



Canada Border  
Services Agency

Agence des services  
frontaliers du Canada

OTTAWA, October 15, 2019

**SR2 2019 IN**

## **STATEMENT OF REASONS**

**Concerning the initiation of an investigation into the dumping of  
CERTAIN SUCKER RODS ORIGINATING IN OR EXPORTED  
FROM ARGENTINA, BRAZIL, AND MEXICO**

## **DECISION**

Pursuant to subsection 31(1) of the *Special Import Measures Act*, the Canada Border Services Agency initiated an investigation on September 30, 2019 respecting the alleged injurious dumping of certain sucker rods originating in or exported from Argentina, Brazil, and Mexico.

Cet *Énoncé des motifs* est également disponible en français.  
This *Statement of Reasons* is also available in French.

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## **SUMMARY**

[1] On August 9, 2019, the Canada Border Services Agency (CBSA) received a written complaint from Apergy Canada ULC–Alberta Oil Tool Division (hereinafter, “the complainant” or “AOT”), located in Edmonton, Alberta, alleging that imports of certain sucker rods originating in or exported from Argentina, Brazil, and Mexico (hereafter “the named countries”) are being injuriously dumped. The complainant alleged that the dumping has caused injury and is threatening to cause injury to the Canadian industry producing like goods.

[2] On August 30, 2019, pursuant to paragraph 32(1)(a) of the *Special Import Measures Act* (SIMA), the CBSA informed the complainant that the complaint was properly documented. The CBSA also notified the embassies of Argentina, Brazil, and Mexico that a properly documented complaint had been received.

[3] The complainant provided evidence to support the allegation that certain sucker rods from the named countries have been dumped. The evidence also discloses a reasonable indication that the dumping has caused injury and is threatening to cause injury to the Canadian industry producing like goods.

[4] On September 30, 2019, pursuant to subsection 31(1) of SIMA, the CBSA initiated an investigation respecting the dumping of certain sucker rods from Argentina, Brazil, and Mexico.

## **INTERESTED PARTIES**

### **Complainant**

[5] AOT is a manufacturer and supplier of steel products for the oil and gas sector. AOT is the only producer of solid steel sucker rods in Canada. The company’s production facility is located in Edmonton, Alberta. AOT’s product range includes conventional sucker rods, specialty Drive Rods® for progressing cavity pump applications, polished rods, sinker bars, pony rods and sucker rod/polished rod couplings. The company also manufactures other oil tubular products, including pup joints at another facility in Edmonton, Alberta.<sup>1</sup>

[6] The complainant accounts for all production of like goods in Canada.

[7] The name and address of the complainant is as follows:

Apergy Canada ULC–Alberta Oil Tool Division  
6939 – 68th Avenue  
Edmonton, Alberta, T6B 3E3

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<sup>1</sup> <http://www.albertaoiltool.com/about.htm>.

## **Exporters**

[8] The complainant provided a listing of suppliers in all countries that are certified by the American Petroleum Institute (API) under specification 11B to produce sucker rods.<sup>2</sup> The CBSA has identified three exporters of the subject goods from CBSA import documentation and from information submitted in the complaint.

## **Importers**

[9] The CBSA has identified one importer of the subject goods from CBSA import documentation and from information submitted in the complaint.

## **PRODUCT INFORMATION**

### **Definition**

[10] For the purpose of this investigation, subject goods are defined as:

*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 solid 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 originating in or exported from the Argentine Republic, the Federative Republic of Brazil and the United Mexican States.*

### **Additional Product Information**

[11] Sucker rods are lengths of steel, usually with externally threaded ends, connected by couplings to form a rod string. In an oil or gas well, the rod string connects the above-ground drive to the down well pump(s). Sucker rods are usually produced to 25 feet in length but can be longer.

[12] Pony rods are shorter lengths of sucker rods used to obtain the proper length of a 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.

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

[14] The diameter of the sucker rod always refers to the outer diameter of the rod body, rather than any part of the forged end.<sup>3</sup>

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<sup>2</sup> Sucker Rods 2 Complaint; Exhibit 5-01 (NC) – List of API 11B certified suppliers of sucker rods.

<sup>3</sup> Sucker Rods 2 Complaint (NC), paragraphs 5-7.

[15] Special grades of steel referred to in the product definition include steel grades which may not meet standard industry specifications including proprietary grades.

**For greater clarify, the product definition does not cover:**

- Polished rods, which are above ground connections to the rod strings;<sup>4</sup>
- Sinker bars, which are used to add weight to the rod string;<sup>5</sup>
- Fiberglass sucker rods (Fiber reinforced plastic);<sup>6</sup>
- Hollow sucker rods;<sup>7</sup> and
- Continuous sucker rods.<sup>8</sup>

[16] A “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 particular sizing and characteristics which make it quite different from a sucker rod.

[17] A “sinker bar” is at the opposite end from the polished rod, as it connects the sucker rod string to the pump. The bar provides weight so that the tool will lower properly into the well.

[18] A fiberglass sucker rod or pony rod is typically manufactured in three pieces and assembled by a process that provides connection of two metal end-fittings connected to a non-metallic fiber reinforced plastic rod body.

[19] A hollow sucker rod is made of seamless steel pipe, and the screw thread joint is connected with the rod body through friction welding and heat treatment. Hollow sucker rod is used for the exploitation of heavy oil, high freezing point and waxy crude oil. The hollow rod presents the ability to inject diluents through the hollow rod in progressive cavity pumping (PCP) operations. There is no indication that these goods are manufactured in Canada.

[20] Continuous (coiled) sucker rods have an entire rod string in one piece with only two connections; one at the top and one at the bottom. These rods are available in either round or elliptical configurations. Continuous rod eliminates all the couplings along the entire wellbore except for the top connection to the polished rod and the bottom connection to the pump itself.

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<sup>4</sup> Sucker Rods 2 Complaint (NC), paragraph 12.

<sup>5</sup> Sucker Rods 2 Complaint (NC), paragraph 13.

<sup>6</sup> Sucker Rods 2 Complaint (NC), paragraph 7.

<sup>7</sup> Sucker Rods 2 Complaint (NC), paragraph 4.

<sup>8</sup> Sucker Rods 2 Complaint (NC), paragraph 4.

## Production Process<sup>9</sup>

[21] The subject goods are produced world-wide using materially similar production processes.

[22] 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.

[23] AOT's sucker rods are manufactured from micro-alloyed, modified SBQ hot rolled carbon or alloy steel bar. The 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.

[24] SBQ is supplied as long steel bars and arrives at AOT's facility where it is inspected and received into inventory. The SBQ is cut to length for 25 foot sucker rods. The SBQ is transferred to a straightener, where it is straightened by being passed through straightener rollers. Bars then get passed through an eddy current tester to check for any surface quality defects. All acceptable bars are collected to form a bundle and rejected rods are kicked out in reject pockets.

[25] Usable bars are then transferred to forge machines. Each bar end (between 8 – 14 inches of material) is induction heated to 2300°F ±50°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.

[26] 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 pre-set speed and furnace temperatures above the critical transformational temperature (1550F – 1675F, depending on the desired finished grade) where it undergoes beneficial microstructure changes. Essentially, this heat-treatment or normalizing allows for the re-crystallization of steel to offset any defects arising from the working of the metal (particularly the prior forging).

[27] 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 pre-set speed and temperature. Again the speed and temperatures are governed by the finished grades, but are approximately 500°F lower than normalizing temperatures. Tempering improves the ductility and toughness of the steel.

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<sup>9</sup> Sucker Rods 2 Complaint (NC), paragraphs 28-40.

[28] The rods are then transferred to 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 life of the rod making them a superior quality product over non peened rods.<sup>10</sup>

[29] 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 end and pin protector plastic caps are added to the others.

[30] 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.

### **Product Use<sup>11</sup>**

[31] Sucker rods are used in oil and gas extraction by forming a rod string that connects the above-ground drive to the down well pump(s). In extracting oil and gas from a well, some form of drive is required to provide the motive force and power to extract the oil and gas. Although drives may be located above ground or down well, sucker rods are only used with drives that are located above ground.

[32] An 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 of interconnected 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, which is roughly 100 to 300 sucker rods of 25 feet in length.

[33] A down well pump will either be a reciprocating pump or a progressive cavity pump, and suckers rods are used in both types of pumps. Reciprocating pumps which are the more traditional type of pump require the rod string to move up and down to extract oil and gas out. For these kinds of pumps, the drive will connect to a “walking beam” and “horse head,” which will then reciprocate by pulling the rod string up and then pushing it down.

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<sup>10</sup> 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.

<sup>11</sup> Sucker Rods 2 Complaint (NC), paragraphs 5-14.

## **Classification of Imports<sup>12</sup>**

[34] The allegedly dumped goods are normally classified under the following tariff classification number:

8413.91.00.10

[35] The tariff classification number is for convenience of reference only. Refer to the product definition for authoritative details regarding the subject goods.

### **LIKE GOODS AND CLASS OF GOODS**

[36] Subsection 2(1) of SIMA defines “like goods” in relation to any other goods as goods that are identical in all respects to the other goods, or in the absence of any identical goods, goods the uses and other characteristics of which closely resemble those of the other goods.

[37] While sucker rods come in a variety of sizes, it is nevertheless a commodity-type product. The complainant submits that all sucker rods, including pony rods, serve the same purpose of connecting the above-ground drive to the down-hole pump. All sucker rods are finished goods with compatible threading intended to be connected together and subject to the API 11B or comparable specification. They all consist of specific types of carbon or alloy steel and are produced on the same machinery using essentially the same production process. In addition, they are all sold through the same channel of distribution to the same oil and gas company end-users.

[38] After considering questions of use, physical characteristics and all other relevant factors, the CBSA is of the opinion that domestically produced sucker rods are like goods to the subject goods. Further, the CBSA is of the opinion that subject goods and like goods constitute only one class of goods.

### **THE CANADIAN INDUSTRY**

[39] The complaint included data on domestic production and on domestic sales of sucker rods for domestic consumption. The complainant accounts for all known domestic production of like goods.

### **Standing**

[40] Subsection 31(2) of SIMA requires that the following conditions for standing be met in order to initiate an investigation:

- the complaint is supported by domestic producers whose production represents more than 50% of the total production of like goods by those domestic producers who express either support for or opposition to the complaint; and
- the production of the domestic producers who support the complaint represents 25% or more of the total production of like goods by the domestic industry.

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<sup>12</sup> Sucker Rods 2 Complaint (NC), paragraph 40.

[41] As the complainant is the only producer in Canada, the conditions for standing have been met.

### **CANADIAN MARKET**<sup>13</sup>

[42] The complainant provided estimates of imports into Canada based on data from Statistics Canada. However, Statistics Canada data only reports the values of the subject goods under its tariff classification number. Therefore, in order to derive import volumes from the named countries, the complainant used its average per-piece selling price for domestically-produced sucker rods, adjusted by an amount to reflect the value of the sucker rods in the named countries, and then divided the value of imports by the adjusted per-piece price.

[43] Polished rods (non-subject goods) are also imported under the same tariff classification number as sucker rods. Based on the complainant's market intelligence, it is believed that exporters from the named countries do not sell polished rods to Canada. Therefore, no adjustment for polished rods was made for the named countries.

[44] The CBSA conducted its own analysis of imports of the goods based on CBSA's import data, which demonstrated similar trends and volumes compared to information provided in the complaint.

[45] Detailed information regarding the volume and value of imports of sucker rods and domestic production cannot be divulged for confidentiality reasons.

[46] The CBSA will continue to gather and analyze information on the volume of imports during the period of investigation (POI) of July 1, 2018 to June 30, 2019 as part of the preliminary phase of the dumping investigation and will refine these estimates.

### **EVIDENCE OF DUMPING**

[47] The complainant alleged that the subject goods from the named countries have been injuriously dumped into Canada. Dumping occurs when the normal value of the goods exceeds the export price to importers in Canada.

[48] Normal values are generally based on the domestic selling price of like goods in the country of export where competitive market conditions exist or as the aggregate of the cost of production of the goods, a reasonable amount for administrative, selling and all other costs, and a reasonable amount for profits.

[49] The export price of goods sold to importers in Canada is generally the lesser of the exporter's selling price and the importer's purchase price, less all costs, charges, and expenses resulting from the exportation of the goods.

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<sup>13</sup> Sucker Rods 2 Complaint (PRO), paragraphs 85-91.

[50] Estimates of normal values and export prices by both the complainant and the CBSA are discussed below.

## **Normal Value**

### **Complainant's Estimates**

[51] The complainant submitted that they are unable to estimate the normal values on the basis of domestic prices, using the methodology of section 15 of SIMA because domestic prices for the named countries are not readily available. However, the complainant was able to obtain supporting documentation to estimate one single normal value under section 15 for Argentina.

[52] Accordingly, the complainant estimated the normal values on the basis of the methodology of paragraph 19(b) of SIMA, by estimating the costs of production of the goods, a reasonable amount for administrative, selling and all other costs, and a reasonable amount for profits.

[53] In order to estimate the cost of production for the like goods, the complainant used their own cost of production and adjusted these figures downward to reflect the estimated differences in labour and labour components of overhead costs for each of the named countries.

[54] Material costs for Canadian, Argentine, Brazilian, and Mexican sucker rods were assumed to be similar given that sucker rods are produced from the same international steel input. Therefore, no adjustments were made for raw materials costs.<sup>14</sup>

[55] Although no adjustments were made with respect to raw material input costs, the complainant alleged that the exporters may be sourcing their raw material inputs (e.g. SBQ) for the production of sucker rods from related entities. As a result, the complainant alleged that the cost of production reported by the exporters may be considered unreliable for the purposes of determining normal values under SIMA paragraph 19(b).<sup>15</sup> The complainant submitted evidence in support of the allegation. The CBSA will further investigate the allegation throughout the proceeding in order to determine if production inputs are being provided by an associated supplier.

[56] The administrative, selling and all other costs, and a reasonable amount for profits were based on the amounts reported in a 2018 annual report of a known producer of the subject goods in the named countries.<sup>16</sup>

[57] The adjusted cost of production, the administrative, selling and all other costs, and a reasonable amount for profits were aggregated to estimate the section 19 normal values.

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<sup>14</sup> Sucker Rods 2 Complaint (NC), paragraph 72.

<sup>15</sup> Sucker Rods 2 Complaint (NC), paragraph 73.

<sup>16</sup> Sucker Rods 2 Complaint (NC), paragraph 77.

## **CBSA's Estimate**

[58] The CBSA conducted its own research and was unable to find domestic pricing information on like goods from producers of sucker rods located in the named countries.

[59] Given the limited information available to the complainant to estimate normal values on the basis of domestic sales information in the named countries, the CBSA used the information provided by the complainant, based on the methodology of paragraph 19(b) of SIMA, by estimating the costs of production of the goods, an amount for general selling and administrative expenses, plus an amount for profit, and made its own adjustments.

[60] While the methodology used by the complainant to estimate normal values under this approach was generally accepted by the CBSA, adjustments were made to the landed input cost of the raw material in terms of both the cost of the bar and the cost of freight, in an effort to be more conservative than what AOT pays on the open market. To determine the cost of the bar, the CBSA used an average of the quarterly costs depicted in evidence provided to better reflect the costs over the entire POI, rather than a single period as used by the complainant. The CBSA also made a downward adjustment to inland freight costs provided by the complainant to better represent inland freight in the named countries.

## **Export Price**

[61] The export price of goods sold to an importer in Canada is generally determined in accordance with section 24 of SIMA as being an amount equal to the lesser of the exporter's sale price for the goods and the price at which the importer has purchased or agreed to purchase the goods adjusted by deducting all costs, charges, expenses, and duties and taxes resulting from the exportation of the goods.

[62] The complainant stated that this complaint presents a unique situation where there is only one known foreign producer, exporter, and Canadian importer of sucker rods from all three named countries to Canada. Given the affiliation between the exporters and the importer in Canada, export prices were estimated by the complainant following the methodology of paragraph 25(1)(c) of SIMA, by taking the importer's resale price of the imported goods in Canada to non-associated purchasers, and making deductions for the importer's selling, general and administrative expenses and a reasonable amount for the importer/distributor's profit.<sup>17</sup>

[63] In estimating the export prices, the CBSA relied on actual import data from commercial and customs documentation. The CBSA used the value for duty and quantity reported in its Customs Commercial System (CCS) database for goods imported during the period of July 1, 2018 to June 30, 2019. Some data was adjusted by the CBSA after reviewing the import entry documentation to account for non-subject goods and to correct any inaccurate quantities and value for duty as necessary.

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<sup>17</sup> Sucker Rods 2 Complaint (NC), paragraphs 78-81.

## Estimated Margins of Dumping

[64] The CBSA estimated the margin of dumping for the named countries by comparing the estimated normal values with the weighted average estimated export prices. Based on this analysis, it is estimated that the subject goods imported into Canada from each of the named countries were dumped. The estimated margin of dumping for each country is listed in the table below.

**Table 2**  
**CBSA's Estimated Margins of Dumping**

Country	Estimated Margin of Dumping (expressed as % of export price)
Argentina	7.60%
Brazil	2.89%
Mexico	11.08%

## Particular Market Situation

[65] In its complaint, AOT made the allegation that particular market situations may exist in each of the named countries. The complainant made allegations that the largest corporations producing oil in the named countries are state-owned and there is evidence that this has created distorted market prices in these countries.<sup>18</sup>

[66] The CBSA will further examine these allegations throughout the investigation in order to determine if the presence and purchasing activities of state-owned enterprises in the named countries are resulting in a particular market situation.

## EVIDENCE OF INJURY

[67] The complainant alleged that the subject goods have been dumped and that such dumping has caused material injury and is threatening to cause material injury to the domestic industry producing like goods in Canada.

[68] SIMA refers to material injury caused to the domestic producers of like goods in Canada. The CBSA has concluded that sucker rods produced by the domestic industry are like goods to the subject goods from the named countries.

[69] In support of these allegations, the complainant has provided evidence of loss of market share, price suppression, lost sales, impact on profitability, under-utilization of capacity, reduced employment, and negative impact on investment.

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<sup>18</sup> Sucker Rods 2 Complaint (NC), paragraph 74.

## Loss of Market Share

[70] The import volumes provided by the complainant showed an increase of subject goods since 2016 through to 2018 in both absolute and relative terms. Based on volume, evidence provided by the complainant indicated that its share of the apparent Canadian market has decreased since 2016 through to 2018.<sup>19</sup> The complainant stated that the imposition of anti-dumping and countervailing duties in Q3 2018 resulted in a significant decrease of Chinese sucker rods in the Canadian market. However, subject goods from the named countries quickly replaced Chinese imports as the low-price leaders in the market and are capturing all or nearly all of the market share previously lost to imports from China.<sup>20</sup>

[71] The CBSA's estimates of import volumes are based on import data reported in its Customs Commercial System (CCS) database, but due to confidentiality reasons, detailed information regarding the volume and value of imports of sucker rods and domestic production cannot be divulged. Information available to the CBSA does correspond with evidence provided by the complainant.

[72] Based on the CBSA's estimates, the value of imports of subject goods from the named countries has increased by 275% from 2016 to 2018, and by 205% between the first half (H1) of 2018 and H1 2019. Relative to total imports from all other countries, imports of subject goods increased from 5.9% in 2016 to 32.0% in 2018, and from 15.7% in H1 2018 to 56.0% in H1 2019.

[73] The CBSA finds the claim of lost market share to be reasonable and well supported and sufficiently linked to the allegedly dumped goods.

## Price Suppression

[74] The complainant states that the unfair pricing of sucker rods from the named countries has caused material injury to the domestic industry by undercutting the price of sucker rods sold in the Canadian market and preventing price increases that otherwise would have likely occurred.

[75] The complainant states that SBQ is a key cost for sucker rod production and has been a significant factor in the complainant's rising production costs. Between Q2 2016 and Q2 2019, the complainant's average unit pricing for purchases of SBQ had increased considerably. The complainant asserts that these rising costs are entirely consistent with market prices and trends and AOT is continuously making an effort to ensure SBQ costs are as low as possible.<sup>21</sup>

[76] Despite the rising SBQ costs, the complainant argued that they could not fully implement their announced price increase in December 2018 to offset the growth in steel input costs and was forced to delay and reduce the planned increases.<sup>22</sup> The presence of dumped, low-priced imports from named countries is a direct cause of AOT's inability to increase its prices to catch up with its rising production costs.

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<sup>19</sup> Sucker Rods 2 Complaint (NC), paragraphs 93-95.

<sup>20</sup> Sucker Rods 2 Complaint (NC), paragraph 50.

<sup>21</sup> Sucker Rods 2 Complaint (NC), paragraph 101.

<sup>22</sup> Sucker Rods 2 Complaint (NC), paragraph 103.

[77] In addition, the complainant provided account-specific examples of sales in Canada on various models of sucker rods imported from the named countries to demonstrate the margin of price undercutting occurring in the Canadian market.<sup>23</sup>

[78] Based on the information provided in the complaint, the CBSA finds that the claim of price suppression and price undercutting are supported and sufficiently linked to the allegedly dumped imports of the subject goods.

### **Lost Sales**

[79] Due to the low prices offered by exporters of sucker rods from the named countries, the complainant submitted that it suffered lost sales. The complainant submitted numerous specific examples to confirm lost sales within its confidential submission.

[80] The lost sales cover multiple large-scale customers, numerous product grades and extend throughout the POI. AOT contends that they were not able to regain the sales that were previously lost to low-priced Chinese sucker rods as customers began to immediately switch from Chinese products to low-priced imports from the named countries.

[81] Based on the information provided in the complaint, the CBSA finds that the claim of lost sales is supported and sufficiently linked to the allegedly dumped imports of the subject goods.

### **Impact on Profitability**

[82] The complainant alleged that the injury from dumped imports of sucker rods from the named countries had a material adverse impact on their profitability. To support this allegation, the complainant provided financial statements for 2016 through Q2 2019.<sup>24</sup> Evidence provided by AOT demonstrated the negative effect on net profitability in the face of rapidly increasing import volumes from the named countries.

[83] The complainant attributes this adverse impact on profitability to the surge in imports of sucker rods from the named countries, which have replaced sucker rods from China as the low-priced leaders in the domestic market. Furthermore, this surge in imports has negated the complainant's ability to increase prices in order to offset rising SBQ costs.<sup>25</sup> This has resulted in a price-cost squeeze that has impacted AOT's profitability.<sup>26</sup>

[84] Based on the information provided in the complaint, the CBSA finds that the negative impact on the complainant's profitability can be reasonably attributed to the allegedly dumped imports.

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<sup>23</sup> Sucker Rods 2 Complaint (NC), paragraph 99.

<sup>24</sup> Sucker Rods 2 Complaint (PRO) - Exhibit 5-02.

<sup>25</sup> Sucker Rods 2 Complaint (NC), paragraph 107.

<sup>26</sup> Sucker Rods 2 Complaint (NC) – Exhibit 7-04 – Declaration of Andy Vandal (PUBLIC), paragraph 25.

### **Under-utilization of capacity and reduced employment<sup>27</sup>**

[85] The complainant submitted that domestic capacity utilization remains negatively affected and has not recovered since the surge of Chinese imports. Between H1 2018 and H1 2019 the complainant's capacity utilization was further impacted, which corresponds with a period of increased imports from the named countries.

[86] The complainant also alleged that employment has been negatively impacted and provided evidence of employment numbers of direct and indirect employees on a yearly basis as support.

### **Negative Impact on Investment<sup>28</sup>**

[87] The complainant submitted that it competes with its US affiliates for available investment dollars within the Apergy group of companies and product divisions. According to the complainant, given AOT's current levels of profitability, Apergy's ability to justify continued investment in AOT will be negatively impacted if the adverse impact of dumped subject goods continues.

### **CBSA's Conclusion – Injury**

[88] Based on the evidence provided in the complaint, and supplementary data available to the CBSA through its own research and customs documentation, the CBSA is satisfied that the evidence discloses a reasonable indication that the dumping of the subject goods from the named countries has caused injury. The injury factors specifically suffered by the domestic industry include loss of market share, price suppression, lost sales, impact on profitability, under-utilization of capacity, reduced employment, and negative impact on investment.

### **THREAT OF INJURY**

[89] The complainant states that the allegedly dumped goods from the named countries threaten to cause further material injury to the Canadian domestic industry. The complainant submits that the threat posed by the subject goods is evident in a number of factors which are likely to have an impact.

[90] The complainant provided the following information to support the allegation that the subject imports from the named countries threaten to cause further injury to the Canadian domestic industry.

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<sup>27</sup> Sucker Rods 2 Complaint (NC), paragraphs 113-114.

<sup>28</sup> Sucker Rods 2 Complaint (NC), paragraph 115.

**An imminent and massive capacity increase within the United States will further encourage exports of subject goods to Canada<sup>29</sup>**

[91] The complainant submitted that a producer and exporter of sucker rods from the named countries has opened a sucker rods production plant in the US with the capacity to produce 1,800,000 pieces annually. The new US plant was built in 2017 and has come online in July 2019. With a total production capacity representing 84% of the total combined production capacity in the named countries, the new US plant is intended to serve the US market.

[92] In 2018, the named countries exported approximately USD 250 million in sucker rods to the US, representing over six times the 2018 estimated Canadian market. The complainant argues that with the US plant coming online with its 1.8 million pieces capacity to serve the US market, the subject goods manufactured in the named countries will need to be sold in other markets. It is expected that a sizable portion of the USD 250 million worth of subject goods from the named countries will be diverted to markets other than the US in the foreseeable future.

[93] The start-up of the sucker rods plant in the US constitutes a material change in circumstances that will likely result in a significant increase in subject goods being imported into Canada from the named countries.

[94] Based on the CBSA's analysis of the information provided in the complaint, the CBSA finds that the US capacity increases, as described above, may render the Canadian domestic industry particularly vulnerable to an increase in import volumes from the named countries.

**Market conditions in the named countries will encourage exports of dumped subject goods to Canada**

[95] The complainant submitted that the subject goods are used exclusively for the extraction of oil from onshore wells. Therefore, domestic onshore oil production and oil well drilling in each named country is a reasonable indicator of the likely demand for the subject goods in each of the named countries. The complainant submitted that forecasts in each of the named countries show a high likelihood of weak domestic market demand for sucker rods.

*Mexico<sup>30</sup>*

[96] The complainant submitted that oil extraction in Mexico has been declining for the past five years and onshore oil has also been impacted. In the northern and southern onshore regions, oil production has declined 47% since 2014 with each year yielding less production than the previous. The state-owned corporation Petróleos Mexicanos (PEMEX), a producer, refiner, and distributor of crude oil, natural gas and petroleum products, has continued to report losses into 2019.

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<sup>29</sup> Sucker Rods 2 Complaint (NC), paragraphs 119-123.

<sup>30</sup> Sucker Rods 2 Complaint (NC), paragraphs 125-128.

[97] Furthermore, PEMEX itself is in significant debt, and according to evidence submitted by the complainant, there is doubt as to whether or not it will be able to continue to financially support its onshore facilities to the degree that it has in the past. As PEMEX's debt continues to rise, it is likely that it will not be able to continue to invest resources in onshore production. Therefore, the complainant submits that it is likely that sucker rod sales in Mexico will face a less lucrative market, forcing the exportation of subject goods to foreign markets.

### *Brazil*<sup>31</sup>

[98] The complainant submitted evidence that Brazil's onshore oil production has been in decline since 2017, with a steep and steady decline in the number of onshore exploratory and development wells drilled since 2015. The total amount of oil produced from onshore wells has decreased by approximately 42% from 2011 to 2017.

[99] In 2018, the Government of Brazil auctioned onshore and offshore prospects to bidders with none of the onshore plots being sold. According to the executive secretary of the Brazilian Association for Independent Producers of Oil, onshore activities could slow to a halt within three years. The complainant argued that the potential of a complete halt in onshore operations would place pressure on producers of sucker rods to seek export markets, such as Canada, for excess capacity.

### *Argentina*<sup>32</sup>

[100] The complainant submitted that during 2018 and 2019, Argentina's oil industry has endured multiple setbacks which have depressed the economic situation in the country. One such setback is that the Argentine economy has entered a recession requiring a USD 57 billion bailout from the International Monetary Fund. The effect has put pressure to scale back the large Argentine oil subsidy program in place by the Government in order to stimulate growth in its onshore sector. In addition, crude oil production is far below original targets and investment in the Vaca Muerta Formation (Argentina's largest onshore shale oil field) is also far off target.

[101] According to the complainant, the more concerning factor with respect to the Argentina oil industry is the large investment by state-owned corporation Yacimientos Petrolíferos Fiscales Sociedad Anónima (YFP) in the Vaca Muerta Formation. Evidence provided by the complainant indicates that the share price of YFP has fallen by over 50% since 2014. With YFP being directly tied to the Argentine economy, its ability to invest in extraction is limited by the ability of the Argentine economy to recover, therefore, it is likely that Argentina's sucker rod plant will have to find other markets for its subject goods.

[102] Based on information provided in the complaint and CBSA's own research, the CBSA finds that market conditions, as described above, may render the Canadian domestic industry particularly vulnerable to an increase in import volumes from the named countries.

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<sup>31</sup> Sucker Rods 2 Complaint (NC), paragraphs 129-131.

<sup>32</sup> Sucker Rods 2 Complaint, paragraphs 132-135.

### **Significant rate of increase of dumped goods<sup>33</sup>**

[103] The complainant submitted that there has been a significant rate of increase of subject goods into the Canadian market from the named countries over several years, both in absolute terms and relative to consumption in Canada of like goods. The complainant contends that absent protection, it is expected that the trend of rapidly increasing imports of subject goods from the named countries will continue in the foreseeable future.

[104] Based on the information provided by the complainant and the CBSA's own analysis of import volumes, the CBSA finds that there has been a significant increase in the amount and proportion of allegedly dumped subject goods and that there is a potential for continued increases in importation into the Canadian market.

### **Potential impact of the subject goods on the prices of the like goods<sup>34</sup>**

[105] The complainant argued that aggressive pricing on subject imports by the named countries will continue to exert a strong downward pressure on the pricing of like goods in the Canadian market. Evidence was submitted indicating that subject goods have significantly undercut AOT's pricing in Canada with instances of lost sales where customers have chosen allegedly dumped subject goods because of low prices.

[106] The CBSA has found that the complainant demonstrated its inability to increase prices on like goods in Canada through failed and delayed notices of price increases to customers. The CBSA recognizes that the continued aggressive pricing on subject imports by the named countries may cause further injury to the complainant if they are unable to raise prices to offset rising costs.

### **Magnitude of margin of dumping<sup>35</sup>**

[107] The complainant submitted that exporters of subject goods resort to substantial margins of dumping on subject goods in order to secure orders for sucker rods in Canada and this magnitude of dumped imports poses an imminent and foreseeable threat of injury to the complainant.

[108] The CBSA has found that sufficient evidence exists that the subject goods are being dumped and that the margin of dumping is not insignificant. The CBSA recognizes that the continued dumping of subject goods could further impact Canadian production of subject goods.

### **CBSA's Conclusion –Threat of Injury**

[109] The CBSA is of the view that the evidence discloses a reasonable indication that there is a threat of material injury to the sucker rod industry in Canada posed by imports of allegedly dumped subject goods from the named countries.

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<sup>33</sup> Sucker Rods 2 Complaint (PRO), paragraphs 136-137.

<sup>34</sup> Sucker Rods 2 Complaint (NC), paragraphs 138-139.

<sup>35</sup> Sucker Rods 2 Complaint (NC), paragraph 141.

## **CAUSAL LINK – DUMPING, INJURY AND THREAT OF INJURY**

[110] The CBSA finds that the complainant has sufficiently linked the injury suffered by the domestic industry, in the form of loss of market share, price suppression, lost sales, reduced profitability, under-utilization of capacity and reduced employment, and negative impact on investment, to the alleged dumping of the subject goods imported into Canada from the named countries. The CBSA is satisfied that the injury suffered by the domestic industry is directly related to the price advantage produced by the alleged dumping of subject goods from the named countries. Sufficient evidence has been provided to establish this link.

[111] The complainant submitted that the continued dumping of goods from the named countries will cause further injury to the Canadian domestic industry in the future. As discussed above, the CBSA is of the opinion that this allegation of threat of injury is reasonably supported.

[112] In summary, the CBSA is of the opinion that the information provided in the complaint has disclosed a reasonable indication that the alleged dumping has caused injury and is threatening to cause injury to the Canadian domestic industry.

## **CONCLUSION**

[113] Based on the CBSA's analysis of information provided in the complaint, other available information, and the CBSA's internal import documentation, the CBSA is of the opinion that there is evidence that certain sucker rods originating in or exported from Argentina, Brazil, and Mexico, have been dumped, and there is a reasonable indication that such dumping has caused or is threatening to cause injury to the Canadian industry. As a result, based on the CBSA's examination of the evidence and its own analysis, a dumping investigation was initiated on September 30, 2019.

## **SCOPE OF THE INVESTIGATION**

[114] The CBSA is conducting an investigation to determine whether the subject goods have been dumped.

[115] The CBSA has requested information from all potential exporters and importers to determine whether or not subject goods imported into Canada during the POI of July 1, 2018 to June 30, 2019, were dumped. The information requested will be used to determine the normal values, export prices and margins of dumping, if any.

## **FUTURE ACTION**

[116] The Canadian Internal Trade Tribunal (CITT) will conduct a preliminary inquiry to determine whether the evidence discloses a reasonable indication that the alleged dumping of the goods has caused or is threatening to cause injury to the Canadian industry. The CITT must make its decision on or before the 60<sup>th</sup> day after the date of the initiation of the investigation. If the CITT concludes that the evidence does not disclose a reasonable indication of injury to the Canadian industry, the investigation will be terminated.

[117] If the CITT finds that the evidence discloses a reasonable indication of injury to the Canadian industry and the CBSA investigation preliminarily reveals that the goods have been dumped, the CBSA will make a preliminary determination of dumping within 90 days after the date of the initiation of the investigation, by December 30, 2019. Where circumstances warrant, this period may be extended to 135 days from the date of the initiation of the investigation.

[118] Under section 35 of SIMA, if, at any time before making a preliminary determination, the CBSA is satisfied that the volume of goods of a country is negligible, the investigation will be terminated with respect to goods of that country.

[119] Imports of subject goods released by the CBSA on and after the date of a preliminary determination of dumping, other than a preliminary determination in which a determination was made that the margin of dumping of the goods is insignificant, may be subject to provisional duty in an amount not greater than the estimated margin of dumping on the imported goods.

[120] Should the CBSA make a preliminary determination of dumping, the investigation will be continued for the purpose of making a final decision within 90 days after the date of the preliminary determination.

[121] After the preliminary determination, if, in respect of goods of a particular exporter, the CBSA's investigation reveals that imports of the subject goods have not been dumped, or that the margin of dumping of the goods is insignificant, the investigation will be terminated in respect of those goods.

[122] If a final determination of dumping is made, the CITT will continue its inquiry and hold public hearings into the question of material injury to the Canadian industry. The CITT is required to make a finding with respect to the goods to which the final determination of dumping applies, not later than 120 days after the CBSA's preliminary determination.

[123] In the event of an injury finding by the CITT, imports of subject goods released by the CBSA after that date will be subject to anti-dumping duty equal to the applicable margin of dumping on the imported goods.

### **RETROACTIVE DUTY ON MASSIVE IMPORTATIONS**

[124] When the CITT conducts an inquiry concerning injury to the Canadian industry, it may consider if dumped goods that were imported close to or after the initiation of the investigation constitute massive importations over a relatively short period of time and have caused injury to the Canadian industry.

[125] Should the CITT issue such a finding, anti-dumping duties may be imposed retroactively on subject goods imported into Canada and released by the CBSA during the period of 90 days preceding the day of the CBSA making a preliminary determination of dumping.

## **UNDERTAKINGS**

[126] After a preliminary determination of dumping by the CBSA, other than a preliminary determination in which a determination was made that the margin of dumping of the goods is insignificant, an exporter may submit a written undertaking to revise selling prices to Canada so that the margin of dumping or the injury caused by the dumping is eliminated. An acceptable undertaking must account for all or substantially all of the exports to Canada of the allegedly dumped goods.

[127] Interested parties may provide comments regarding the acceptability of undertakings within nine days of the receipt of an undertaking by the CBSA. The CBSA will maintain a list of parties who wish to be notified should an undertaking proposal be received. Those who are interested in being notified should provide their name, telephone number, mailing address and e-mail address to one of the officers identified in the “Information” section of this document.

[128] If undertakings were to be accepted, the investigation and the collection of provisional duties would be suspended. Notwithstanding the acceptance of an undertaking, an exporter may request that the CBSA’s investigation be completed and that the CITT complete its injury inquiry.

## **PUBLICATION**

[129] Notice of the initiation of this investigation is being published in the Canada Gazette pursuant to subparagraph 34(1)(a)(ii) of SIMA.

## **INFORMATION**

[130] Interested parties are invited to file written submissions presenting facts, arguments, and evidence that they feel are relevant to the alleged dumping. Written submissions should be forwarded to the attention of one of the officers identified below.

[131] To be given consideration in this investigation, all information should be received by the CBSA by February 12, 2020.

[132] Any information submitted to the CBSA by interested parties concerning this investigation is considered to be public information unless clearly marked “confidential”. Where the submission by an interested party is confidential, a non-confidential version of the submission must be provided at the same time. This non-confidential version will be made available to other interested parties upon request.

[133] Confidential information submitted to the CBSA will be disclosed on written request to independent counsel for parties to these proceedings, subject to conditions to protect the confidentiality of the information. Confidential information may also be released to the CITT, any court in Canada, or a WTO/NAFTA dispute settlement panel. Additional information respecting the Directorate’s policy on the disclosure of information under SIMA may be obtained by contacting one of the officers identified below or by visiting the CBSA’s website.

[134] The investigation schedule and a complete listing of all exhibits and information are available at: [www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html](http://www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html). The exhibits listing will be updated as new exhibits and information are made available.

[135] This *Statement of Reasons* has been provided to persons directly interested in these proceedings. It is also available through the CBSA's website at the address below. For further information, please contact the officers identified as follows:

**Mail:** SIMA Registry and Disclosure Unit  
Trade and Anti-dumping Programs Directorate  
Canada Border Services Agency  
100 Metcalfe Street, 11<sup>th</sup> floor  
Ottawa, Ontario K1A 0L8  
Canada

**Telephone:** Aaron Maidment 613-948-4415  
Benjamin Crossan 613-954-7410

**E-mail:** [simaregistry@cbsa-asfc.gc.ca](mailto:simaregistry@cbsa-asfc.gc.ca)

**Web site:** [www.cbsa-asfc.gc.ca/sima-lmsi](http://www.cbsa-asfc.gc.ca/sima-lmsi)

Doug Band  
Director General  
Trade and Anti-dumping Programs Directorate