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MEMORANDUM TO: James J. Jochum
Assistant Secretary
for Import Administration

FROM: Jeffrey May
Deputy Assistant Secretary
for Import Administration

Date: July 6, 2004

Subject: Issues and Decision Memorandum for the Final Results of the Sixth Antidumping Duty Administrative Review and Ninth New Shipper Review on Brake Rotors from the People's Republic of China – April 1, 2002, through March 31, 2003

Summary

We have analyzed the comments of the interested parties in the sixth administrative review and ninth new shipper review of the antidumping duty order covering brake rotors from the People's Republic of China (PRC). As a result, we have made changes in the margin calculations as discussed in the "Margin Calculations" section of this memorandum. We recommend that you approve the positions we have developed in the "Discussion of the Issues" section of this memorandum. Below is the complete list of the issues in these reviews for which we received comments by parties:

Issues:

1. Whether to revise the methodology used in the preliminary results to calculate the surrogate selling, general and administrative expense (SG&A) for Kalyani Brakes Limited (Kalyani)

2. Whether to continue to use data contained in Rico Auto Industries Limited's (Rico) 2000-2001 financial statement to calculate surrogate ratios for factory overhead, SG&A and profit

Background

On March 5, 2004, the Department of Commerce (the Department) published the preliminary results and partial rescission of the sixth administrative review, and the preliminary results and final partial rescission of the ninth new shipper review of the antidumping duty order on brake rotors from the PRC. See Brake Rotors from the People's Republic of China: Preliminary Results and Preliminary Partial Rescission of the Sixth Antidumping Duty Administrative Review and Preliminary Results and Final Partial Rescission of the Ninth New Shipper Review, 69 FR 10402 (March 5, 2004) (Preliminary Results).

The products covered by this order are brake rotors made of gray cast iron, whether finished, semifinished, or unfinished, ranging in diameter from 8 to 16 inches (20.32 to 40.64 centimeters) and in weight from 8 to 45 pounds (3.63 to 20.41 kilograms). The period of review (POR) is April 1, 2002, through March 31, 2003. We invited parties to comment on our preliminary results of these reviews. On May 10, 2004, the petitioner[1] submitted its case brief, and on May 17, 2004, the respondents[2] submitted their rebuttal brief. There was no request for a hearing in this segment of the proceeding.

Margin Calculations

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[1] The petitioner is the Coalition for the Preservation of American Brake Drum and Rotor Aftermarket Manufacturers.

[2] The names of the respondents in these reviews are as follows: (1) China National Industrial Machinery Import & Export Corporation (CNIM); (2) Hongfa Machinery (Dalian) Co., Ltd. (Hongfa); (3) Laizhou Automobile Brake Equipment Company, Ltd. (LABEC); (4) Laizhou City Luqi Machinery Co., Ltd. (Luqi); (5) Laizhou Hongda Auto Replacement Parts Co., Ltd. (Hongda); (6) Longkou Haimeng Machinery Co., Ltd. (Haimeng); (7) Longkou TLC Machinery Co., Ltd. (LKTLC); (8) Qingdao Gren (Group) Co. (GREN); (9) Qingdao Meita Automotive Industry Company, Ltd. (Meita); (10) Shandong Huanri (Group) General Company (Huanri General); (11) Shanxi Fengkun Metallurgical Limited Company (Shanxi Fengkun); (12) Yantai Winhere Auto-Part Manufacturing Co., Ltd. (Winhere); (13) Zibo Golden Harvest Machinery Limited Company (Golden Harvest); (14) Zibo Luzhou Automobile Parts Co., Ltd. (ZLAP); (15) Xianghe Xumingyuan Auto Parts Co. (Xumingyuan); (16) Xiangfen Hengtai Brake System Co., Ltd. (Hengtai); (17) China National Machinery and Equipment Import & Export (Xinjiang) Corporation (Xinjiang); (18) China National Automotive Industry Import & Export Corporation (CAIEC); (19) Laizhou CAPCO Machinery Co., Ltd. (Laizhou CAPCO); (20) Laizhou Luyuan Automobile Fittings Co. (Laizhou Luyuan); and (21) Shenyang Honbase Machinery Co., Ltd. (Shenyang).

We calculated export price and normal value using the same methodology stated in the preliminary results except in our calculation of the surrogate ratios for factory overhead, SG&A and profit. For the final results, we calculated average surrogate percentages for factory overhead, SG&A, and profit using the 2002-2003 financial data of Kalyani and Mando Brake Systems India Limited (Mando)[3].

1. We removed Rico's 2000-2001 financial data from the average surrogate financial ratio calculations (see Comment 2 below for further details).

2. We made adjustments to the surrogate financial ratios based on the issues raised in Comment 1 below and the updated financial statements.

3. We corrected a missing data problem in ZLAP's factors of production database which we inadvertently did not do in the preliminary results.

Discussion of the Issues

Comment 1: Whether to revise the methodology used in the preliminary results to calculate the surrogate SG&A expense for Kalyani

The petitioner argues that the Department erred in its calculation of the surrogate ratio for SG&A in the preliminary results of these reviews. Specifically, the petitioner argues that the Department should not have deducted sales of scrap, cash discounts or interest income from Kalyani's SG&A expense calculation. Citing the Final Results of Antidumping Duty Administrative Review: Persulfates from the People's Republic of China, 64 FR 69494 (December 13, 1999) at Comment 9 (Persulfates from the PRC), the petitioner maintains that the Department should not have subtracted sales of scrap from SG&A because in the standard cost of production calculations the Department treats scrap sales as an offset to material cost. Furthermore, the petitioner contends that the Department should not have subtracted cash discounts from Kalyani's surrogate SG&A calculation because the respondents in these reviews claimed that they did not grant cash discounts during the POR. The petitioner maintains that the cash discounts granted by Kalyani should have been included as a selling expense in its SG&A calculation. In addition, the petitioner argues that the Department should not have subtracted interest income from Kalyani's surrogate SG&A calculation because Kalyani's financial statement does not itemize short- and long-term interest income. The petitioner maintains that the Department cannot assume that the interest income earned by Kalyani is entirely related to short-term activities. Moreover, the petitioner contends that the Department overstated Kalyani's interest income by including income on the sale of fixed assets and miscellaneous income.

[3] For purposes of the preliminary results, we used the 2000-2001 financial statements of Kalyani, Mando and Rico. In its March 25, 2004, submission the petitioner placed on the record of these reviews updated financial statements (i.e., 2002-2003) for Kalyani and Mando.

The respondents did not comment on the sales of scrap issue.

The respondents argue that the Department properly excluded cash discounts from the SG&A calculation. The respondents maintain that because they did not offer cash discounts during the POR, it would be inappropriate to include this expense in the surrogate SG&A calculation. In addition, the respondents argue that the Department should allocate interest income to accounts that are short-term in nature. Similar to the petitioner's argument that the Department cannot assume that the interest income in Kalyani's financial statement is all related to short-term activities, the respondents contend that the Department cannot assume that the interest income is all related to long-term activities either. Moreover, the respondents note that because the Indian financial statements are ambiguous, the Department has made assumptions when interpreting the data. For example, the Department allocates a percentage of depreciation of automobiles to factory overhead and SG&A. Likewise, the respondents argue that an allocation could be used to account for both long- and short-term interest income in calculating the surrogate SG&A. If the Department decides not to make an allocation for long-term and short-term interest income, the respondents assert that at a minimum the Department should draw inferences from the Indian financial statements to allocate a percentage of the interest income, which can be attributed to short-term accounts (e.g., Kalyani's current and margin accounts), and credit the surrogate SG&A expenses by this percentage.

Department's Position:

We agree with the petitioner that we erred in the preliminary results calculation of the surrogate ratio for SG&A by inappropriately making adjustments for/to certain line items (i.e., sales of scrap and cash discounts) in Kalyani's financial statement. Based on a review of Kalyani's financial statement and the Department's practice concerning scrap and cash discounts, we determined that our preliminary treatment of these line items was erroneous because we should not have included these items in the SG&A calculation. For sales of scrap, it is the Department's practice to make an offset to cost of manufacturing (COM), not an adjustment to SG&A. As for cash discounts, the Department does not consider this a selling expense but rather a reduction to sales revenue. Although Kalyani's financial statements list its cash discounts as an expense, the Department cannot treat a revenue item as an expense without additional information on the record suggesting otherwise. Such treatment would overstate the actual expenses and distort the SG&A calculation. Therefore, for the final results of these reviews, we have corrected these clerical errors by offseting Kalyani's COM by its sales of scrap and removing these line items from Kalyani's SG&A calculation.

Furthermore, we note that both the petitioner and the respondents point out that the respondents in these reviews claimed they did not offer cash discounts. This point is irrelevant because, in addition to the reason stated above, it is the Department's well-established practice not to tailor surrogate overhead or SG&A rates to match the circumstances of the PRC producers (see the Final Results of 1996-1997 Antidumping Duty Administrative Review and New Shipper Review and Determination Not To Revoke Order in Part: Tapered Roller Bearings and Parts Thereof, Finished and Unfinished,

from the People's Republic of China, 63 FR 63842 (November 17, 1998) at Comment 18 (TRBs from the PRC) ; see also Comment 5 of Persulfates from the PRC).
With respect to the petitioner's and the respondents' arguments concerning interest income in Kalyani's SG&A calculation, we have reexamined our preliminary interest income calculation. Based on our review of Kalyani's financial statement, all of Kalyani's interest bearing assets appear to be short-term in nature. Therefore, we have subtracted an amount from SG&A to account for the interest income associated with these items. Furthermore, since we could not determine the nature of certain line items (i.e., miscellaneous, dividend and sundry credit balances)[4], we are no longer including these items in our SG&A calculation. In addition, we have continued to make an offset to Kalyani's SG&A calculation for the income generated from the sale of fixed assets. Because, like the losses associated with sales of fixed assets, the SG&A calculation should reflect an adjustment for both the profit and losses on these items. (We note that in the preliminary results of these reviews the adjustment for income generated from the sale of fixed assets was improperly incorporated within the interest income calculation.)

All adjustments made to Kalyani's financial statement were taken into account when calculating the surrogate financial ratios from Mando's financial statement.

Comment 2: Whether to continue to use data contained in Rico's 2000-2001 financial statement to calculate surrogate ratios for factory overhead, SG&A and profit

The petitioner argues that the Department should not use the 2000-2001 financial statement of Rico to calculate the surrogate ratios for factory overhead, SG&A and profit. Specifically, the petitioner contends that Rico's 2000-2001 financial statement is not contemporaneous with the POR and that it covers a different period than the financial statements of the other producers. In addition, the petitioner notes that if the Department continues to use Rico's 2000-2001 financial statement, and if it were to include interest income in the surrogate SG&A expense calculation, the Department should use "interest received" instead of "miscellaneous receipts" to calculate the surrogate SG&A expense.

The respondents argue that the Department should continue to use Rico's 2000-2001 financial data to calculate the surrogate ratios for factory overhead, SG&A and profit. The respondents maintain that in this proceeding the Department has a well-established practice to rely on multiple financial statements even when not all of the financial statements are contemporaneous with the POR (see Preliminary Results of the Third New Shipper Review and Preliminary Results and Partial Rescission of Second Antidumping Duty Administrative Review: Brake Rotors from the People's Republic of China, 64 FR 73001 (December 29, 1999) (Third New Shipper and Second Administrative Reviews of Brake Rotors from the PRC) to ensure that the surrogate financial ratios represent the Indian brake rotor industry as broadly as possible. Furthermore, the respondents contend that it is the Department's practice not to sacrifice the representativeness of earlier surrogate producer financial data for more

[4] These line items were included in the interest income calculation in the preliminary results.

recent financial data, if the earlier data help render a more complete portrayal of the surrogate industry. Moreover, the respondents argue that if the Department excluded a financial statement solely because it pre-dated the POR, the resulting, abridged calculation of surrogate financial ratios would be a less representative portrayal of the Indian surrogate industry. Therefore, the respondents contend that the Department should keep in-line with its established practice and continue to rely on the broadest representation possible of the Indian brake rotor industry to minimize the chance of distortion.

Department's Position:

We agree with the petitioner that we should not continue to use Rico's 2000-2001 financial statement to calculate the surrogate ratios for factory overhead, SG&A and profit because we have financial data from two other Indian producers (i.e., Kaylani and Mando) of identical merchandise, which are more contemporaneous with the POR. With respect to the respondents' concerns that the surrogate financial ratios represent the Indian brake rotor industry as broadly as possible to minimize the chance of distortion, it is generally the Department's preference to use more than one surrogate producer's financial data to reflect a broader representation of the experience of the surrogate industry where more than one producer's financial data is available on the record (see e.g., Final Results of First New Shipper Review and First Antidumping Duty Administrative Review: Certain Preserved Mushrooms from the People's Republic of China, 66 FR 31204 (June 11, 2001) at Comment 3). Based on the information on the record of these reviews, we find that the financial data from two Indian producers of identical merchandise are sufficient for this purpose. Furthermore, although it is the Department's practice, on a case-by-case basis, to consider a variety of factors (e.g., representativeness, specificity and quality) in its selection of surrogate financial data, in most cases, we prefer to use more contemporaneous financial data from which to derive the financial ratios if the other factors are satisfied (see e.g., Final Determination of Sales at Less Than Fair Value: Certain Ball Bearings and Parts Thereof From the People's Republic of China, 68 FR 10685 (March 6, 2003) at comment 1D). In this case, we consider Rico's 2000-2001 financial data to be less contemporaneous with the POR relative to the other financial data on the record which also satisfy the factors previously enumerated. Therefore, for the final results of these reviews, we have excluded Rico's 2000-2001 financial data as a surrogate source for valuing the financial ratios.

Recommendation

Based on our analysis of the comments received, we recommend adopting all of the above positions. If these recommendations are accepted, we will publish the final results of these reviews and the final weighted-average dumping margins for the reviewed firms in the Federal Register.

Agree____ Disagree____

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James J. Jochum
Assistant Secretary
for Import Administration

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(Date)