authorities and the CBSA) determines and publishes a specific rate for many of the programs it identifies. This information was available for 183 of the 610 program identified. Based on this information, for only these 183 programs identified as being previously applied to Chinese steel producers, the total potential subsidy amount is 617.49%.

Of these 610 subsidy programs previously found to benefit Chinese steel producers, 364 have specifically been found to apply to goods that are used in the oil and gas industry. Amounts of subsidy are available for 78 of those programs. The total potential subsidy amount for these programs is 285.85%.

Third, an amount of subsidy can be estimated by calculating the difference between the selling price of the subject goods and their costs of production. Any goods sold below their costs of production must be subsidized to a profitable or break-even level otherwise their sale would be economically irrational.

The difference between the export price and cost of two size grade combinations of the subject goods studied shows that they are being sold in Canada substantially below their costs of production, indicating a significant amount of subsidy (per section 2 of the SIMA) i.e. at margins of []% to []% as a percentage of export price as set out in the table below.

Product	Estimated ex-factory EP (average of D grade EPs of same size from Appendix 12)¹⁰	Total Cost of goods (average of D grade costs of same size from Appendix 12)	Difference = subsidy (% of EP)
3/4 inch Grade D sucker rod	[
7/8 inch Grade D sucker rod]

For all of the reasons above, AOT requests that the CBSA initiate an investigation against injurious subsidies conferred upon Chinese producers of sucker rods by governments and government entities in China.

8. DEMONSTRATING INJURY

You must explain and provide evidence to show how the dumped or subsidized goods have injured the Canadian industry.

First, you should provide information on general import trends relating to the volume and prices of the dumped or subsidized goods.

Second, you should provide information and evidence which shows the effects of the volume and/or the low price levels of the dumped or subsidized goods on the Canadian industry. Typically, this includes information and evidence which shows that:

- **the imports are displacing Canadian production of the goods; and/or**
- **the low prices of the imports are forcing you (and the rest of the Canadian industry) to reduce or restrain prices to meet the dumped/subsidized import prices.**

¹⁰ Using the average of the Chinese export prices available for each of grade 3/4” grade D or 7/8” grade D.

Last, you should show the effect of the dumped or subsidized imports on other related injury factors. That is, how have the imports impacted specific sales accounts, profits, etc.

It is not necessary that all the injury factors show a negative trend or effect. For example, while you might have maintained volume and market share in response to the dumped or subsidized imports, it might be that this was accomplished only because you reduced prices to match those of the imported goods.

Similarly, it may not be necessary to provide information on all the listed injury indicators. Rather, you should provide as full and comprehensive a picture as possible, along with supporting evidence, to show that the injury is significant and can be linked to the dumped or subsidized imports.

Imports of Chinese sucker rods into Canada has been increasing since 2014. In the last year, import volumes have escalated. Chinese imports have more than [] their market share between 2016 and 2017. Chinese market share by volume has climbed over the POI from [] in 2014 (when market demand was exceptionally high) up to [] in 2017. Much of this growth has come at the cost of AOT's market share, which fell from [] in 2014 down to [] in 2017.

Chinese prices are much lower than AOT's prices (or anything else in the market). AOT estimates that subject goods are dumped by up to 155%, with subsidies up to 53%. This results in a very significant total potential unfair price advantage. This unfair advantage means Chinese goods are by far the price leader, exerting downward pricing pressure on the whole market.

These low Chinese prices have resulted in lost sales, price erosion and price suppression. After the crash in oil prices at the end of 2014, AOT attempted to maintain its margins, though already sales were being lost to dumped and subsidized Chinese sucker rods. In 2015, AOT began to see Weatherford using lower grades of Chinese sucker rods to better sell a bundled package that included higher grade sucker rods from its Texas mills.

As the acceptance of these sucker rods in the Canadian market increased, we began to see an increasing shift to supplies from China in 2016, and particularly into 2017. In the first 9 months of 2017, it is estimated that the number of Chinese sucker rods exported to Canada exceeded the total in a much stronger market in 2014. With increasing pressure from growing volumes and acceptance of Chinese subject goods, AOT has been unable to maintain margins or to increase prices to offset cost increases.

The pricing pressures and changing cost structures have further caused injury through price suppression. Round steel bar is a key cost for sucker rod production, representing approximately [] of the total cost of production. Since early 2016, bar costs have increased by []. Low Chinese prices have prevented AOT from recouping these cost increases.

The result was a dramatic [] in profitability compared to all previous periods. More recently at the end of 2017, AOT has been forced to offer more substantial [] to attempt to maintain market share.

This surge in dumped imports has caused a significant decline in AOT's profitability, as can be seen in Appendix 10. AOT's net profit margins of [] in 2014 and remained over [] despite a difficult year in 2015. In 2017 it has now shrunk to []. This fall has come despite the market recovery that occurred in 2017 due to stabilization of oil prices.

Financial statements and account-specific information is provided in greater detail below.

8.1 Trends in the volume and market share of subject goods

Trends in the volume and market share of the dumped or subsidized imports (i.e., the subject imports) are an important injury consideration and may help demonstrate that the subject imports are causing injury by displacing Canadian production.

- 1. As a first step, you should provide available details on the volumeⁱⁱⁱ of the subject imports for each of the last three fiscal years and the current year to date^{iv}.**
- 2. You should then compare and explain the impact of changes in the volume of subject imports on the volume of Canadian production and sales. This comparison is often done by providing data on changes in market share.**

As market share is based on a percentage of the total size of the market, you normally have to collect information on:

- imports of the allegedly dumped or subsidized goods;**
- all other imports;**
- your company's production and sale of the goods; and**
- the production and sales of other Canadian producers. (*removing and listing separately any export activity for your company and other Canadian producers*).**

This type of information is best presented in the form of a table and you may have to consult with various sources to collect the information needed to estimate the total size of the market.

There are no published statistics on the size of the Canadian market for sucker rods. The Statistics Canada data for tariff line item (8413.91.00.10) only includes dollar value of imports, and does not provide any volume statistics. The relevant Statistics Canada data is attached as Appendix 39.

Given that AOT is the only Canadian producer of sucker rods, it is able to present a relatively accurate apparent market table by value. However, because Chinese pricing is lower on a per piece basis than AOT produced goods (or those imported to Canada from other countries), a

market share by value table will understate the growth of the Chinese presence in the Canadian sucker rod market.

For the purposes of this complaint, AOT will attempt to estimate a market share by volume table. CBSA will likely be able to construct a more accurate market share by volume table using data from its FIRM system.

a) Apparent market share table by value in Canada

Market participation (in millions of CAD)	2014	2015	2016	2017
AOT	[
China Imports				
US imports from Texas				
Other US imports (excluding Texas)				
Other country Imports				
Total market				
AOT market share %				
China market share %				
Texas market share %				
Other US imports (excluding Texas) %				
Other country imports]

The above market share table is derived from AOT’s sales of sucker rods and Statistics Canada data on imports by value for tariff line item 8413.91.00.10.

The tariff line item for sucker rods includes both sucker rods and polished rods. To estimate market value for sucker rods alone, AOT looked at its relative sales of sucker rods and polished rods.

For 2016, domestic sales of sucker rods were approximately [

]. As a result, StatsCan value data was reduced to [] of the value of tariff item 8413.91.00.10 to reflect a [] market share (by value) for polished rods.

AOT believes the ratio of [] is roughly consistent with the Canadian market as a whole. The ratio is sucker rods sales dollars to polished rod sales dollars in the Canadian market is a function of three factors. First, in any well, there is only a single polished rod, but between 100 – 300 sucker rods. Second, polished rods are typically much more expensive than sucker rods, on average approximately [] times more expensive. Third, polished rods are changed more often than sucker rods for maintenance. Being largely above ground, and at the top of the rod string, polished rods are much more accessible than

sucker rods, and therefore can be changed. A polished rod could be changed 2 – 4 times during the life of a rod string. The combination of these factors explains why AOT’s ratio of sucker rod sales to polished rods sales is believed to be representative of the total Canadian market.

This table breaks out imports from Texas because one of AOT’s primary competitors, Weatherford, is the source of imports from Texas because it is the only sucker rod producers in Texas. In late 2016, Weatherford began supplying the Canadian market with large quantities of unfairly priced Chinese sucker rods in place of certain grades of sucker rods it formerly supplied from Texas. Weatherford’s Chinese imports have had significant injurious effects on AOT, including lost sales, price erosion and price suppression.

b) Apparent market share table by volume in Canada

Based on AOT’s actual volumes sold and Statistics Canada data for the value of imports (deflated as noted above to eliminate polished rods), AOT has estimated the size of the Canadian market in pieces on the basis of a number of assumptions.

To assist in deriving import volume numbers in pieces, AOT determined that the average value of the domestically produced pieces it sold in Canada in each of 2014, 2015, 2016 and 2017 were [].¹¹

The import volume for non-subject goods were estimated by dividing the value of imports by these average amounts for each of those periods.

In the case of China, AOT’s commercial intelligence from its customers in 2015-16 was that Chinese prices have been in the range of [] lower than AOT prices, though 2017 has seen more significant discounts (see section 8.4). Accordingly, the AOT average price was deflated by [] (using a more conservative end of the spectrum). Then the total value of Chinese imports was divided by the deflated AOT average prices to obtain an estimate of the number of pieces of subject goods shipped by China in each period. Supporting documentation for the price differential is contained in Appendices 40.1 – 40.10.

Market participation (in pieces)	2014	2015	2016	2017
AOT	[]			
China Imports				
US imports from Texas				
Other US imports (excluding Texas)				
Other country Imports				
Total market				
AOT market share %				

¹¹ See AOT’s Income Statement at Appendix 10, by dividing AOT’s revenue from domestically produced pieces sold in Canada, by AOT’s number of domestically produced pieces sold in Canada.

Market participation (in pieces)	2014	2015	2016	2017
China market share %				
Texas market share %				
Other US imports (excluding Texas) %				
Other country imports]

AOT believes that this data may understate Chinese import volumes because some Chinese imports are erroneously being declared as US origin goods for customs purposes. As shown in Appendix 4, the only US producers of sucker rods are in Texas and Oklahoma. Despite this, meaningful quantities of sucker rods are being declared as originating in other US states, which is necessarily incorrect. For example, in January 2018, 8.5% of US imports were declared as originating in states other than Texas and Oklahoma. Therefore, imports purportedly originating from the US should be reviewed to ensure they are not in fact Chinese origin goods.

c) Chinese growth in the Canada market

AOT submits that Chinese growth in terms of volume is the better metric, and therefore the analysis below proceeds based on the estimated market table by volume.

The same trends are also largely present in the market table by value, however the effects are somewhat disguised by the lower Chinese prices on a per unit basis.

At all points during the period of investigation Chinese imports have far surpassed the 3% standard of negligibility set forth in *SIMA*.

In 2014, during an exceptionally robust and high demand market, Chinese imports represented [] of the market by pieces. Today, in a much weaker market, the market share of Chinese imports has more than doubled, to []. Similarly, in 2014, AOT outsold Chinese imports on a volume basis by a factor of 4 to 1. By the end of 2017, AOT was only outselling Chinese imports by a factor of 1.5 to 1. At their current rate of increase, Chinese imports will soon outstrip domestic sales. There has clearly been a very significant increase of Chinese imports relative to domestic production and domestic consumption.

On an absolute basis, Chinese imports in 2017 have significantly outstripped Chinese imports in 2014. This accomplishment is even more astounding give that 2014 was a banner year for the oil and gas industry. By number of pieces sold, Chinese imports in 2017 are more than [] the volume of Chinese imports in 2016. Coupled with the surge of Chinese imports relative to domestic production, there has also been a comparable surge in absolute numbers.

While the increases in 2017 are dramatic, there has been continued growth of subject imports across the whole period of investigation. This market table by volume shows that AOT’s market share has declined over the period of investigation at the expense of growing Chinese imports. These imports were increasing in absolute and percentage terms despite market weakness from 2015 into 2016, and have since been growing faster than the market was recovering after the 2014/2015 drop in oil prices.

One of AOT's primary competitors, Weatherford, is a major driver of this growth in imported subject goods. Weatherford is one of the major international producers of sucker rods. Apart from Chinese producers, Tenaris, Weatherford and the Norris group (of which AOT is a member) are the largest sucker rod producing organizations in the world.

Weatherford has two sucker rod plants in North America. They are both in Texas, in Greenville and Longview. Weatherford also has a plant in China that has been API 11B licensed to produce sucker rods (see Appendix 4).

The sucker rods Weatherford sold to Canadian customers had been produced primarily by its two Texas facilities. Starting in 2016, Weatherford stopped selling US produced Weatherford Grades S67 (roughly equivalent to D carbon API grade) and S88 (a special service high strength grade roughly equivalent to AOT's HS 96). Instead, Weatherford began sourcing these grades from China for the Canadian market. It is perhaps unsurprising that from 2016 to 2017, sucker rod imports from Texas dropped by approximately 13% market share by volume and Chinese imports increased by a similar percentage. As of late 2016, Weatherford has been using large quantities of unfairly priced Chinese imports to undercut AOT's prices and take market share. AOT has recently learned that all of Weatherford's inventory in Canada is of Chinese imports (see Appendix 44).

Chinese import volumes have continued to accelerate from late 2016 onwards. Based on Statistics Canada data for January 2018¹², Chinese imports represented 58.8% of imports by value compared to 46.0% from January 2017 and compared to 14.5% from January 2016.

8.2 Trends in the pricing of subject goods

The price trend of the dumped or subsidized imports and their effect on the selling price of the goods produced in Canada is another important injury consideration.

- 1. It's best if you can provide price trend information for the subject imports at the first point of sale to Canada; that is, from the exporter to the importer in Canada.**

Where the subject imports are made up of the same types of product, a comparison of changes in average unit price figures (over the given period) may be useful for demonstrating price trends.

If the subject imports consist of many different product types, models or classes of goods, your examination of price trends should be based on a representative sample of the different types of goods.

In the absence of detailed pricing information for the subject imports, you might consider trying to collect more general price information^{vi}, such as price index information, which can be helpful in demonstrating price trends (as shown in the following table).

¹² The most recent data available to AOT at the time of complaint drafting, see Appendix 39

Example - Price index for the subject imports

Base year index price = 100

Year 2 index price = 95

Year 3 index price = 94

2. **As a second step, you should compare and explain the trend in prices for the subject imports to the price trends for the goods you produce and sell.**
3. **The trend of resale prices of the subject imports in Canada might be another way of examining import price trends. However, make sure you consider whether the resale prices are being significantly affected by changes in the pricing practices of the intermediary company selling the imported goods rather than the pricing practices of the exporter.**

AOT has been injured by Chinese subject goods through lost sales, price erosion and price suppression. While AOT has attempted to maintain pricing, it has paid a price through reduced volumes, revenue and net profit margins.

Price suppression

AOT's actual bar costs, depending on specific grade, have increased between [] from its primary supplier between June-July 2016 and October-November 2017. See Appendix 34 for AOT's actual bar costs per piece in Canadian dollars for various products from its primary bar supplier, [] and example invoices at Appendix 35.¹³

Direct material costs represent more than [] the fully loaded costs of sucker rods. Given that [] the direct material costs come from SBQ bars used to produce sucker rods, these steel bars represent approximately [] the cost of a finished sucker rod. This increase in input cost represents roughly a [] increase in the cost production of sucker rods.

AOT has been unable to raise prices in 2017 to offset this growth in steel input costs. In August of 2017, AOT distributed a notice of a 4% price increase in an attempt to offset some of the growth steel input costs (being [] cost increase). The price increase was to be effective October 15, 2017.

With Chinese prices being maintained at increasingly dumped levels, AOT has been advised by its customers that the market will not accept this price increase. AOT received significant pushback from its customers, with indications that such a price increase would mean existing customers would switch to subject goods to keep pricing down. [] are attached in confidential Appendix 41.

¹³ An example reconciliation calculation between the Appendix 34 information and an example invoice is included as a worksheet in Appendix 34.

Given that steel bars represents such a large portion of the cost of production of sucker rods, AOT's inability to recoup increased material costs is a significant concern.

8.3 Specific instances of subject good pricing

In addition to providing information on general import price trends, you should provide details on specific instances where the selling price to Canada (or the resale price of the imported goods in the Canadian market place):

- 1. was lower than your selling price of like goods;**
- 2. forced you to reduce your selling price to compete with the price of the imported goods;**
- 3. prevented you from raising your selling price, to pass on cost increases.**

Provide documentation to support these allegations such as correspondence with customers; notes of conversations; price lists; sales invoices; price quotations; contracts; bids; etc.

As an example, you might have received a telephone call from an established customer asking you to reduce selling prices by 10% to match a competing selling price from an exporter of the dumped goods.

As part of your evidence, you should provide documentation on the customer's request (i.e., such as your telephone notes of the conversation) and your company's response to the customer request. For instance, you might provide in your complaint the following statement and supporting evidence:

"Due to the importance of this customer account, we agreed to reduce our prices by 10% to customer "ABC" and were able to retain the sale.

A note with details of the telephone conversation (including the customer's request that we match the exporter's competing selling prices), and our faxed response to this request (confirming a 10% price reduction) is attached".

AOT has been forced to offer price concessions to keep business. The table below summarizes nine of these price concessions that AOT was forced to make on sucker rods because of competing offers from Chinese subject goods.

Date	End-user	Project Location*	AOT distributor	# of wells	Approximate total value of order (with rods)	Approximate value of concession (on rods)
[
]
* By PSAC region code. See Appendix 7 for a copy of the PSAC region map.						
Please see Appendix 47 for supporting documentation.						

In total, these nine price concessions alone represent a loss in profit of approximately [] to AOT.

8.4 Lost sales

1. Have you lost sales to established customers to the dumped or subsidized imports?
2. Have you lost sales opportunities to potential new customers to the dumped or subsidized imports?

If yes, provide details and evidence about the value and volume of lost sales for each of these categories of customers for a sufficient period of time to explain and support your statements.

AOT's current largest customer (see Appendix 9) is [redacted]. Until 2015, [redacted] had a major account with [redacted] in the [redacted] area. At the end of 2014, [redacted] sucker rod revenue from [redacted] had previously supplied [redacted] with exclusively AOT sucker rods. At the end of 2014, [redacted] lost a bid to [redacted] supplying its grade [redacted] rods produced in China. Over the POI, [redacted] has almost entirely stopped purchasing AOT rods and purchases Chinese rods instead. [redacted] sales to [redacted] have withered from the [redacted] in 2014 down to only [redacted] as of November 2017. AOT and [redacted] estimate that [redacted] sucker rod purchases remain around [redacted] per year. All of these sales go to Chinese goods, predominantly from [redacted], with a smaller portion going to [redacted].

[redacted] had been a good customer of AOT through distributor [redacted] from 2014 until late 2016. At that point, [redacted] stopped buying AOT goods, and switched suppliers to [redacted] because it was offering lower prices with Chinese sucker rods. [redacted] continues to purchase from [redacted]. [redacted]. AOT In 2017, [redacted] completed [redacted] wells [redacted]. Therefore, this switch resulted in a loss of approximately [redacted] of sucker rods sales per year for AOT. See Appendix 40.9 for supporting documentation.

In March 2017, [redacted] was using AOT product to compete for business from [redacted]. In March 2017, [redacted] told AOT that [redacted] has repeatedly been losing business at [redacted] to [redacted] selling Chinese product with lower prices. The prices reported were [redacted] rods respectively, whereas competing Chinese rods were being offer at [redacted] lower at prices of [redacted]. See Appendix 40.1 for supporting documentation.

In November 2017, AOT and [redacted] provided a bid to [redacted] in relation to between [redacted] to be completed in 2018 in the Saskatchewan's [redacted]. Each well was expected to be between [redacted] rods, meaning this piece of business was worth between [redacted]. Our customer was advised that the price of AOT materials was [redacted] higher than the successful bidder, who was [redacted] supplying Chinese produced sucker rods. See Appendix 40.5 for supporting documentation. We have since learned that [redacted] has moved to purchasing 100% imported Chinese sucker rods from 2018 forward, which will result in a significant loss of business for AOT.

Also in November 2017, AOT was advised by [redacted], that it had bid AOT material to [redacted] for a project in [redacted] region. Even with an aggressive [redacted] beyond standard pricing, we were advised that the business had gone to [redacted] because their pricing was still [redacted] lower than the price of AOT goods. This

was a smaller project of approximately [] wells, worth []. See Appendix 40.6 for supporting documentation.

Further in November 2017, [] reported a lost sale to [] had been an AOT customer through this distributor since 2015. [], who required tendering for sucker rods. AOT offered its grade D 78 product at a [], but lost the sale to [] lower price for grade D 78 product from China. See Appendix 40.4 for supporting documentation.

In bidding on work for [] in relation to projects in [] that would occur in 2018 Q1, AOT's [] advised that because of [] lower prices of Chinese subject goods, [] has sourced sucker rods from them instead for []. [] pricing was reported be [] lower than AOT's domestic price available through [] and [] advised that AOT's pricing needed to be within [] otherwise it would be sourcing lower priced Chinese imports. The loss of [] expected wells in Q1 would be approximately [] in revenue, and the loss of at least [] wells for the whole year would be [].

AOT has also lost other sales, including the following:

Date	End-user	Area	AOT distributor	# of wells / rods per well	Bid went to	Total value	Source of report
Q1 2017	[]						
Q3 2017							
Q4 2015 & 2016							
Q1 2017]

¹⁴ AOT used to have the [] account until that company was acquired by [] – and even at the time of acquisition a price concession of [] applied.

Q1 2017	[
Q4 2016							
Q4 2016							
Q1 2017]
See Appendix 51 for supporting documentation.							

These [] lost sales in 2017 alone together represent over [] in lost revenue to AOT.

8.5 Reduced Profits

Has the loss of sales and/or reduced selling prices caused by the dumped or subsidized imports affected your profit margin? Provide details and evidence for a sufficient period of time to explain and support your statement. This normally includes a comparison of your company's financial results over a representative period and may include copies of your company's income statements; product income statements; sales or gross margin analysis reports, etc.

AOT's income statement (Appendix 10) shows the clear reduction in profit margins over the period of investigation. The relevant profit margins are excerpted below:

	2014	2015	2016	2017
GM %	[
NM %]

AOT's profit margins have historically been in the range experienced in 2014. Despite 2015 having a much smaller demand and tighter market, margin remained relatively healthy. Chinese imports aggressively began flooding the Canadian market at heavily dumped and/or subsidized prices in 2016. AOT's financial results show the effect of these increasing amounts of dumped and/or subsidized product. AOT's financial results have dropped in 2017 in the face of rapidly increasing Chinese import volumes, which [] just between 2016 and 2017.

AOT's has worked hard to retain [] in the face of escalating market penetration of subject goods. For example, in spite of selling [] more pieces in 2017 than 2015, AOT lowered its overall GS&A by nearly [], as evidenced by Appendix 10. This makes AOT's SG&A on sucker rods comparable to per piece levels in 2014, despite distributing that SG&A across significantly fewer pieces.

AOT's inability to increase prices to reflect direct material cost increases has also significantly eroded profitability. In 2015, AOT's average direct material cost per piece was []. In 2017, that average cost was [] per piece. AOT has been unable to properly recoup this important material cost increase because of much lower priced dumped and/or subsidized subject goods in the market.

This discussion of AOT's shrinking margins only conveys part of the injury. With subject goods taking sales of [] because of the unfair price advantage, the loss of these sales increases overhead costs and further decreases the competitiveness of AOT.

8.6 Other Ways of Demonstrating Injury

Provide any other details and evidence to demonstrate that your company has been injured by these imports. Provide details and evidence for a sufficient period of time to explain and support your statement.

Other injury indicators may include actual and potential effects on the following:

- **employment;**
- **wages;**
- **capacity utilization rate;**
- **productivity;**
- **inventories;**
- **decline in return on investments;**
- **cash flow;**
- **ability to raise capital.**

AOT's production capacity is significantly underutilized. The following table shows AOT's production capacity from 2014 to present:

	2014	2015	2016	2017
Production capacity (in 000s of feet)	[
Domestic production				
Export production				
Total production				
Total utilization %]

Domestic capacity utilization remains at barely [], even with the market recovering. The 2017 Canada total market is approximately [].¹⁵ This is not a case where the domestic industry is necessarily dependent on export markets to obtain high utilization rates. Even in the a weak market, current Canadian demand would allow for much higher capacity utilization. AOT's current low capacity utilization is caused by injurious dumping and subsidization by Chinese exporters.

AOT's employment levels remain at depressed levels. AOT's sucker rod hourly workers on a yearly basis are as follows:

	2014	2015	2016	2017
Number of full-time hourly workers	[]

Despite the increase in demand for sucker rods in Canada for 2017 compared to 2015 or 2016, AOT's employment has remained [] the period of investigation.

8.7 Other factors that might have affected the domestic industry

Provide an explanation regarding any factors, other than the imported goods, which might have affected the Canadian industry such as:

- strikes;
- changes in consumer demand;
- technological advances;

¹⁵ Total Canadian market for 2017 being [] pieces as estimated above, at an average piece length of [] feet per AOT's data to reflect the mix of 25 foot rods with shorter pony rods.

- **changes in export markets;**
- **environmental regulations.**

An important context for this case is the collapse of global oil prices at the end of the 2014, and the resulting decline in oil and gas exploration, followed by a hesitant recovery that has been underway since mid 2016. Demand for sucker rods in Canada has followed this trend, though dumped and/or subsidized subject goods have restricted the extent to which AOT has been able to benefit from the recovery.

After the price of Brent crude oil averaged about US\$100/barrel for the first three quarters of 2014, oil prices dropped significantly. They average was about US\$50/barrel in 2015, before failing down below US\$40 in the first half of 2016. Since then, the price has hovered around US\$50/barrel during the second half of 2016 through October 2017.

Oil prices are experiencing a slight recovery, as Saudi Arabia and Russia, as well as the rest of OPEC and nine non-OPEC countries, have agreed to an extension of production cuts. These signals from two of the largest oil producers in the world, led to a slight rebound in prices for October 2017 (see Appendix 29, pp. 1-6).

There remains significant market uncertainty in Canada, and no expectation of a significant recovery back to 2014 levels. PSAC forecasts the price of WTI to move slightly upwards to an average of US\$53/barrel in 2018. Predictions are that a consistent increase to over US\$60/barrel would not happen before mid 2019. PSAC also forecasts a slight increase in wells drilled from the 7,550 forecasted for 2017 up to 7,900 in 2018. These numbers remain far below the 2012 – 2014 average numbers of 11,000 (see Appendix 29, pp. 7-26, 29, 31, 41-44).

Projected increases in the price of oil are far from unanimous. TD Securities is predicting a small decline in the Canadian dollar prices of WTI Crude and Edmonton Par over the next two years (see Appendix 29, p. 46).

CAPP projects that Canadian capital investments in oil and gas will increase somewhat from 2016 to 2017, but still remain around half the level of investment in 2014. The Daily Oil Bulletin reports the same trend (see Appendix 29, pp. 62, 72-77).

As OPEC takes steps to deal with their overproduction issues, US production still sits at over 9.5 million barrels per day, with no signals of slowing down. Increases of up to 1 million barrels per day over the next year are expected. This continued high (and growing) production from the United States will likely limit oil price increases. In addition, some investors are concerned that the recent jump in oil prices will lead to a supply response that will once again depress the market (see Appendix 29, pp. 3-5, 41-44).

Other concerns specific to Canada include new regulatory restrictions brought in by the National Energy Board that have resulted in the cancellation of the Energy East Pipeline project. This will hinder producers trying to get their product to market, and will further diminish demand for oil and gas production equipment such as sucker rods (see Appendix 29, pp. 78-79).

The overall decline in the price of oil has had and will continue to have a negative effect on oil exploration and the resulting demand for sucker rods. The lower return on investment in oil projects has already started to shrink capital investments in new rigs and drilling activity and will continue to do so. Lower oil and gas production reduces the derived demand for sucker rods.

8.8 Future Injury

In addition to the injury described above, the threat of injury is imminent and foreseeable. Chinese producers are running at very low levels of capacity utilization (apparently as low as 25 – 30%) and have massive excess capacity. Even a single Chinese producer's excess capacity could cover the entire Canadian market several times over.

This excess capacity is a driver of combined margins of dumping and amounts of subsidy that are estimated as high as 155%. The tenuous recovery of the Canadian oil and gas markets means that end users are very price sensitive, and this level of price advantage is very attractive. The recent rapid flood of Chinese imports [] in volume and [] market share from 2016 to 2017 shows just how attractive these prices are to Canadian buyers. Given the amount of Chinese excess capacity, volumes significantly larger than the Canadian market are available to continue this trend for the foreseeable future. This would be disastrous for AOT's sales volumes, revenue and margins.

Lower grade Chinese sucker rods have made significant inroads into the Canadian market in recent years through their low prices. AOT has lost significant sales of lower grade sucker rods, and has been left relying on sales of higher grades for profitability. This is not a sustainable solution because the prevalence and acceptance of Chinese material means that AOT's sales of higher grades are coming under increasing pressure, and will experience additional injurious effects of price undercutting and price suppression on those grades as well in the next 12 – 24 months. We have already seen Weatherford switch to Chinese sourcing for higher grade materials.

In an attempt to maintain production volume, AOT has been making significant price concessions. Given the rising input cost prices, AOT needs to be raising prices, but customers will not accept the necessary price increases with widespread availability of low priced Chinese goods. If AOT must continue absorbing cost increases into the future, it will cause further deterioration of its financial performance.

a) Massive production capacity of Chinese producers

Information on Chinese production capacity was usually only available in linear meters (or in some cases feet). AOT has converted the linear amounts to pieces by dividing the production capacity into pieces of 25 feet (7.6m). This means that 1,000,000 meters of sucker rod production capacity equates to 131,600 pieces. 25 feet was chosen because it the more common size, particularly in Canada, and because it is the shorter of the two standard sucker rods. This is a reasonable mid-point for rough estimation because sucker rods also come in a longer size of 30 feet (10m), which is balanced by the fact that the less numerous pony rods are significantly shorter.

Chinese Producer	Sucker rod production capacity (in pieces)
Nine-Ring (Exceed Oilfield Equipment Inc., Nine Ring Machinery Share Holding Co., Ltd., and Shandong Nine-ring Petroleum Machinery Co., Ltd.)	6,000,000
Found Petroleum Equipment Incorporated Company	2,632,000
Shengli Oil Field Highland Petroleum Equipment Co., Ltd./Sucker Pump Company	2,632,000
Baotou Liande Oil and Mechanical Co., Ltd.	658,000
Freet Petroleum Equipment Co., Ltd. of Shengli Oilfield	658,000
Dongying Tieren Sucker Rod Co., Ltd	526,000
Yan'an JiaSheng Petroleum Machinery Co., Ltd.	526,000
Zhangjiakou CGE GEO-Machinery Co., Ltd./Petroleum Machinery Subfactory	526,000
PetroChina Yumen Oilfield Company Machine Plant	461,000
Total for certain producers:	14,619,000 pieces

In barrels per day, China’s oil production of 4.1 million barrels per day is only slightly higher than Canada’s oil production of 3.7 million barrels per day, and thus China’s domestic sucker rods demands should not be significantly higher than Canada’s. (See Appendix 42 for production statistics).

These above named producers only represent one quarter of the 37 Chinese API certified steel sucker rod producers (see Appendix 4). However, even if the above named producers were China’s only producers, China’s sucker rod production capacity would be grossly in excess of domestic demand. China’s actual production capacity is likely much higher given the number of API 11B certified Chinese sucker rod producers for whom capacity is not known.

Nine-Ring purports to be China’s largest producer of sucker rods. Based on Nine-Rings’ statements, it’s production capacity is 6,000,000 pieces/year, but it only produces between 1,300,000 pieces and 1,800,000 pieces/year (10 – 14 million meters/year). (see Appendix 43). This means it is running between 22 – 30% capacity utilization.

As shown above in the market table by volume, AOT estimates that the 2017 demand in Canada was approximately [] pieces of subject goods. On these estimates, just Nine-Ring’s excess capacity alone is [] times the size of the entire Canadian market.

China had massive excess capacity, which it has increasingly turned towards Canada, as shown by subject goods effectively [] their market share between 2016 and 2017. Continued increases are both imminent and foreseeable.

b) High margins of dumping magnify threat of injury

Based on normal values constructed under s. 19(b) and quotes received from Chinese suppliers, dumping margins may be up to 155%. For subsidies, one methodology suggested above shows that subsidies on Chinese sucker rods may be up to 53% of export price. Based on available information, AOT estimates that the combined margin of dumping and amount of subsidies could be as high as 208%.

AOT sucker rod production cannot survive very long against rapidly escalating Chinese import volumes, with no foreseeable limit on possible volumes given excess Chinese capacity. With an unfair pricing advantage of up to 208%, dumped and/or subsidized Chinese imports pose an imminent and foreseeable threat of injury to AOT.

c) Inability to pass on increases in material costs will exacerbate injury from price suppression

As noted above, AOT has been unable to increase prices to reflect increased steel costs. The price increase announced for October 15, 2017 has not been accepted by the market. Round bar costs continue to increase.

AOT has annual fixed price contracts for the round bar it uses to produce sucker rods, subject to certain variable surcharges. To date, this has somewhat mitigated the effect of increasing steel prices on AOT's profitability.

Since mid-2016, market bar pricing has risen substantially more than the [] raw material increase AOT has experienced.

Benchmark pricing for round steel bars is publicly reported as a Northern Europe domestic prices and illustrates this trend of rising costs. According to SBB (see Appendix 45), these market prices for round steel bars from 2015 – 2016 were on average approximately US\$580/MT, having fallen from a high of US\$830/MT in early 2014, down to a low of US\$523/MT at the end of 2016. Prices of round steel bars have been quickly escalating throughout 2017 and are expected to continue to grow or remain at elevated level for the immediate future. Pricing of round steel bars reached US\$871/MT by the end of 2017. This represents an increase of more than 60% in just over a year.

AOT is in the process of renegotiating its raw materials contracts and will face significantly higher raw material costs in 2018 and beyond. The inability to implement even small price increases because of dumped/subsidized subject goods in the market, means that in the future AOT will be forced to absorb these significant raw material cost increases, with an imminent and foreseeable impact on gross and net margins.

d) Lost market share and suppressed margins on basic sucker rods foreshadows effects on higher grade goods

In section 8.5 above, AOT explains the negative effects on margins and market share it has experienced due to particularly aggressive competition for basic sucker rods (grades D Carbon

and D Alloy). To date, higher grade rods have been affected to a lesser extent. As Chinese subject goods continue to flood into the Canadian market, they will continue to gain acceptance and extend market penetration. The transition from the basic sucker rods into higher grades has already begun. Weatherford is already using Chinese produced rods to undersell AOT's HS 96 grade. Given the amount of excess capacity in China, and the unfairly low pricing made possible by dumping and subsidization, it is imminent and foreseeable that subject goods will come to include a greater proportion of high grade goods, and thereby do additional injury to AOT across its full range of production.

9. CONCLUSIONS

For all of the reasons given above, AOT requests that the President of the CBSA initiate an anti-dumping investigation and a countervailing duty investigation in respect of the injurious dumping and subsidization of subject sucker rods originating in or exported from the People's Republic of China.