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(Acts whose publication is obligatory)

COUNCIL REGULATION (EC) No 2080/2001

of 23 October 2001

imposing a definitive anti-dumping duty on imports of internal gear hubs for bicycles originating in Japan

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 384/96 of 22 December 1995 on protection against dumped imports from countries not members of the European Community [1], and in particular Article 9 thereof,

Having regard to the proposal submitted by the Commission after consulting the Advisory Committee,

Whereas:

A. PROCEDURE

1. Initiation

(1) On 27 July 2000, the Commission announced by a notice ('Notice of Initiation') published in the *Official Journal of the European Communities* [2] the initiation of an anti-dumping proceeding with regard to imports into the Community of internal gear hubs ('IGH') originating in Japan.

(2) The proceeding was initiated as a result of a complaint lodged on 6 July 2000 by SRAM Deutschland GmbH, representing a major proportion of the Community production of IGH.

(3) The complaint contained evidence of dumping of the said product and of material injury resulting therefrom, which was considered sufficient to justify the opening of an anti-dumping proceeding.

2. Investigation

(4) The Commission officially advised the exporting producers, importers and users known to be concerned, the representatives of the exporting country concerned, the complainant and another Community producer about the initiation of the proceeding. Interested parties were given an opportunity to make their views known in writing and to request a hearing within the time limit set out in the Notice of Initiation.

(5) A number of parties made their views known in writing. All parties who so requested within the above time limit and who demonstrated that there were particular reasons why they should be heard were granted the opportunity to be heard.

(6) The Commission sent questionnaires to all parties known to be concerned and to all other companies which made themselves known within the deadline set out in the Notice of Initiation. Meaningful replies were received from the complaining Community producer, eight unrelated importers in the Community, 35 users and the exporting producer in Japan.

(7) Detailed information on product comparability for types of IGH sold on the Community market was requested in an additional questionnaire sent to 58 parties (the Community industry, the exporting producer, two related importers, nine unrelated importers and 45 users). 49 meaningful replies were received. Reactions were also received from 137 parties, mainly bicycle producers, retailers, consumer and user associations.

(8) The Commission sought and verified all the information deemed necessary for the purposes of a determination of dumping, injury and Community interest including the carrying out of verification visits at the premises of the following companies:

A. Community producer

— SRAM Deutschland GmbH, Schweinfurt, Germany;

B. Exporting producer in Japan

— Shimano Inc., Sakai, Japan;

C. Related importers in the Community

— Shimano Europa GmbH (Dutch Branch), Nunspeet, The Netherlands

— Shimano Benelux B.V., Nunspeet, The Netherlands;

D. Unrelated importers in the Community

— Paul Lange & Co, Stuttgart, Germany.

[1] OJ L 56, 6.3.1996, p. 1. Regulation as last amended by Regulation (EC) No 2238/2000 (OJ L 257, 11.10.2000, p. 2).
[2] OJ C 214, 27.7.2000, p. 4.

(9) On-the-spot visits were also carried out at the premises of the following Community users:

— Batavus B.V., Heerenveen, The Netherlands,

— Biria GmbH, Edingen-Neckarhausen, Germany,

— Epple Zweidrad GmbH, Memmingen, Germany,

— Helkama, Hanko, Finland,

— Koninklijke Gazelle B.V., Dieren, The Netherlands,

— Tunturi, Turku, Finland.

(10) The investigation of dumping and injury covered the period from 1 July 1999 to 30 June 2000 ('the investigation period' or 'IP'). With respect to the trends relevant for the injury assessment, data covering the period from 1 January 1996 to 30 June 2000 ('the period considered') was analysed, whereas the period used for the findings on undercutting and underselling is the aforementioned IP.

3. **Provisional measures**

(11) Given the need to further examine certain aspects of injury, causation and Community interest, no provisional anti-dumping measures were imposed on IGH originating in Japan.

4. **Subsequent procedure**

(12) At that stage, additional information was requested, notably from the exporting producer, and all parties were informed of the Commission's preliminary assessment of the case. The Commission continued to seek and verify all information it deemed necessary for its definitive findings. In particular, further on-the-spot investigations were carried out at the premises of the exporting producer in Japan, of an unrelated importer in the Community and of users in the Community.

(13) All parties were informed of the essential facts and considerations on the basis of which it was intended to recommend the imposition of definitive anti-dumping duties. They were also granted a period within which they could make representations subsequent to this disclosure.

(14) The oral and written comments submitted by the parties were considered, and, where appropriate, the findings have been modified accordingly.

B. **PRODUCT UNDER CONSIDERATION AND LIKE PRODUCT**

1. **Product under consideration**

(15) The product under consideration is an internal gear hub, defined as a hub of a bicycle wheel with an integrated gear system with three or more gears, regardless of whether or not a braking system is integrated in the hub, attached to the hub or mounted on another part of the bicycle.

(16) The investigation has shown that the product concerned is exclusively used as an integrated gear hub of a bicycle wheel to operate the bicycle.

(17) The investigation has also shown that IGH consist of three basic types, namely 'coaster brake hubs' (where the gearing system, as well as the back-pedalling braking system, are integrated in the hub), 'drum brake hubs' (where the gearing system, as well as the hand-operated braking system, are integrated in the hub), and 'freewheel hubs' (where only the gearing system is integrated in the hub), all having the same basic physical and technical characteristics and uses.

(18) In this respect, the exporting producer and some other interested parties claimed that the above types of IGH had different physical characteristics. In particular they argued that users would regard coaster brake hubs (with back-pedalling braking system), and drum brake and freewheel hubs (with hand-operated braking systems) as different products due to the differences in the braking systems. On this basis, they claimed that the investigation should be limited to coaster brake hubs only.

(19) The investigation showed that the main physical and technical characteristic of an IGH is the gear-shifting mechanism itself, which is always integrated in the hub. An IGH consists of a set of gears integrated in a hub, and this in contrast to an external (dérailleur) gearing system. Whether or which type of braking system, if any, is additionally integrated in or attached to the hub, while relevant for calculations and price comparison purposes, does not affect the basic characteristics and use of an IGH and is thus irrelevant in respect of the definition of the product concerned.

(20) In addition, the investigation has shown that different types of IGH are interchangeable and that they have the same use and applications.

(21) In view of the above, the claim to exclude certain types of IGH from the scope of the present investigation had to be rejected, and all IGH containing a gear-shifting mechanism with three or more gears are considered as a single product for the purpose of this proceeding.

2. **Like product**

(22) The investigation has shown that the basic physical and technical characteristics of IGH produced and sold by the Community industry in the Community and IGH produced and sold on the domestic Japanese market, and of IGH imported into the Community from Japan are the same. Furthermore, the end use of IGH is the same.

(23) In view of the above it is concluded that all these products are alike within the meaning of Article 1(4) of Council Regulation (EC) No 384/96 ('the basic Regulation').

C. **DUMPING**

1. **Normal value**

(24) In order to establish normal value it was first determined whether the total volume of the domestic sales of the product concerned was representative in accordance with Article 2(2) of the basic Regulation, i.e. whether these domestic sales represented 5 % or more of the sales volume of the product concerned exported to the Community. It was established that this requirement was met.

(25) The exporting producer claimed that prices of some models sold on the domestic market which are very similar to exported models could be used to establish normal value if they were adjusted by differences in the costs of manufacturing. The Commission verified the degree of similarity between the 19 exported models concerned and two similar models sold on the domestic market and concluded that they were very similar and could be compared.

(26) It then was examined whether total domestic sales of each model exported to the Community constituted 5 % or more of the sales volume of the same model exported to the Community. It was found that only four models passed this test.

(27) For these four models, it was examined whether sufficient sales had been made in the ordinary course of trade in accordance with Article 2(4) of the basic Regulation.

(28) It was established, for three of the four models, that the volume of domestic sales above unit cost represented more than 80 % of sales and that the weighted average unit price in Japan was higher than the weighted average unit cost. Consequently, normal value for those three models was established on the basis of the weighted average price actually paid for all domestic sales of those models.

(29) For the fourth model, the volume of domestic sales above unit cost represented less than 10 % of sales. For this model and for all other models which were not sold in sufficient quantities in the Japanese market, normal value was constructed on the basis of the costs of manufacturing incurred by the exporting producer for the exported models in question plus a reasonable amount for selling, general and administrative expenses ('SG&A') and profit in accordance with Article 2(3), (5) and (6) of the basic Regulation. The amount of SG&A expenses was based on domestic sales of IGH, which were made in representative quantities. The profit margin was based on domestic sales of IGH in the ordinary course of trade.

2. **Export price**

(30) Approximately 40 % of export sales to the Community were made directly to independent customers and export prices for these were established on the basis of the prices actually paid or payable by these customers in accordance with Article 2(8) of the basic Regulation.

(31) The remaining sales were made to related companies based in the Community. Therefore, export prices for these sales were constructed pursuant to Article 2(9) of the basic Regulation, namely on the basis of the price at which the imported products were first resold to an independent buyer. In order to establish a reliable export price, adjustments were made for all costs incurred between importation and resale by those importers and for profits accruing. The profit margin applied was the weighted average profit margin of unrelated importers.

3. **Comparison**

(32) For the purposes of a fair comparison, due allowance, in the form of adjustments, was made for differences under Article 2(10) of the basic Regulation which affected price comparability. Accordingly, allowances were applied concerning physical characteristics, discounts, transport, insurance, handling, loading and ancillary costs, packing, credit costs, after-sales costs, commissions and currency conversions.

4. **Dumping margin**

(33) In accordance with Article 2(10) and (11) of the basic Regulation, the dumping margin was established on the basis of a comparison between the weighted average normal values and the weighted average export prices at ex-factory level for the same model and at the same level of trade.

(34) This comparison showed the existence of dumping, the dumping being equal to the amount by which the normal value exceeded the export price. Expressed as a percentage of the cif Community frontier import price, duty unpaid, the weighted average dumping margin is 36,6 %.

(35) The exporting producer represents the entirety of the Japanese exports of IGH to the Community. Accordingly, the residual dumping margin definitively established is set at the same level.

D. COMMUNITY INDUSTRY

1. Definition of the Community production

(36) At the time of the lodging of the complaint and during the IP there were two operators producing the product concerned on the Community market:

— the complainant,

— another Community producer ('the other Community producer') which accounted for less than 10 % of the total estimated Community production of IGH during the IP. The other Community producer did not reply to the questionnaire and did not take a position on the complaint.

(37) The exporting producer requested that the Commission review the figures with respect to the other Community producer. In this respect, it should be noted that given the lack of cooperation of the other Community producer, best facts available had to be used, which were in this case from both the complainant and the sole cooperating exporting producer. It was also found that this operator went into liquidation and ceased production shortly after the IP.

(38) Based on the above, the production of the complainant and the other Community producer constitute the total Community production within the meaning of Article 4(1) of the basic Regulation.

2. Definition of the Community industry

(39) It was found that the complaining cooperating Community producer represented a major proportion of the total Community production of the product concerned, in this case more than 90 %. It was therefore concluded that the complaining Community producer constituted the Community industry within the meaning of Article 5(4) and Article 4(1) of the basic Regulation. It is hereafter referred to as 'the Community industry'.

E. INJURY

1. Preliminary remark

(40) Given that there is only one cooperating exporting producer and that the Community industry comprises only one company, specific data relating to these companies have been indexed in order to preserve the confidentiality of the data submitted in accordance with Article 19 of the basic Regulation.

2. Community consumption

(41) Community consumption was established on the basis of the sales volumes of the Community industry, an estimate of the sales made by the other Community producer and the imports of the Japanese exporting producer onto the Community market. With respect to the sales of the other Community producer, the estimate was made on the basis of figures presented by the Community industry and the exporting producer. There were no imports originating in other third countries.

(42) On this basis, it was found that consumption of IGH decreased by 5 % during the period considered. While only decreasing by 4 % from 1996 to 1998, it went down by a further 8 % between 1998 and 1999. During the IP, consumption recovered to near 1998 levels.

3. Imports concerned

(a) *Volume of the imports concerned*

(43) Between 1996 and the IP the volume of imports concerned originating in the country concerned increased by a significant 23 %. While these imports decreased by 14 % from 1996 to 1998, they increased by as much as 43 % in the period 1998-IP. On a year-to-year basis, it emerged that despite the fall in consumption in 1999 (– 8 % compared to 1998), the imports concerned increased by 17 % in 1999 compared to 1998. The increase in the volume of these imports was even more pronounced between 1999 and the IP (+ 22 %).

(b) *Market share of the imports concerned*

(44) Over the period considered, the market share of the imports concerned increased by over 30 % in a declining Community market. Between 1996 and 1998, the market share held by the exporting producer decreased by 10 % but increased by 30 % between 1998 and 1999 and by a further 11 % between 1999 and the IP, in line with the above development of its import volume.

(c) *Average prices of imports concerned*

(45) Based on the information provided by the exporting producer, it appeared that between 1996 and 1998 prices of Japanese IGH sold on the Community market decreased by 5 %. They rose by 15 % in 1999 and by a further 2 % during the IP. In this context it should be noted that this price trend is exclusively based on the data submitted by the exporting producer, which could not be verified for all the period considered.

(d) *Price undercutting*

(46) For the determination of price undercutting, the prices of IGH sold by the Community industry were compared to the prices of the Japanese exporting producer on the Community market during the IP. This comparison was made for comparable types of IGH and at the same level of trade, namely for sales to the first independent customer.

(i) Comparability

(47) As explained above in recital 7, detailed information on product comparability for types of IGH sold on the Community market was requested in an additional questionnaire. The directly comparable types of IGH produced by the Japanese exporting producer and sold on the Community market, and those produced and sold by the Community industry on that market were identified on the basis of these replies.

(48) For the purpose of a meaningful price comparison, it was thus ensured that IGH could be compared on a type-by-type basis taking into account notably the number of gears.

(ii) Adjustments

(49) The Community industry claimed that certain IGH sold by the exporting producer on the Community market were equipped with hub shells made of aluminum, whereas the comparable hubs sold by them were exclusively equipped with hub shells made of steel. The Community industry claimed that the exporting producer's prices should therefore be adjusted downwards to reflect the market value of this material difference. The Japanese exporting producer, while acknowledging that an adjustment was appropriate, claimed that this should be in the order of not more than 5 %, by reference to differences in cost of production.

(50) In this respect, the investigation showed that more than 55 % of the 7-speed coaster brake hubs and 100 % of the 7-speed freewheel hubs sold by the exporting producer during the IP on the Community market were equipped with aluminum hub shells, whereas the Community industry exclusively sold comparable IGH with steel shells.

(51) Based on evidence available, in particular a price list of the exporting producer, it was found that IGH equipped with aluminum hub shells were, during the IP, priced about 22 % higher than the same IGH with steel hub shells. According to the transaction listing for the IP provided by the exporting producer, the prices effectively invoiced for the aluminum hubs were, however, only 11 % higher than the prices for the corresponding steel hubs.

(52) On this basis, it was considered that there was an objective market value difference between an IGH equipped with an aluminum shell and a hub equipped with a steel one. This difference was established at 11 % of the price of the aluminum hub.

(53) In addition, both the Community industry and the exporting producer, respectively, claimed that further adjustments should be made, on the basis of alleged differences in the product types under consideration. However, they were informed that none of the alleged differences were found to be objective and measurable notably in terms of market value. The additional claims from both parties therefore had to be rejected.

(iii) Price undercutting

(54) Based on the above, and further to the additional verifications carried out, two types of IGH (coaster brake hub and freewheel hub) representing around 78 % of the sales made by the Community industry on the Community market and around 85 % of the exports made by the Japanese exporter, were considered to be comparable and made at the same level of trade. The following IGH sold on the Community market by the Community industry and the exporting producer were compared with each other on a type-by-type basis:

— 3-speed coaster brake hubs,

— 7-speed coaster brake hubs,

— 3-speed freewheel hubs,

— 7-speed freewheel hubs.

(55) The sales prices considered for the exporting producer concerned were those at cif Community border level, including customs duties. The sales prices of the Community industry were adjusted where necessary to an ex-works level, i.e. excluding transport costs.

(56) The results of the comparison on a transaction to weighted-average basis showed that the average price undercutting margin, expressed as a percentage of the Community industry's average selling prices, was 6,8 % during the IP.

4. **Situation of the Community industry**

(a) *Preliminary remark*

(57) In accordance with Article 3(5) of the basic Regulation, the Commission examined all economic factors and indices having a bearing on the state of the Community industry on its domestic market.

(b) *Production, capacity and utilisation of capacity*

(58) During the period considered, the Community industry's production increased by 3 %.

(59) However, between 1998 and 1999 Community industry production significantly decreased by 19 %, whilst Community consumption in terms of volume decreased by only 8 % during the same period. Production then

recovered during the IP (+ 18 % by comparison with 1999) but was below the level of 1998. This increase in production, in spite of the decrease in the Community industry's sales volume on its domestic market, is explained by the increased export activities of the Community industry to other third countries during the IP.

(60) Given that production capacity did not change during the period considered, the trend in utilization of capacity was similar to the trend in production, remaining between 50 % and 65 %.

(c) *Volume of sales, market share and growth*

(61) From 1996 to the IP the Community industry's sales to unrelated customers in the Community decreased by 6 % in volume. During the period 1996-1998, in parallel with its increased production, the Community industry managed to increase its Community sales by 8 %. There then followed a 17 % fall in sales volume between 1998 and 1999. This decrease was far more pronounced than the decrease of the Community consumption during that period which was limited to − 8 %. The slight increase in sales volume between 1999 and the IP (+ 4 %) did not allow the Community industry to recover the volume previously lost.

(62) Although the Community industry's market share increased by 13 % between 1996 and 1998, it went back down to its 1996 level in the period 1998-IP. This should be seen in the light of the decrease in consumption. This situation coincided with a significant increase of 43 % in the volume of the imports concerned on the Community market in the same period.

(63) It should be noted that the exporting producer claimed that the Community industry had been able to increase its market share at the expense of the other Community producer during the period considered. However, the investigation has shown that this claim was not founded. In fact the increase in the Japanese exporting producer's market share during the IP was made at the expense of both the Community industry and the other Community producer in particular in the period 1998 to the IP. Actual sales figures show that the sales volume lost by the Community industry and the other Community producer during that period was completely taken over by the Japanese exporting producer.

(d) *Prices and factors affecting prices*

(64) During the period considered, the Community industry's average sales price of IGH on the Community market dropped significantly by 21 %. It should be noted in this context that neither the price differences between types of IGH nor the product mix of the Community industry on the Community market changed significantly during that period. Therefore, the decrease in average price is not due to any change in its product mix towards cheaper types of IGH.

(65) Whilst price lists indicate that Japanese prices seem to have increased over the period considered, it should be noted that they were still undercutting the Community industry's prices on the Community market by around 7 % on average during the IP. On this basis, it can also be assumed that a higher price differential between the Japanese exporting producer and the Community industry indeed existed during considerable parts of the period considered. This had the effect of depressing domestic prices to the extent that they were not profitable during the period considered. This was notably the case during the IP.

(e) *Inventories (stocks)*

(66) During the period considered, except between 1997 and 1998, the levels of stocks kept by the Community industry was rather low. This is notably due to the fact that the Community industry mainly produces for orders and does not produce to pile stocks. On this basis, the impact, if any, of stock movement on the situation of the Community industry, particularly during the IP was negligible. The evaluation of stocks does not appear to be a relevant factor in examining the economic situation of the Community industry.

(f) *Profitability and cash flow*

(67) As to profitability, the losses incurred by the Community industry in 1996 were between 5 % and 10 % of turnover. In 1997, the situation improved and profitability was close to break-even. Between 1997 and the IP, after the take-over of the Community industry (formerly Mannesmann Sachs) by SRAM Deutschland GmbH, the Community industry restructured its activities, thus reducing its costs of production by almost 20 %. Over the period considered, the cost reduction was indeed as high as 26 %. Notwithstanding this, the Community industry's profitability remained negative during the whole period considered.

(68) From the break-even situation in 1997, it could reasonably have been expected that the efforts made by the Community industry to restructure and reduce costs would lead to a profitable situation. However, the price depression experienced by the Community industry, in particular in 1999 and during the IP, undermined these efforts. This suggests that, without the restructuring of its activities, the Community industry's losses would have been even higher or that Community IGH production would have ceased completely. The losses incurred by the Community industry during the IP were around 3 % of turnover. It should be noted that this result does not take account of restructuring and extraordinary costs incurred by the Community industry during the period considered.

(69) The reduction in cost of production and in losses gave rise to an improvement of the cash flow generated by the Community industry during the period considered. In line with the evolution of the losses incurred by the Community industry, cash flow significantly deteriorated, in particular between 1997 and 1999, but recovered somewhat during the IP.

(g) *Investments, return on investments and ability to raise capital*

(70) Investments made in the period considered were particularly high in 1999. This is explained by the new IGH manufacturing facility set up in Germany which started to operate at the beginning of 1999. This investment shows that the company intends to remain an active player on the market and has a long term strategy for the product under consideration.

(71) In this respect, the investigation showed that the restructuring undertaken by the Community industry led to a slight improvement in the operating return on investments during the IP. However, this improvement does not detract from the fact that the Community industry's financial result remained negative during the whole period considered.

(72) Despite the financial losses incurred, the Community industry was not found to be experiencing serious difficulties in its ability to raise capital.

(h) *Employment, productivity and wages*

(73) Employment decreased by 17 % from 1997 to 1998 and remained stable until the IP despite the difficulties encountered by the Community industry.

(74) Given the level of production and the reduction in personnel employed, productivity was improved during the period from 1997 to the IP.

(75) The total amount of wages increased slightly during the period considered. The average wage per employee remained rather stable.

(i) *Magnitude of dumping margin*

(76) The impact on the Community industry of the magnitude of the actual margin of dumping cannot be considered to be negligible given the volume and the prices of the imports concerned. Indeed, the investigation showed that overall the imports originating in Japan were sold at dumped prices on the Community market during the IP. Price pressure on Community prices would obviously have been lower or even non-existent without dumping.

5. **Conclusion on injury**

(77) During the period considered the presence of imports originating in Japan significantly increased on the Community market and the main relevant injury indicators pertaining to the Community industry showed a negative development.

(78) This development was particularly evident between 1998 and the IP when the volume of the imports concerned increased by 43 % while Community consumption decreased by 1 %. This allowed the Japanese exporting producer to gain a significant additional share of the Community market (12 percentage points), mainly at the expense of the Community industry. In this context, it should be noted that the imports concerned were undercutting the Community industry's prices by around 7 % during the IP, and that the Community industry's sales prices were depressed, not reaching any profitable level.

(79) It was also found that the main negative development in the economic situation of the Community industry took place during the same period, namely from 1998-IP: its sales volume decreased by 13 % and its sales prices by 7 %. Production decreased by 4 % and the loss in market share incurred by the Community industry was as high as 7 percentage points. Despite restructuring efforts and cost reductions, profitability worsened and remained negative, and this in parallel with the sales price pressure faced by the Community industry on its domestic market.

(80) In the light of the foregoing, in particular the decrease in sales price, profitability and market share experienced by the Community industry, in the period from 1998 to the IP in particular, it is concluded that the Community industry has suffered material injury within the meaning of Article 3(1) of the basic Regulation during the IP.

F. **CAUSATION**

1. **Introduction**

(81) In accordance with Article 3(6) and (7) of the basic Regulation, it was examined whether the dumped imports of IGH originating in Japan caused injury to the Community industry to a degree that enables it to be classified as material. Known factors other than the dumped imports, which could at the same time be injuring the Community industry, were also examined to ensure that possible injury caused by these other factors was not attributed to the dumped imports.

2. **Effect of the dumped imports**

(82) During the period considered, the volume of dumped imports originating in Japan into the Community increased by 23 % and their market share rose by 39 %, a significant gain at the expense of producers in the Community.

(83) The link between the injury suffered by the Community industry and the dumped imports is demonstrated in particular by the developments observed from 1998 until the end of the IP. During this period, dumped imports originating in Japan increased by 43 % in terms of volume and the increase in the share of the Community market was as high as 44 %.

(84) It has been found that the Community industry was subject to price pressure, as evidenced by the price undercutting practised by the Japanese exporting producer and the evolution of the prices of the Community industry, which were depressed to a considerable extent. This price pressure was further aggravated by the fact that the IGH market is price transparent with only two operators. The above developments coincided with the significant declining trend of the main economic indicators pertaining to the Community industry from 1998 to the IP: its sales volume decreased by 13 %, and significant market share was lost. The average sales price decreased by 7 %. As a result, the Community industry continued to incur financial losses.

(85) It is concluded, therefore, that the dumped imports of IGH originating in Japan had a material impact on the injury suffered by the Community industry, within the meaning of Article 3(6) of the basic Regulation.

3. **Effect of other factors**

(86) In accordance with Article 3(7) of the basic Regulation, it was examined whether factors other than the dumped imports originating in Japan might have contributed to the material injury suffered by the Community industry to ensure that injury caused by these other factors is not attributed to the dumped imports. In this context, the following factors were examined: the allegedly higher prices of the Japanese exporting producer, the fall in consumption in 1999, the relocation of production of certain bicycle manufacturers to Central and Eastern European Countries (CEEC), the Community industry's export activities and, the situation of the other Community producer.

(a) *Allegedly higher prices of the exporting producer*

(87) A number of users contested the results of the price undercutting exercise and causal link between the dumped imports originating in Japan and the injury suffered by the Community industry. They claimed that prices of Japanese IGH were consistently higher than those of the Community industry during the IP.

(88) It should be noted that this claim was made mainly by parties which are not buying IGH directly from the exporting producer or its related companies on the Community market. In other words, these users compared the prices directly charged by the Community industry with prices charged by an intermediary sales company selling Japanese IGH. On this basis, contrary to the contents of recital 46 prices of IGH are not compared at the same level of trade and show unreliable results.

(89) The Commission established price undercutting by comparing the Japanese exporting producer's prices with the Community industry's prices at the same level of trade. As explained in recital 56, this comparison showed that price undercutting existed for a large number of IGH types and transactions during the IP. The undercutting found during the IP was in the order of 7 % on average of the sales price of the Community industry.

(90) As mentioned in recitals 64, 65 and 76, price undercutting by the Japanese exporting producer was found to exist during the IP and price depression was also found for the Community industry's prices during the period considered.

(91) Consequently the above argument is considered to be unsubstantiated and is therefore rejected.

(b) *Fall in consumption in 1999 and market development*

(92) It has been examined whether the fall in consumption in 1999 was a major factor contributing to the injury suffered by the Community industry. Given the presence of basically two major operators on the Community market, it was considered that the possible impact of the fall in consumption and the subsequent market development should be examined in the light of the performances of both operators.

(93) In 1999, as compared with 1998, the Community industry's sales volume decreased by around 18 %, whereas demand decreased by 8 %, i.e. to a much lesser degree. The Community industry also lost around 9 % of market share. During the same period, the exporting producer was able to increase its sales volume by 17 % and its market share by 30 %.

(94) During the IP, by comparison to 1999, the Community industry increased its sales volume by 4 % but its market share dropped by 4 %. In the meantime, the exporting producer was able to further increase its sales volume (22 %) and market share (11 %), namely to a much larger extent than the recovery of the market (8 %).

(95) Based on the above facts, it is clear that the deterioration of the Community industry's position in 1999 was more dramatic than any reduction in consumption. Similarly, when the market recovered during the IP, the performance of the Community industry was far below the market development. In the meantime, the dumped imports substantially improved their position on the Community market. Consequently, unlike dumped imports it is considered that the fall in consumption did not play any significant role in the injurious situation of the Community industry.

(c) *Relocation of production of certain bicycle manufacturers to Central and Eastern European Countries (CEEC) and export sales of the Community industry*

(96) The Japanese exporting producer argued that the decrease in the Community industry's sales volume during the period considered was caused by the contraction of demand on the Community market. This contraction was due to the shift of production of a number of the Community industry's customers from the Community to Central and Eastern European Countries (CEEC) in 1998. The exporting producer therefore argued that any loss of sales volume (and further injurious consequences) incurred by the Community industry on its domestic market was offset when taking into account the Community industry's export sales to CEEC.

(97) In this respect, it has been found that the number of bicycle manufacturers that relocated their production to certain CEEC during the period considered is likely to be rather small compared to Community consumption. Furthermore, the investigation did not show that the Community industry increased its export sales in 1998 or even in 1999 compared to previous years.

(98) There are indications that relocation was also undertaken by customers of the Japanese exporting producer. It has also been found that a number of bicycle manufacturers still retained their production in the Community while setting up production plants in certain CEEC, during the IP. The effect, if any, of such relocation on the situation of the Community industry cannot therefore be considered substantial during the period considered.

(99) An analysis of the export sales of the Community industry was also carried out. The analysis showed that from 1996 up to 1999, the Community industry's export sales to third countries represented around 8 % of its total sales, whereas they rose to 15 % during the IP. Had the export sales not increased, the loss of economies of scale and the impact on the unit cost of the Community industry's production would have been even higher, leading to even greater financial losses.

(100) Therefore, the argument that the relocation of bicycle production to Central and Eastern European Countries explains the fall in sales volume of the Community industry in its domestic market is rejected.

(d) *The other Community producer*

(101) It was further considered whether the other Community producer could have contributed to the injury suffered by the Community industry. However, on the basis of the facts available, the other Community producer lost around 60 % of sales and around 60 % of its market share during the period considered, remaining with a market share of around 6 % during the IP. It is therefore concluded that the other Community producer did not contribute to the injury suffered by the Community industry.

4. **Conclusion on causation**

(102) The substantially dumped imports which increased materially during the period considered, the price undercutting and the price depression found, all had significant negative consequences on the economic situation of the Community industry, notably in terms of sales prices and sales volumes, which in turn had an effect on market share and profitability. The impact of the dumped imports was such that it caused material injury to the Community industry. Based on the above facts and considerations, it is also concluded that any other factors which may have contributed to the injury suffered by the Community industry were not such as to break the causal link between the injury established and the impact of the dumped imports concerned.

G. **COMMUNITY INTEREST**

1. **Preliminary remarks**

(103) In order to determine whether the Community interest called for intervention, an investigation was carried out into the likely effects of the imposition/non-imposition of anti-dumping measures on the economic operators concerned. For this purpose, information was requested from all interested parties, including the Community industry, the unrelated importers/traders and the users of the product under consideration.

2. **Interest of the Community industry**

(104) It was found that the Community industry had been making considerable efforts during the period considered to improve its productivity, in a successful attempt to lower its costs of production and to enhance its competitiveness in the Community and world-wide. In this respect, the Community industry made a major investment in 1999, opening a new production site in order to further improve efficiency and production quality. This investment was decided upon at the time of the take-over of Mannesmann Sachs, in 1997, based on a reasonable assessment of market developments. During the period considered, the Community industry managed to reduce its costs by 26 % and increase its export sales. This indicates that the Community industry is viable and competitive and intends to continue

production of IGH in the Community unless it is driven out of the market by dumped imports. The large investment made by the Community industry also indicates that the company has a long term Community-based strategy for the product concerned. However, its future largely depends on the existence of fair conditions of competition and therefore on the absence of dumped and injurious imports on the Community market.

(105) In view of the nature of the injury suffered by the Community industry, it is considered that, in the absence of anti-dumping measures, a further deterioration in the situation of the Community industry is unavoidable. This will most likely entail further injury and in the medium term even the disappearance of that industry. The adoption of anti-dumping measures would therefore be in the interest of the Community industry.

3. **Interest of unrelated importers and traders**

(106) Of the ten unrelated importers contacted, eight submitted meaningful replies to the questionnaire. They represent about 21 % of Community imports and 8 % of Community consumption. All of them were exclusive distributors of the Japanese exporting producer.

(107) As far as these eight cooperating importers are concerned, the IGH segment represented on average 2,4 % (varying between 0 % and 8 %) of their total turnover during the IP.

(108) The likely average impact of the proposed anti-dumping duty on the importers' overall profitability was examined. Given the small share of the IGH segment in their overall turnover, the maximum negative impact of the proposed measures on the eight importers is likely to be negligible.

(109) Consequently, given the average proportion of the IGH segment in their total activities, and bearing in mind the level of the measures proposed, it is considered that the interests of importers will not be affected to any significant overall extent.

4. **Interest of users**

(110) Users of the product under consideration are bicycle manufacturers and assemblers, as well as certain retailers in the Community. Of the users contacted, 35 submitted a meaningful reply to the questionnaire. These 35 users represented around 32 % of total IGH consumption in the Community. Submissions were also received from associations of users in the Community.

(111) It was found that these users actually achieve an average profit margin of around 3 % on their overall activities, and of around 11 % with respect to bicycles equipped with IGH.

(112) During the IP, the sale of bicycles equipped with IGH (the latter being of either Japanese or Community origin) represented about 25 % of the users' total turnover.

(113) In view of the limited proportion of bicycles equipped with IGH in their total activities, and bearing in mind the level of the measures proposed and the profitability situation of the cooperating users, it is concluded that the possible negative effects of the measures proposed on users cannot be considered such as to outweigh the expected benefits for the Community industry.

5. **Competition and trade distorting effects**

(114) It was found that the Community industry basically only produces and sells the product under consideration, whereas the exporting producer is a major player for all bicycle components especially on the Community market but also world-wide. In view of the price-undercutting found, the existing price pressure, the financial losses and the loss of market share experienced, it cannot be excluded that the Community industry will struggle to remain an effective player on the market. The exporting producer's overall strong position on the Community market, where it only faces competition for IGH, and the level of the measures, make it unlikely, from an economic point of view, that the Community market will be foreclosed to its imports The continued presence of its IGH will therefore be ensured in the event of the imposition of anti-dumping measures.

(115) Some parties have further alleged that the measures would reduce users' and consumers' choice and prevent them from benefiting from the innovations developed by the Japanese exporting producer. However, as outlined above, it is considered that IGH originating in Japan will continue to be available on the Community market in the future due to both the strong position of the exporting producer on the Community market for a large number of bicycle parts and the importance of the Community market for the exporting producer.

(116) Thus users and consumers will continue to have the choice between the competing products, albeit at non-injurious prices. Conversely, such freedom of choice would be affected if the Community industry was allowed to disappear, which is not excluded if anti-dumping measures were not imposed.

(117) Measures, therefore, are expected to re-establish fair and effective competition on the Community market, merely correcting the distorting effects of the injurious dumping practised by the Japanese exporting producer. Not imposing measures in the present case would maintain and amplify the distortion of competition, resulting in a further deterioration in the situation of the Community industry. Were the Community industry to disappear, reduced competition and less choice for users and consumers on the Community market would be the result.

6. **Conclusion on Community interest**

(118) On the basis of the above facts and considerations, it is concluded that there are no compelling reasons on the ground of Community interest against the imposition of anti-dumping measures on imports of IGH originating in Japan.

H. **PROPOSED MEASURES**

1. **Injury elimination level**

(119) Having established that the dumped imports under consideration have caused material injury to the Community industry and that there are no compelling reasons against the imposition of measures, an anti-dumping duty should be imposed at a level sufficient to eliminate the injury caused without exceeding the dumping margin found.

(120) When calculating the amount of duty necessary to remove the effects of the injurious dumping, it was considered that any measures should allow the Community industry to cover its costs of production and to obtain a reasonable pre-tax profit that could be achieved in the absence of dumped imports.

(121) On this basis it was found that a profit margin of 8 % on total turnover could be regarded as an appropriate minimum which the Community industry could reasonably have expected to obtain in the absence of injurious dumping, account being taken of its successful and cost-reducing restructuring efforts and the need for long-term investments by the Community industry. World-wide, there are only two large markets for IGH: the Community market and the Japanese market where dumped imports are absent. Given the significantly higher profit realised in Japan, it is considered that the above margin of profit is very conservative.

(122) Accordingly, injury elimination levels were determined as the difference between the cost of production of the Community industry, increased by the abovementioned profit margin on the one hand, and the adjusted actual net sales price of the imported IGH used for the price undercutting calculations on the other. This difference was then expressed as a percentage of the net, free-at-Community-frontier price, before duty. The result of this calculation was an injury margin of 11,3 %.

2. **Definitive anti-dumping duty**

(123) In the light of the foregoing, and in accordance with the lesser duty rule as set out in Article 9(4) of the basic Regulation, it is considered that a definitive anti-dumping duty should be set at the level of the injury margin.

(124) As the sole known Japanese exporting producer accounts for substantially all exports to the Community originating in Japan, the residual duty is set at the same level.

(125) On the basis of the above, the proposed definitive duty rate, expressed as a percentage of the net, free-at-Community-frontier price, before duty, is as follows:

Company	Rate of anti-dumping duty	TARIC additional code
Shimano Inc.	11,3 %	A252
All other companies	11,3 %	A999

HAS ADOPTED THIS REGULATION:

Article 1

1. A definitive anti-dumping duty is hereby imposed on imports of internal gear hubs of a bicycle wheel with an integrated gear system with three or more gears, regardless of whether or not a braking system is integrated in the hub, attached to the hub or mounted on another part of the bicycle, currently classifiable within CN code ex 8714 99 90, (TARIC code: 8714 99 90*91) and originating in Japan.

The duty also applies to coaster braking hubs and hub brakes falling under CN code ex 8714 94 10 and hubs without free-wheel of braking device, other than coaster braking hubs and hub brakes falling under CN code ex 8714 93 10, both combined with an integrated gear system with three or more gears (TARIC codes: 8714 94 10*10, 8714 93 10*10) originating in the same country.

2. The rate of definitive anti-dumping duty applicable to the net free-at-Community-frontier price, before duty, for the product originating in Japan shall be as follows:

Company	Rate of anti-dumping duty	TARIC additional code
Shimano Inc.	11,3 %	A252
All other companies	11,3 %	A999

3. Unless otherwise specified, the provisions in force concerning customs duties shall apply.

Article 2

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Communities*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Luxembourg, 23 October 2001.

For the Council

The President

A. NEYTS-UYTTEBROECK