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November 29, 2013

MEMORANDUM TO: Ronald K. Lorentzen
Acting Assistant Secretary
for Enforcement and Compliance

FROM: Edward C. Yang
Director, Office VII
Antidumping and Countervailing Duty Operations

CASE: Frontseating Service Valves from the People's Republic of China

SUBJECT: Issues and Decision Memorandum for the Final Results of the 2011-2012 Administrative Review

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SUMMARY:

For the final results of the 2011-2012 administrative review of the antidumping duty order on frontseating service valves ("FSV") from the People's Republic of China, we have analyzed all case and rebuttal briefs filed in this segment. The case and rebuttal briefs were filed by Zhejiang Sanhua Co., Ltd. ("Sanhua") and Parker-Hannifin Corporation ("Petitioner"). As a result of this analysis, we have made certain changes to the margin calculations for Sanhua. We recommend that you approve the positions provided in the "Discussion of the Issues" section of this memorandum.

BACKGROUND

On May 13, 2013, the Department of Commerce ("the Department") published the preliminary results of the subject administrative review of the order.[1] At that time, we invited interested parties to comment on our preliminary results.

Subsequent to the *Preliminary Results*, the following events occurred. On May 31, 2013, Sanhua requested an administrative hearing to discuss case and rebuttal briefs to be filed.[2] On June 17, 2013, Petitioner and Sanhua submitted publicly-available surrogate value ("SV") data to value respondents' factors of production.[3] Sanhua submitted an amendment to its SV data the following day.[4] On June 27, 2013, Petitioner and Sanhua submitted SV rebuttal comments.[5]

We conducted a verification of Sanhua's questionnaire responses from August 5 through August 9, 2013.[6] On August 27, 2013, we issued a no shipments inquiry to U.S. Customs and Border Protection ("CBP") to confirm the claim made by Zhejiang DunAn Hetian Metal Co., Ltd. ("DunAn") that it had no reviewable entries during the period of review ("POR").[7] On August 29, 2013, we extended the deadline for completing the final results until November 12, 2013, in accord with section 751(a)(3)(A) of the Tariff Act of 1930, as amended ("the Act").[8]

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[1] *See Frontseating Service Valves From the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review; 2011–2012,* 78 FR 27954 (May 13, 2013) ("*Preliminary Results*").

[2] *See* Frontseating Service Valves from the People's Republic of China; A-570-933; Request for a Hearing by Zhejiang Sanhua Co., Ltd.

[3] *See* Letter from Petitioner, "Petitioner's Submission of Surrogate Values for Final Results in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated June 17, 2013; *see also* Letter from Sanhua, " Frontseating Service Valves from the People's Republic of China; A-570-933; Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 17, 2013.

[4] *See* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Addendum to Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 18, 2013; *see also* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Company Certification for Addendum to Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 19, 2013.

[5] *See* letter from Petitioner, "Petitioner's Submission of Rebuttal Surrogate Value Data in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated June 27, 2013; *see also* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Rebuttal Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 27, 2013.

[6] *See* Memorandum to Melissa Skinner, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves ("FSVs") from the People's Republic of China ("PRC"): Verification of Zhejiang Sanhua Co., Ltd.," dated September 23, 2013.

[7] *See* No Shipments Inquiry For Frontseating Service Valves From The People's Republic Of China Exported By Zhejiang Dunan Hetian Metal Co., Ltd. (A-570-933), MESSAGE NO: 2240301, MESSAGE DATE: 08/27/2012.

[8] *See* Memorandum to Gary Taverman, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: Extension of Deadline for Final Results of Antidumping Duty Administrative Review," dated August 29, 2013.

Ultimately, the interested parties responded to the Department's request for comments. In particular, we received case briefs from Petitioner and Sanhua on October 17, 2013,[9] and rebuttal briefs from the same parties on October 23, 2013.[10] At Sanhua's request, as noted above, we held a hearing on October 29, 2013.[11]

As explained in the memorandum from the Assistant Secretary for Enforcement and Compliance, the Department has exercised its discretion to toll deadlines for the duration of the closure of the Federal Government from October 1, through October 16, 2013.[12]

SCOPE OF THE ORDER

The merchandise covered by this order is frontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof. Frontseating service valves contain a sealing surface on the front side of the valve stem that allows the indoor unit or outdoor unit to be isolated from the refrigerant stream when the air conditioning or refrigeration unit is being serviced. Frontseating service valves rely on an elastomer seal when the stem cap is removed for servicing and the stem cap metal to metal seat to create this seal to the atmosphere during normal operation.[13]

For purposes of the scope, the term "unassembled" frontseating service valve means a brazed subassembly requiring any one or more of the following processes: the insertion of a valve core pin, the insertion of a valve stem and/or O ring, the application or installation of a stem cap, charge port cap or tube dust cap. The term "complete" frontseating service valve means a product sold ready for installation into an air conditioning or refrigeration unit. The term "incomplete" frontseating service valve means a product that when sold is in multiple pieces, sections, subassemblies or components and is incapable of being installed into an air conditioning or refrigeration unit as a single, unified valve without further assembly.

The major parts or components of frontseating service valves intended to be covered by the scope under the term "certain parts thereof" are any brazed subassembly consisting of any two or more of the following components: a valve body, field connection tube, factory connection tube

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[9] *See* letter from Petitioner, "Frontseating Service Valves from the People's Republic of China; A-570-933; Petitioner's Case Brief," dated October 17, 2013 ("Petitioner's Case Brief"); *see also* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Case Brief by Zhejiang Sanhua Co., Ltd.," dated October 17, 2013 ("Sanhua's Case Brief").

[10] *See* letter from Petitioner, "Frontseating Service Valves from the People's Republic of China; A-570-933; Petitioner's Rebuttal Case Brief," dated October 23, 2013; *see also* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Rebuttal Brief of Zhejiang Sanhua Co., Ltd.," dated October 23, 2013 ("Sanhua's Rebuttal Brief").

[11] *See* hearing transcript, "In the Matter of the Antidumping Duty Order on Frontseating Service Valves ("FSVs") from the PRC (A-570-933) (4/1/2011-3/31/2012)," filed November 6, 2013.

[12] *See* Memorandum to the File, "Frontseating Service Valves From the People's Republic of China: Tolling of Deadlines for Shutdown of the Federal Government," dated October 18, 2013.

[13] The frontseating service valve differs from a backseating service valve in that a backseating service valve has two sealing surfaces on the valve stem. This difference typically incorporates a valve stem on a backseating service valve to be machined of steel, where a frontseating service valve has a brass stem. The backseating service valve dual stem seal (on the back side of the stem), creates a metal to metal seal when the valve is in the open position, thus, sealing the stem from the atmosphere.

or valve charge port. The valve body is a rectangular block, or brass forging, machined to be hollow in the interior, with a generally square shaped seat (bottom of body). The field connection tube and factory connection tube consist of copper or other metallic tubing, cut to length, shaped and brazed to the valve body in order to create two ports, the factory connection tube and the field connection tube, each on opposite sides of the valve assembly body. The valve charge port is a service port via which a hose connection can be used to charge or evacuate the refrigerant medium or to monitor the system pressure for diagnostic purposes.

The scope includes frontseating service valves of any size, configuration, material composition or connection type. Frontseating service valves are classified under subheading 8481.80.1095, and also have been classified under subheading 8415.90.80.85, of the Harmonized Tariff Schedule of the United States ("HTSUS"). It is possible for frontseating service valves to be manufactured out of primary materials other than copper and brass, in which case they would be classified under HTSUS subheadings 8481.80.3040, 8481.80.3090, or 8481.80.5090. In addition, if unassembled or incomplete frontseating service valves are imported, the various parts or components would be classified under HTSUS subheadings 8481.90.1000, 8481.90.3000, or 8481.90.5000. The HTSUS subheadings are provided for convenience and customs purposes, but the written description of the scope of this order is dispositive.

DISCUSSION OF THE ISSUES

Comment 1: Adverse Facts Available

Petitioner

- The Department should find that Sanhua did not act to the best of its ability because Sanhua failed to properly report its factors of production ("FOPs"). Sanhua did not include the FOPs for all products manufactured that fall within the control numbers ("CONNUMs") reported to the Department.[14] Sanhua also erroneously reported its direct material consumption and used improper and erroneous allocation methods to determine its reported scrap offsets.[15] Therefore, the Department should deem Sanhua to have failed verification because Sanhua's reported FOPs are unreliable. As such, the Department should base Sanhua's final margin on an adverse inference of either the highest transaction margin for any individual transaction or, alternatively, the margin alleged in the original petition of 55.62 percent.[16]
- In the event that the Department determines that total adverse facts available ("AFA") is not warranted, the Department should nevertheless apply adverse inferences relating to various data flaws, including incomplete reporting, understated material consumption, and overstated scrap generation.[17]

[14] Petitioner refers to Memorandum To Melissa Skinner, Office Director, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves ("FSVs") from the People's Republic of China ("PRC"): Verification of Zhejiang Sanhua Co., Ltd.," dated September 23, 2013 ("Sanhua Verification Report") at 12-13.
[15] Petitioner points to Sanhua Verification Report at 20 and 26-27.
[16] Petitioner cites *Frontseating Service Valves from the People's Republic of China: Initiation of Antidumping Duty Investigation*, 73 FR 20250 (April 15, 2008).
[17] Petitioner refers to the Sanhua Verification Report at 11-13, 20, and 26-29.

- The Department should reject Sanhua's allegation that its FOPs require no adjustment by the Department because it is inevitable that a product might be allocated more or less input and scrap, which will lead to a difference between the net FOP weight and the sample finished product weight.[18] Instead, the Department should, to the extent Sanhua's data are used for the final results, make corrections based on adverse inferences.
- Contrary to Sanhua's characterization that the application of any adverse inferences would be unfair, simply correcting Sanhua's data to reflect all verification findings, whether favorable or unfavorable, would not provide an incentive for Sanhua to avoid such errors in the future.

Sanhua

- The facts of the record do not support the application of AFA. Sanhua reported its FOPs for this proceeding in accordance with the methodology it has used during the prior segments of the case.[19] Moreover, the Department did not inform Sanhua during this proceeding that its reporting methodology was incomplete, unreliable, or required modification. The FOP information for all products is available from Sanhua's responses on record of this case and, as such, Sanhua did not withhold any FOP information.
- The antidumping law requires the Department to accept information submitted by an interested party even if it does not meet all of the Department's requirements.[20] Sanhua's information meets the Department's requirements in that the information was timely submitted, verified, complete, reliable, and can be used without difficulty to reach a determination. Sanhua cooperated fully with the Department at every stage and submitted the information to the best of its ability based on its understanding of the requirements.
- While the Department may change methodologies in a review, it may not make changes where a respondent has specifically relied on a methodology in multiple preceding segments of a case.[21]

Department's Position: We agree with Sanhua that the application of total AFA is not warranted in this case.

Section 776(a)(1) of the Act states that the Department shall use facts otherwise available if necessary information is not available on the record of a proceeding. In addition, section 776(a)(2) of the Act also provides that the Department shall, subject to section 782(d) of the Act, use facts otherwise available if an interested party or any other person: (A) withholds information that has been requested by the Department; (B) fails to provide such information by the deadlines for the submission of the information or in the form and manner requested, subject to subsections (c)(1) and (e) of section 782; (C) significantly impedes a proceeding; or (D) provides such information but the information cannot be verified, as provided in section 782(i).

[18] Petitioner refers to Sanhua's Case Brief at 33.
[19] Sanhua cites to its Section D submissions in the less-than-fair- value ("LTFV") investigation and the first and second administrative reviews of this case. *See, e.g.*, Sanhua's Case Brief at 10-11 and 14.
[20] Sanhua refers to section 782(e) of the Act.
[21] Sanhua cites *Shikoku Chemicals Corp. v. United States*, 16 CIT 382, 795 F.Supp 417 (1992) ("*Shikoku Chemicals*").

Section 782(d) of the Act provides that if the Department determines that a response to a request for information does not comply with the request, the Department will so inform the party submitting the response and will, to the extent practicable, provide that party the opportunity to remedy or explain the deficiency. If the party fails to remedy the deficiency within the applicable time limits, the Department may, subject to section 782(e) of the Act, disregard all or part of the original and subsequent responses, as appropriate.

Section 776(b) of the Act further provides that the Department may use an adverse inference in applying facts otherwise available pursuant to section 776(a)(1)-(2) of the Act when a party has failed to cooperate by not acting to the best of its ability to comply with a request for information. The best-of-its-ability standard asks whether the respondent has put forth its maximum effort to provide the Department with full and complete answers to all inquiries in a proceeding.[22]

The Department has determined that the application of total AFA is not warranted because we have not reached a finding that Sanhua did not cooperate to the best of its ability. Sanhua provided the requested information by the deadlines established by the Department, and the information was verified.[23] Although the Department, as a result of verification, has concerns regarding Sanhua's reported FOPs, we are able to use the information submitted by Sanhua, as well as the information obtained at verification.[24] As such, we find that the information on the record is sufficient to serve as a reliable basis for determining dumping margins. Furthermore, and as described below, we find that Sanhua reasonably followed the methodologies from prior segments in this review and cooperated with the Department's request for information. For all these reasons, the Department determines that the application of total adverse facts available pursuant to section 776(b) of the Act is unwarranted. Therefore, the Department will not apply total AFA to determine the final margin for Sanhua in this review. In regard to Petitioner's and Sanhua's arguments concerning the application of partial AFA, we address each issue individually in the comments below.

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[22] *See Nippon Steel Corp. v. United States,* 337 F.3d 1373, 1382 (Fed. Cir. 2003).

[23] *See, e.g.*, letter from Sanhua, Frontseating Service Valves from the People's Republic of China; A-570-933; Separate Rate Certification by Zhejiang Sanhua Co., Ltd., dated July 19, 2012; letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response to Section A of the Department's Antidumping Duty Questionnaire by Zhejiang Sanhua Co., Ltd.," dated July 19, 2012 ("Sanhua's AQR"); letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response to Section C of the Department's Antidumping Duty Questionnaire by Zhejiang Sanhua Co., Ltd.," dated August 13, 2012 ("Sanhua's CQR"); letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response to Section C of the Department's Antidumping Duty Questionnaire by Zhejiang Sanhua Co., Ltd.," dated August 20, 2012 ("Sanhua's DQR"); letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Comments on Selection of Surrogate Country by Zhejiang Sanhua Co., Ltd.," dated September 17, 2012; letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Surrogate Value Information Submission by Zhejiang Sanhua Co., Ltd.," dated October 16, 2012 ("Sanhua's SV Comments"); letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response by Zhejiang Sanhua Co., Ltd. to the Sections C and D Supplemental Questionnaire," dated February 7, 2013 ("Sanhua's 1st SQR"); and, letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response to Second Supplemental Questionnaire for Sections C and D by Zhejiang Sanhua Co., Ltd.," dated April 9, 2013 ("Sanhua's 2nd SQR"); *see also* Sanhua Verification Report.

[24] *See, e.g.*, Sanhua Verification Report at 2-5.

In Sanhua's Case Brief, Sanhua cites to its Section D submissions in the LTFV Investigation and the first and second administrative reviews to support its argument that AFA is not warranted because it followed reporting methodologies that the Department accepted in prior reviews.[25] Because that information is business-proprietary information and is not on the record of the current proceeding, we cannot rely upon those section D submissions for our analysis. Instead, we have relied on the *LTFV FSV Investigation,*[26] *FSVs 2008-2010 Final Results,*[27] and 2 *FSVs 2010-2011 FSV Final Results*[28] to establish that Sanhua used the same reporting methodologies in the prior segments of this case. Additionally, we note that Sanhua placed excerpts from its filings in the first and second administrative review on the record of the instant case that establish that the methodologies used by Sanhua in the current review are consistent with the methodologies used in the investigation and previous administrative reviews.[29]

Finally, we disagree with Sanhua's conclusion that *Shikoku Chemicals* precludes the Department from changing methodologies in a case where a respondent has relied upon that methodology in past segments of a proceeding. In that opinion, the Court of International Trade ("CIT" or "Court") stated that the Department may not make "late stage" minor, but disruptive changes to a methodology when a respondent demonstrates that it had set its prices on specific reliance of the old methodology used in multiple preceding reviews.[30] The Court determined that the record contained evidence that the respondent adjusted their prices in accordance with methodology consistently applied by the Department in an attempt to comply with United States antidumping law.[31] The Court ruled that it was simply too late in that proceeding to mandate another three years of administrative reviews (the respondent was under consideration for revocation) because of a last minute change in methodology.[32] Thus, unlike the respondent under review in *Shikoku Chemicals*, Sanhua faces different circumstances: it is not under consideration for revocation. More importantly, the court's ruling does not completely prohibit the Department from changing methodologies, so long as it provides a reason for doing so. Indeed, the Court of Appeals for the Federal Circuit ("Federal Circuit") held in *Huvis Corporation* that the Department could change a methodology in an antidumping review because, *inter alia*, the change was reasonable and adequately explained.[33]

In this case, as mentioned above and explained more fully below, we have questions and concerns regarding Sanhua's FOP reporting methodology. Accordingly, the Department intends

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[25] *See, e.g.*, Sanhua's Case Brief at 10-11 and 14.
[26] *See Frontseating Service Valves From the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Negative Determination of Critical Circumstances*, 74 FR 10886 (March 13, 2009) ("*LTFV FSV Investigation*") and accompanying Issues and Decision Memorandum at Comments 9 and 10g.
[27] *See Frontseating Service Valves From the People's Republic of China: Final Results of the 2008-2010 Antidumping Duty Administrative Review of the Antidumping Duty Order*, 76 FR 70706 (November 15, 2011) ("*FSVs 2008-2010 Final Results*") and accompanying Issues and Decision Memorandum at Comment 18.
[28] *See Frontseating Service Valves From the People's Republic of China; 2010-2011 Antidumping Duty Administrative Review; Final Results*, 77 FR 67334 (November 9,2012) ("2 *FSVs 2010-2011 FSV Final Results*") and accompanying Issues and Decision Memorandum at Comment 7.
[29] *See* Sanhua's 2nd SQR at exhibits S2D-1 through S2D-5.
[30] *See Shikoku Chemicals*, 795 F. Supp. at 420-421.
[31] *Id.,* 795 F. Supp. at 420.
[32] *Id.,* 795 F. Supp. at 422.
[33] *See Huvis Corporation v United States*, 570 F.3d 1347, 1355 (Fed Cir. 2009) ("*Huvis Corporation*").

to ask Sanhua to change or further explain that methodology if it is examined in a subsequent review.

Comment 2: Excluded Products

Petitioner

- The Department should apply an adverse inference in those instances where Sanhua did not report in-scope products sold to other markets, even when these products were identical to products sold in the United States.[34] The Antidumping Questionnaire clearly required Sanhua to report FOPs on a CONNUM-specific basis.[35] Thus, for any final margin calculations based on Sanhua's data, the Department should increase all brass and copper FOPs for all CONNUMs by the highest CONNUM-specific percentages by which brass and copper were found to be understated as a result of this error.[36]
- The Department's policy and practice requires product-specific reporting of FOPs in the case of non-market economy ("NME") proceedings.[37] A respondent is not excused from accurate reporting if product-specific costs are not kept in the company's normal financial and cost accounting records.[38] The Department has also stated that "the product costs a respondent normally reports should reflect cost differences attributable to the different physical characteristics as defined by the Department to ensure that the product specific costs we use for the sales-below-cost test and constructed value ("CV") accurately reflect the corresponding products physical characteristics. . ."[39] The Department has further emphasized that reporting of product-specific cost data is "one of the most basic and significant requirements in performing the dumping analysis and margin calculation."[40]
- Sanhua's reliance on *PET Film from Taiwan* appears misplaced because that proceeding involved a discussion of the allocation expenses, rather than allocation of FOPs.[41] Even if the *PET Film from Taiwan* standard applies, the record clearly shows that Sanhua's incomplete reporting method was not only less accurate, but resulted in impossible consumption levels whereby finished product weights exceeded material input weights

[34] Petitioner refers to Sanhua Verification Report at 12-13 and 20.
[35] Petitioner points to the letter from the Department, "Front Seating Service Valves from the People's Republic of China: Questionnaire," issued June 21, 2012 ("Antidumping Questionnaire"), at D-2.
[36] *See* Petitioner's Case Brief at 3; *see also* Sanhua Verification Report at 2.
[37] Petitioner cites to *Certain Circular Welded Non-Alloy Steel Pipe From Mexico: Final Results of Antidumping Duty Administrative Review*, 76 FR 36086 (June 21, 2011) ("Pipe from Mexico") and accompanying Issues and Decision Memorandum at Comment 4 (where the Department stated that product-specific cost reporting is "important" and that their omission "impedes the Department's ability to make appropriate comparisons.")
[38] Petitioner refers to *Notice of Preliminary Determination of Sales at Less Than Fair Value: Certain Hot-Rolled Carbon Steel Flat Products from South Africa*, 66 FR 22173, 22178 (May 3, 2001) ("*Hot-Rolled Steel from South Africa*") (where the Department stated that respondent "should be able to make reasonable allocations of its costs among distinct products through the use of other product and production information.")
[39] Petitioner cites *Stainless Steel Bar from India: Final Results of the Antidumping Duty Administrative Review, and Revocation of the Order, in Part*; 76 FR 56401 (September 13, 2011) ("*SSB from India*") and accompanying Issues and Decision Memorandum at Comment 8A (which refers to sections 773(b)(1) and 773(e) of the Act).
[40] *Id.*
[41] *Polyethylene Terephthalate Film, Sheet, and Strip from Taiwan,* 76 FR 9745 (February 22, 2011) ("*PET Film from Taiwan*") and accompanying Issues and Decision Memorandum at Comment 7.

net of scrap offsets. This result is distortive and cannot be considered reasonable even if it is based on the company's normal record-keeping.

Sanhua

- The Department should continue to rely on Sanhua's reported FOPs for the final results because the reporting methodology is consistent with the methodology accepted by the Department in all the prior segments of this case.[42] Sanhua was not notified by the Department during the course of this proceeding that its reporting methodology required modification.[43]
- Under the reporting methodology, one CONNUM might cover more than one of Sanhua's product codes *(i.e.*, Sanhua's product code is more specific than a CONNUM with regard to product classification). Because the product code used by Sanhua is consistent throughout production and sale, Sanhua can identify the specific product codes sold to the U.S. from all product codes produced. As such, Sanhua included only those products sold in the U.S. during the POR in the weighted-average, CONNUM-specific FOPs. Because Sanhua's sales information is kept on a product-specific basis in the normal course of business, and readily supports a more accurate reporting methodology of the FOPs, there is no cause to expend effort to report on a less specific level *(i.e.*, CONNUM-specific level).
- All product models, including those not sold to the U.S., were included in the denominator of the FOP allocation ratios. If the non-U.S. product model was identical with the U.S. models, it was assigned FOPs identical to the U.S. models, in which case the inclusion of the non-U.S. model in the weighted average FOP calculation will not result in any differences in the weighted-average FOPs. If the non-U.S. product model was physically different from the U.S. model but was assigned to the same CONNUM (due to the fact that the CONNUM reflects a less meaningful difference of the products than the product code) it was assigned different FOPs. As such, including the FOPs of this non-U.S. product sale in the weighted-average CONNUM calculations decreases the accuracy of the FOP for the U.S. models.
- The Department has excluded non-U.S. sales models from the weighted-average CONNUM-specific FOPs for U.S. sales in other cases where the inclusion of the non-U.S. models would not increase the accuracy of the reported FOPs.[44]
- Contrary to Petitioner's claim that Sanhua incorrectly reported the FOP amounts, the basis for the reported FOPs is more specific than required by the Department and ties directly to Sanhua's accounting records. Furthermore, the cases cited by Petitioner in Petitioner's Case Brief support the conclusion that the most specific method for product reporting should be followed for FOP reporting.[45]

[42] *See* Sanhua's Case Brief at 10-11.
[43] Sanhua refers to Sanhua's DQR at exhibits D-6a through D-11.
[44] Sanhua refers to *PET Film from Taiwan,* and accompanying Issues and Decision Memorandum at Comment 7.
[45] Sanhua refers to Petitioner's Case Brief at 3-4 where Petitioner cited to *Pipe from Mexico,* and accompanying Issues and Decision Memorandum at Comment 4; *Hot-Rolled Steel from Africa;* and *SSB from India,* and accompanying Issues and Decision Memorandum at Comment 8A.

Department's Position: The Department has determined partial AFA is not warranted in regard to the methodology Sanhua used to determine which FSVs were included in its FOP database because Sanhua stated in its DQR that it relied on Sanhua's CQR data to determine the FSV for which FOPs were to be reported.[46] Because the Department did not request Sanhua to revise that reporting methodology during the course of the segment or otherwise provide Sanhua with advance notice that a revised reporting methodology is warranted, we do not find that Sanhua did not act to the best of its ability. As such, we find that application of partial AFA in regard to the excluded products is not warranted.

The Department's practice as expressed in our standard questionnaire is to rely on CONNUM-specific FOPs that include all identical products based on the Department's defined physical characteristics, regardless of market in which the products are sold.[47] In this case, the Department specifically instructed Sanhua in the original section D questionnaire to "report factors information for all models or product types in the U.S. market sales listing submitted by you (or the exporter) in response to Section C of the questionnaire, including that portion of the production that was not destined for the United States."[48] Sanhua responded by reporting FOP information based on its internal product codes that were included in Sanhua's CQR, rather than the CONNUMs included in Sanhua's CQR.[49] In Sanhua's DQR, Sanhua explained that the product codes assigned to FSVs are more specific than the Department's defined CONNUM.[50] As such, a CONNUM may include more than one FSV product code.[51] Sanhua determined the FOP for each FSV product code and then weight-averaged the FOPs of the FSV product codes reported in Sanhua's CQR database together (where such products are included in identical CONNUMs) to determine the CONNUM-specific FOPs.[52]

At verification, the Department found that Sanhua's methodology for determining the FOPs to include in the reported weighted-average CONNUM-specific FOP database disregards any FSVs not sold in the United States.[53] As shown in the Sanhua Verification Report, certain FSVs not sold in the United States are properly categorized within CONNUMs sold to the United States.[54]

The Department defines its CONNUMs based on what it determines to be the essential characteristics that define the product, and not necessarily on characteristics that the respondent under review thinks are distinctive. In this respect, a respondent's internal product codes may reflect differences between products that the Department would consider insignificant. As such, the differences between two products may be so insignificant that we would regard those

[46] *See* Sanhua's DQR at D-10; *see also id.* at exhibit D-6a, which shows all of the FSV manufactured during the POR and identifies which FSV were included in the FOP data file and the related CONNUMs.
[47] *See* the Antidumping Questionnaire at D-2.
[48] *Id.*
[49] *See* Sanhua's DQR at D-14.
[50] *Id.,* at D-10.
[51] *Id.*
[52] *Id.,* at D-14.
[53] *See* Sanhua Verification Report at 2, issue 1.
[54] *Id.*

products to be essentially the same product and, therefore, we would not want two separate costs for that product based on meaningless distinctions.[55]

Sanhua defines its product codes as the amalgamation of codes that identify (1) the types of FSV, (2) square or hexagon profile, (3) valve body type (two way or three way), (4) specification code, (5) connection tube type, (6) refrigerant code, (7) customer code, and (8) serial number (*i.e.,* sequential numbers such as 1, 2, and 3).[56] The Department's CONNUM characteristics identify (1) the type of FSV, (2) the size of the orifice, (3) the valve body type, (4) specification code, and (5) connection tube type.[57] The only product code distinctions not addressed by the Department's CONNUM characteristics are refrigerant, customer code, and serial number.

Sanhua argues that because its product codes are more specific than the Department's CONNUM characteristics, its inclusion of only those product codes sold to the U.S. within the CONNUM-specific FOP is a more accurate reporting method. We disagree. The bills of materials ("BOMs") and technical drawings examined at verification did not list any inputs related to refrigerants and Sanhua did not report any FOPs specifically identified as related to refrigerants.[58] Furthermore, the BOMs and technical drawings do not identify any inputs specifically attributable to a customer or a serial number.[59] As such, the record evidence supports the conclusion that there are no differences in the physical inputs between FSVs with product codes that differ based only on refrigerant, customer code, and/or serial number. Therefore, the exclusion of product codes that differ based on refrigerant, customer code, and/or serial number from the calculation of the weighted-average CONNUM-specific FOPs does not improve the accuracy of the reported FOPs as alleged by Sanhua because there are no differences in the FOPs in those instances. Moreover, Sanhua's statement in its brief that its product codes are more specific than the physical characteristics identified by the Department contradicts the statements made in Sanhua's AQR.[60] In that submission, Sanhua stated that identical products might be listed under different codes depending on the customers and that in the normal course of business the company is only concerned with differences in product codes, not the physical differences of the product.[61] Sanhua stated that, for purposes of reporting to the Department, the company relied on the "blueprint of the products to identify the identical" products within each reported CONNUM.[62] Consequently, Sanhua's reliance upon *PET Film from Taiwan* is misplaced because the record evidence in this case does not support Sanhua's allegation that its product code FOPs are more specific than CONNUM-specific FOPs.

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[55] *See, e.g.*, *Malleable Iron Pipe Fittings from the People's Republic of China: Final Results of Antidumping Duty Administrative Review*, 71 FR 37051 (June 29, 2006) and accompanying Issues and Decision Memorandum at Comment 10.
[56] *See* Sanhua's AQR at A-23 through A-25.
[57] *See, e.g.*, Sanhua's CQR at C-4 through C-11. For example, CONNUM fields 3.1 and 3.2 identify the type of FSV. CONNUM field 3.5 identifies the profile. CONNUM fields 3.14 and 3.15 identify the valve type. CONNUM fields 3.7 and 3.10 identify the specification code. CONNUM field 3.3 identifies the connection tube type. Sanhua states on page A-24 of Sanhua's AQR that the square or hexagon profile code identifies the size of the orifice.
[58] *See, e.g.*, the BOMs included in Sanhua Verification Report at exhibits VE-15 and VE-18. *See, e.g.*, Sanhua's DQR at exhibit D-5.
[59] *Id.*
[60] *See* Sanhua's Case Brief at 11 and Sanhua's AQR at A-24 through A-25.
[61] *See* Sanhua's AQR at A-24 and A-25.
[62] *Id*., at A-25.

Because we find that the exclusion of the FOPs of FSVs with product codes that differ between only refrigerant code, customer code, and serial number to be an unreasonable approach in this case, we find that the methodology as reported by Sanhua did not verify within the meaning of section 776(a)(2)(D) of the Act. Consequently, consistent with section 776(a)(2)(D) of the Act, we have used facts otherwise available to revise Sanhua's reported CONNUM-specific FOPs where necessary to include these products.[63] Sanhua submitted its FOP allocations for all products manufactured during the POR; thus, we are able in this case to calculate the FOPs of the excluded products.[64]

Finally, we disagree with Sanhua that *Pipe from Mexico*, *Hot-Rolled Steel from South Africa*, and *SSB from India* support Sanhua's assertion that the Department's preference is to rely on product-specific reporting when the product is more specific than the Department's CONNUM. In each of these cases, the respondents' internal product definitions were more general than the physical characteristics identified by the Department and, as such, the costs reported by the respondents were more general than required by the Department. Contrary to Sanhua's claim, these cases support the Department's practice of requiring information on a CONNUM-specific basis.[65]

Comment 3: Brass and Copper Consumption

Petitioner

- The Department should apply an adverse inference to account for Sanhua's understated brass and copper consumption. Sanhua failed to demonstrate how its reporting methodology is the best way to accurately determine the product-specific FOPs of FSVs.

Sanhua

- The Department should continue to rely on Sanhua's reported brass bar and brass rod FOPs in the final results. Sanhua has relied on the Department's acceptance of this methodology in the LTFV investigation, as well as the first and second administrative reviews.[66] As such, it would be prejudicial for the Department to change the methodology in this review with no appropriate notice to Sanhua.
- The Department's practice is to accept allocation methodologies that are shown to be reasonable, based on the company's records in the normal course of business, and do not

[63] *See* Memorandum to the File, "Frontseating Service Valves from the People's Republic of China: Analysis Memorandum for the Final Results of the 2012-2013 Administrative Review: Zhejiang Sanhua Co., Ltd. ("Sanhua")," dated concurrent with the memorandum, 2013 ("Final Analysis Memorandum") at Attachments 1-4.
[64] *See* Final Analysis Memorandum at Attachments 1-4.
[65] *See Pipe from Mexico* and accompanying Issues and Decision Memorandum at Comment 4; *Hot-Rolled Steel from South Africa*; and, *SSB from India* and accompanying Issues and Decision Memorandum at Comment 8A.
[66] *See* Sanhua Case Brief at 14.

result in distortions.[67] The Department's requirements are that the allocation methodology is reasonable, is based on a company's accounting books and records kept in the normal course of business, and does not result in distortions. The fact that an allocation, by necessity, attributes more or less of the material allocated to each product than the product actually uses does not render the allocation methodology unreasonable.[68]

- Sanhua allocated the consumption of brass bar and brass rod, the primary input of FSVs, among all products (whether or not sold to the U.S.) based on each product's relative finished valve body weight.[69] This methodology is reasonable, relies on Sanhua's normal books and records, and does not give rise to distortions.[70]
- The standard input amounts of brass and copper shown in the technical drawings of the FSVs are not fixed. These standard input weights serve only as initial instructions and references for actual production. During production, the actual input amounts are typically adjusted and generally reduced as a more efficient production method is found following the accumulation of production experience. Different workers in different periods using different machines may account for differences between standard and actual input weights. Input weights might also change due to modification of production methods, although the standard input amount shown in the technical drawings is not adjusted accordingly. As such, relying on the standard finished weight of the valve bodies for purposes of allocating brass bar and brass rod is the most specific methodology possible because it reflects actual consumption.
- Although an allocation methodology based on the standard brass inputs may be considered reasonable, this does not mean that allocating based on the standard output (*e.g.*, valve body) is unreasonable. Where there is more than one reasonable allocation method, a company can choose the one which is more efficient and better supported by the company records.
- The statement made by the Department in the Sanhua Verification Report that "Sanhua allocated the total quantity of brass and copper consumed in the production of FSVs during the POR among products based on the output weights of the brass and copper components within the products rather than the brass and copper input weights for those components" is incorrect. Consequently, the Sanhua Verification Report makes an incorrect calculation and comparison between the "Total Per-unit Brass Input Reported" and "Total Per-unit Brass Standard Input Requirements."

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[67] Sanhua cites to *Notice of Final Determination of Sales at Less Than Fair Value, and Affirmative Critical Circumstances, In Part: Certain Lined Paper Products From the People's Republic of China*, 71 FR 53079 (September 8, 2006) ("*Lined Paper Products from the PRC*"), and accompanying Issues and Decision Memorandum at Comment 22; *Brake Rotors From the People's Republic of China: Final Results of Third New Shipper Review and Final Results and Partial Rescission of Second Antidumping Duty Administrative Review*, 65 FR 64664 (October 30, 2000) and accompanying Issues and Decision Memorandum at Comment 5; and *2008–2010 FSV Review* and accompanying Issues and Decision Memorandum at Comment 15.

[68] Sanhua cites to *Lined Paper Products from the PRC* and accompanying Issues and Decision Memorandum at Comment 22; *LTFV FSV Investigation* and accompanying Issues and Decision Memorandum at Comment 12j.

[69] Sanhua points to Sanhua's DQR at exhibits D-6b and 6c.

[70] Sanhua asserts that the methodology is reasonable because the valve body is the key factor used to determine brass consumption and a heavier valve body, which consumes more brass inputs, is allocated more brass bar or brass rod than lighter valve bodies. Sanhua also argues that the methodology is not distortive because methodology was applied equally to all products, no matter whether sold to the U.S. or not. *See* Sanhua's Case Brief at 16.

- Brass rod was used for producing other valve components as well as valve bodies during the POR.[71] Contrary to the Department's statement, only the brass input for the valve bodies were allocated based on the valve body finished weights. The brass inputs for other components were allocated over the corresponding products by product quantity, the same as for the allocation method for the purchased valve components.
- Certain brass components were both purchased, as well as produced in-house, during the POR. The Department's alternate calculation presented in the Sanhua Verification Report wrongly supposes that all the components were produced in-house.[72] This calculation overstates the amount of the total standard brass input requirements and, thus, reaches an incorrect conclusion that the brass inputs were under-reported.[73]
- If the Department insists on such comparison, it must correct the calculation presented in the Sanhua Verification Report. As such, the Department's analysis should be revised to compare the brass input for valve bodies and components separately. In Sanhua's Case Brief, Sanhua has provided a revised comparison for brass inputs for valve bodies as well as a revised comparison for brass rod for components using the same source as the Department.[74] It is clear from the revised comparisons that the brass inputs would be over-reported when compared with the standard.[75] Thus, if the Department believes the alternate comparison method proposed in the Sanhua Verification Report is to be used for the final results, it must adjust the over-reported brass input.[76]
- If the Department adjusts the actual brass consumption and scrap FOPs to reflect the standard consumption and scrap amounts examined at verification, both the "under- and over-reported" FOPs must be adjusted similarly.

Department's Position: The Department has determined that partial AFA is not warranted in regard to the brass and copper consumption allocation methodology used by Sanhua to determine its reported brass and copper FOPs. In Sanhua's DQR, Sanhua explained the allocation methodology it used to determine the reported FOPs and provided detailed worksheets showing the allocations.[77] Sanhua provided additional information in response to the Department's supplemental questionnaires and timely complied with all requests for information.[78] Furthermore, we find that Sanhua reasonably followed the methodologies from prior segments in this review and cooperated with the Department's requests for information. Because the Department did not request Sanhua to revise that reporting methodology during the course of the segment or otherwise provide Sanhua with advance notice that a revised reporting methodology is warranted, we do not find that Sanhua did not act to the best of its ability. As such, we find that application of partial AFA is not warranted in regard to Sanhua's brass and copper allocation methodologies.

[71] *Id.*, at 18 and 19.
[72] *Id.*, at 18-21.
[73] *Id.*
[74] *Id.*, at 22-24, Tables 1 and 2, respectively.
[75] *Id.*, at 18-21.
[76] *Id.*, at 21.
[77] *See* Sanhua's DQR at exhibit D-6q.
[78] *See, e.g.,*Sanhua's 1st SQR at 17-50 and exhibits SD-2 through SD-27 and Sanhua's 2nd SQR at 5.

Sanhua stated in Sanhua's DQR that the company does not maintain records to track the monthly consumption of inputs and outputs on a product-specific basis.[79] To determine the reported FOPs for the valve bodies within the FSVs, Sanhua allocated the brass bar and brass rod consumed among FSVs using that size of brass bar or brass rod based on the relative finished standard weight of the valve body.[80] Sanhua relied on production quantities as the basis for its allocations of brass and copper inputs consumed in the production of all other brass and copper components self-produced by Sanhua (*i.e.*, components other than valve bodies).[81] In its supplemental D response, Sanhua submitted copies of technical drawings related to an FSV that showed the brass rod input (weight) requirement for the particular brass valve body used to manufacture that FSV and the weight of the finished brass valve body.[82] Sanhua also submitted technical drawings for the same FSV that showed the copper input (weight) requirement and the finished component weight for a copper component of that FSV.[83] We noted that the finished weights of the brass valve body and copper component shown on the technical drawings tie directly to Sanhua's allocations of brass rod and copper for that particular FSV.[84]

At verification, we reviewed and discussed the technical drawings for the FSVs selected for examination that show the standard weights of the inputs used to manufacture the respective outputs (*i.e.*, brass and copper inputs) and the finished weight of the respective outputs (*i.e.*, valve bodies and all other self-produced components of FSVs).[85] Sanhua officials explained that the standard input quantities shown in the mechanical drawings are used in the normal course of business by Sanhua to determine the quantity of brass and copper material to be withdrawn from inventory to be used in production.[86]

The brass bar and rod consumption allocation methodology relied on by Sanhua in the investigation, subsequent reviews, and current segment to determine the brass bar and brass rod FOPs for valve bodies conflates two different accounting concepts: consumption quantity variances, which represent the difference between the total extended standard and actual input quantities of the brass and copper inputs, and product-specific yields.[87] Sanhua uses the standard input quantities of brass and copper inputs reflected in the technical drawings to determine the amount of brass and copper to be withdrawn from inventory in the normal course of business. As Sanhua explained in Sanhua's Case Brief, the actual brass and copper inputs consumed during production can differ from the standard input quantities for a variety of reasons.[88] These differences between standard input quantities and actual input quantities are considered variances.[89] A consumption quantity variance percentage can be calculated by dividing total actual consumption quantities (numerator) by total standard consumption quantities

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[79] *See* Sanhua's DQR at D-5 and D-6.
[80] *Id.*, at exhibits D-6b (brass bar) and D-6c (brass rod).
[81] *Id.*, at exhibit D-6h.
[82] *See* Sanhua's 1st SQR exhibit SD-3h.
[83] *Id.*, exhibit SD-3i.
[84] *Id.*; *see also* Sanhua's DQR at exhibit D-6c
[85] *See* Sanhua Verification Report at 21-24 and exhibit VE-18.
[86] *Id.*, Report at 9-10.
[87] Because each FSV is made of brass and copper components, a product-specific yield is the accumulation of the yields of each component within the product.
[88] *See* Sanhua's Case Brief at 16-17.
[89] A variance is defined as deviations between actual results from planned results. *See* Charles T. Horngren and George Foster**,** Cost Accounting: A Managerial Emphasis, 7th ed. (New York: Prentice Hall) at 5.

(denominator), whereas product-specific yields compare the resulting output weight of the product with the weights of the inputs necessary to manufacture that product.[90] The product-specific standard yields in this case can be calculated as the finished standard weight of the resulting products or components (numerator) divided by the standard weight of the inputs used in the manufacture of the product or components (denominator).[91]

Sanhua's reported brass bar and rod allocation methodology assigns actual consumption (input) quantities to each valve body based on the relative finished weight of that valve body.[92] As such, Sanhua applies the numerator of a variance calculation (actual input quantities) to the numerator of a yield calculation (standard finished weights) to determine its reported brass bar and rod FOPs for valve bodies. Although we recognize that Sanhua allocated all of its actual consumption of brass bar and rod among products, the allocation methodology does not acknowledge aggregate standard consumption quantities (denominator of the variance calculation) or product-specific input weights (denominator of the yield calculation). The consumption of brass bar or rod per gram of finished valve body based on Sanhua's methodology is the same for all valve bodies.[93] As a result, the methodology assumes that the processing of all inputs into the finished FSVs is exactly the same for all valve bodies and that absolutely no differences in yields occur among the valve bodies. At verification, we found otherwise.[94] A comparison of the weights reflected on the technical drawings of the brass bar and rod inputs and the corresponding finished valve bodies used in the normal course of business shows that the standard yield rates among valve bodies are not the same.[95] As such, the Department finds that Sanhua's allocation methodology fails to reflect meaningful distinctions between brass bar and rod consumption among FSVs.

We agree with Sanhua that the Verification Report incorrectly states that brass and copper inputs were allocated among brass and copper components (other than valve bodies) based on the finished weights of the components.[96] As noted by Sanhua, the allocation bases used to determine the reported FOPs were the production quantities of the various types of components.[97] We also agree with Sanhua that the total consumption of brass and copper consumed in the manufacture of these components during the POR, and relied upon by Sanhua to determine the reported FOPs, ties to the company's books and records. However, because Sanhua used production quantities as the basis of its allocations, different products within a category of component will have the same production yield. This methodology also assumes that the processing of all inputs into the same type of component is exactly the same and that

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[90] Yield is defined as the comparison of outputs to standard inputs. *See* Charles T. Horngren and George Foster**,** Cost Accounting: A Managerial Emphasis, 7th ed. (New York: Prentice Hall) at 827. We note that if the mix of products is homogeneous, it would not be unreasonable if all products had the same yield and consumption variance. However, if the mix of products varies significantly, as in the instant case, conflating the two accounting concepts results in one overall yield for all products (*i.e.*, the same yield loss is applied to products with significantly different yield losses).

[91] *See, e.g.*, the technical drawings in Sanhua's Verification Report at exhibit VE-18 that show the standard weights of brass and copper inputs as well as the standard finished weight of the brass or copper component.

[92] *Id.*, at exhibit VE-19.

[93] *Id.*

[94] *Id.*, at exhibit VE-18.

[95] *Id.*

[96] *Id.*, at 3.

[97] *Id.*, at exhibit VE-19.

absolutely no differences in yields occur. The technical drawings examined at verification show otherwise, as the processing yields of the same type of component vary by product.[98]

For these reasons, we conclude that Sanhua's brass and copper allocation methodologies do not provide a meaningful distinction between the production of different types of valve bodies and components. We also find that Sanhua's allegations that its allocations are based on its normal books and records to be misleading. Sanhua does not track consumption on a product-specific basis in its normal books and records.[99] Although the total actual consumption quantities and standard weights used by Sanhua in its allocations are from its normal books and records, the product-specific allocations at issue here are not accomplished in the normal course of Sanhua's business.

Although we find Sanhua's brass and copper allocation methodologies to suffer from certain deficiencies, we are not able to determine Sanhua's quantity variances or product-specific yields for purposes of these final results because the standard input quantities for all components within the FSVs manufactured by Sanhua during the POR are not available on the record of this case. We cannot, therefore, determine whether the reported FOPs should be increased or decreased and, if so, by what amount. In addition, any adjustment we would make to the brass and copper inputs would necessitate additional consideration of the impact on the scrap and finished weight issues, as discussed in the comments below. Therefore, as facts available pursuant to section 772(a)(2) of the Act, we will accept Sanhua's brass and copper allocation methodology for this review. However, Sanhua is put on notice that the Department may expect and request a more precise reporting of product-specific FOP data in any future review of the company.

Finally, we note that because the Department is not adjusting Sanhua's brass and copper allocation methodologies, Sanhua's arguments related to calculating an adjustment and the consideration of purchased components is moot.

Comment 4: Brass and Copper Scrap

Petitioner

- The Department should apply an adverse inference by disallowing Sanhua's reported scrap offsets. Alternatively, the Department could allow only the minimum scrap offset reported for any product.[100] These minimum amounts should be further adjusted downward to eliminate oil debris weight that the Department found at verification to be included in the reported scrap weight.
- The Department's correction of Sanhua's overstatement of its reported brass and copper scrap offsets in the preliminary results rewarded Sanhua by imposing the least punitive result.[101] Sanhua's reported data show that the company either overstated its scrap

[98] *Id.*, at exhibit VE-18.
[99] *See* Sanhua's DQR at D-5 and exhibit D-6q.
[100] *See* Sanhua's Case Brief at 28.
[101] *See* Memorandum to the File, "Frontseating Service Valves from the People's Republic of China: Analysis Memorandum for the Preliminary Results of the 2011-2012 Administrative Review: Zhejiang Sanhua Co., Ltd. ("Sanhua")," dated May 2, 2013 ("Preliminary Analysis Memorandum") at 6.

generated in the manufacture of FSVs or understated its consumption of direct materials. The Department's revision in the preliminary results conferred upon Sanhua a *de facto* "perfection" in its production process.[102] Any normal industrial manufacturing process will have a "yield loss," whereby some percentage of the original inputs are neither incorporated in the finished product nor recovered as recyclable scrap. The Department's method for correcting the erroneous data assumed this yield loss to be zero.

- The Department noted at verification that Sanhua's reported brass and copper scrap allocation methodology failed to account for different yields among products by using finished weight of all FSVs, instead of using just the weight of those components made of brass and copper.[103]
- Reported scrap quantities were also overstated because the weight of oil debris was included in the reported totals.[104]
- Sanhua should not be allowed any offset for scrap generated in the production of non-subject merchandise or for scrap not generated during POR production activities. The weight of non-brass or non-copper elements of scrap must be excluded from the quantity allowed. Sanhua's apparently new explanations as to other sources of scrap must be rejected as new, non-record information. Sanhua's citation to VE-20 does not refer to butt ends, damaged components or damaged finished products.[105] Moreover, butt ends and material used in creating any damaged components or finished products must also be included in total material consumed if it is to be offset as scrap.

Sanhua

- An adjustment to the reported brass and copper scrap offsets in the final results is not warranted. The Department confirmed at verification that the total amount of scrap reported was consistent with company records, the scrap reported was generated from the production of FSVs, the scrap was sold, and the reported sold quantities of scrap did not exceed the quantities of scrap generated. As such, the reported scrap offsets have met all the requirements for byproduct reporting in the questionnaire.
- Sanhua allocated the actual scrap generated and sold over the calculated yield loss between the inputs and output (*i.e.*, the difference between the total inputs and standard finished product weight) to obtain the actual scrap for each product. This allocation method takes all the factors that might generate scrap into account and is the most reasonable and practicable method supported by the company records. The scrap reported by this method is actual and product-specific. The Department verified that the scrap generated and sold is consistent with the company records and reconciles to the audited financial statements.[106]
- Any impurities, including the oil debris, are normal components of scrap. The description of the Philippines HTS code for brass scrap describes it as "Copper Waste and Scrap, of Brass" without any restriction on its purity. The HTS Code description of

[102] According to Petitioner, it is impossible to create 100 grams of finished product and 25 grams of recoverable scrap with 110 grams of direct materials, a fact recognized by the Department in its preliminary results.
[103] *See* Sanhua Verification Report at 26-28.
[104] *Id.*, at 11 and 29.
[105] Petitioner refers to Sanhua's Case Brief at 28-29.
[106] Sanhua points to Sanhua Verification Report at p. 29 and exhibit VE-20.

scrap for other countries similarly does not have any restriction on its purity. As such, there is no reason to reduce the actual amount of scrap for impurities, including its oil debris percentage.

- The Department may not impose a greater standard for the term "scrap" than is required by the SV used. In this case there is no restriction for the term scrap in the Harmonized Tariff Schedule ("HTS") code, and thus the scrap must be presumed to include scrap of all kinds regardless of quality. Furthermore, only brass scrap contains oil, which is a consequence of the machining process. The copper scrap did not contain oil because no oil was used during processing of copper pipe. The sale agreements examined at verification show that the terms regarding oil debris are for the brass scrap only, rather than for copper scrap, as specifically stated in the agreement.
- Sanhua has established that the total quantity of scrap reported is the actual amount generated during the POR. It would be incorrect to determine whether it was over- or under-reported by the calculated yield loss.[107] Yield loss is calculated by the formula "input – standard product weight = yield loss." Sanhua explained in detail in its responses, and during verification, that the yield loss was under-calculated due to the over-stating of the finished product weight, as well as the impurities in the scrap.[108]
- Sanhua provided FSV samples at verification for the models selected by the Department to show the relationship between the actual finished product weight and the standard finished weight.[109] The actual weights of all products selected by the Department were less than the standard weight.[110] If the Department determines it necessary to compare the actual scrap with the calculated yield loss, the Department must first calculate a more accurate yield loss amount by adjusting the "standard product weight" to the actual product weight. The yield loss should be increased by the over-stated product weight, using the total standard product weight and the typical over-stated percentage (*i.e.*, that of the product with the largest production quantity among all products).[111]
- The Department's "calculated yield loss of brass component," as set forth in the Sanhua Verification Report, wrongly assumes that the brass scrap is only the yield loss between the standard input and output weights of the in-house produced components. This is only one of the sources of scrap and thus under-states the scrap amount. The butt end of the brass bar and rod, damaged components (whether produced in-house or purchased), and damaged finished products are also considered scrap. But none of these appear in the yield loss between the input and output weight in the technical drawings. Yet these types of scrap contribute significantly to the amount as well, as shown to the Department during the plant tour and as to the different types of brass scrap recorded in the company records.[112] The Department's proposed allocation method for scrap presented in the Sanhua Verification Report is not reasonable because it does not take into account all the factors that generate scrap.

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[107] Sanhua explains that, for example, if 10 kilograms ("kg") of scrap were generated, it would be incorrect to assume that one kg of the scrap does not exist based on a yield calculation method. *See* Sanhua's Case Brief at 26.
[108] *Id.*, at 26-27 and exhibit CB-6.
[109] *Id.*, at 27.
[110] *Id.*
[111] *Id.*
[112] *Id.*, at 29.

- Because all components, including purchased components, generated scrap, Sanhua allocated scrap over the total yield loss calculated by the total inputs minus the full standard product weight.[113] As such, the product with a greater yield loss was allocated more scrap.
- The Department's proposed methodology of allocating scrap over the "calculated yield loss" of in-house produced components is incorrect. The Department is using the full standard input and output weight in the technical drawing to calculate the yield loss of the brass, which is again based on the incorrect assumption that all these components were produced in-house. This assumption is incorrect because certain components were produced both in-house and purchased.[114] The purchased and in-house produced proportion varies among different components and different products. Sanhua has no way to calculate a yield loss for the in-house produced components that "generated scrap" on an FSV basis. Therefore, Sanhua's reported scrap allocation method is the most reasonable method that is supported by the company records.
- In the Sanhua Verification Report, the Department presented its "Calculated Yield Loss of Copper Connection Tube" based on the input and output amount of copper as in the technical drawings and then compared it to the reported copper scrap to determine whether the copper scrap is under- or over-reported.[115] This is incorrect because the "Calculated Yield Loss of Copper Connection Tube" does not include damaged connection tubes, which constitutes the most significant source of copper scrap.
- If the Department decides to use the comparison proposed in the Sanhua Verification Report, it should use the copper tube input reported in the FOP and the standard copper input in the technical drawings to determine the yield loss of copper tubes. Then the Department can compare the yield loss to the copper scrap reported to determine whether it is over- or under-reported.[116] Copper scrap was under-reported on an overall basis, which can be shown by a much simpler calculation using the total copper input and total standard connection tube weight.[117]

Department's Position: The Department has determined that partial AFA is not warranted in regard to Sanhua's reported brass and copper scrap offsets. In Sanhua's DQR, Sanhua explained the allocation methodology it used to determine the reported offsets and provided detailed worksheets showing the allocations.[118] In response to the Department's first supplemental questionnaire, Sanhua revised its brass and copper scrap allocation methodologies, as Sanhua alleged, to better reflect the relationship between the scrap offset and the brass or copper consumption.[119] Sanhua also responded to the Department's second supplemental questionnaire concerning Sanhua's brass and copper scrap offsets.[120] With respect to this issue, Sanhua timely complied with all requests for information. Furthermore, we find that Sanhua reasonably followed the methodologies from prior segments in this review and cooperated with the Department's requests for information. Because the Department did not request Sanhua to revise

[113] *Id.*
[114] *Id.*, at 29-30.
[115] *Id.*, at 31.
[116] *Id.*, at 31-32.
[117] *Id.*, at 32.
[118] *See* Sanhua's DQR at D-18 to D-19 and exhibit D-10h.
[119] *See* Sanhua's 1st SQR at 8-11 and exhibits SD-3a through SD-3f.
[120] *See* Sanhua's 2nd SQR at 9-17.

that reporting methodology during the course of the segment or otherwise provide Sanhua with advance notice that a revised reporting methodology is warranted, we do not find that Sanhua did not act to the best of its ability. Consequently, we find that partial AFA is not warranted in regard to Sanhua's brass and copper scrap allocation methodologies.

Sanhua does not track the quantity of scrap generated in production on a product-specific basis in the normal course of business.[121] In response to the Department's supplemental questionnaire, Sanhua developed and applied the following methodology to determine its reported brass and copper offsets.[122] Sanhua first calculated the sum of all reported FOPs for each FSV which includes FOPs related to components not manufactured from brass or copper (*e.g.*, nylon charge port caps). Sanhua then subtracted the total standard weight of each finished FSV from the sum of the FOPs for that FSV to determine each FSV's "difference." Next, Sanhua extended each FSV's "difference" by its POR production quantity and summed the extended differences of all FSVs produced to determine the total "difference." Sanhua then divided the total weight of brass and copper scrap generated and sold during the POR by the extended "difference" to determine the ratio of scrap (g) to difference (g). Sanhua applied the brass and copper ratios to each FSV's "difference" to determine the FSV's brass and copper scrap offset.[123] In the *Preliminary Results*, the Department adjusted Sanhua's reported brass and copper offsets for those CONNUMs where the net reported FOPs (*i.e.*, the sum of the inputs less brass and copper offsets) was less than the weight of the finished products reported in Sanhua's U.S. sales data file.[124]

We agree with Sanhua that the total quantity of brass and copper scrap produced and sold during the POR, which was used to calculate the scrap offsets, ties to the company's books and records.[125] We also agree with Sanhua that the brass and copper scrap recorded in the books and records includes butt-ends, damaged components, and damaged finished products. Contrary to Petitioner's assertion, we note that this information is on the record of this case.[126] We also agree with Sanhua that the impurities at issue relate to brass scrap only, and not to copper scrap.[127] We agree with Sanhua that an adjustment to Sanhua's brass scrap offset for oil and debris is not warranted. The HTS category used to value brass scrap for these final results is 7404.00.00.01, as discussed in Comment 7 below. The description of HTS 7404.00.00.01, is "Copper Waste and Scrap, of Brass" without any reference to purity level. Because purity does not appear to be a requirement for this HTS category, we find no basis for adjusting Sanhua's reported brass scrap FOPs for impurities, such as oil and other debris.

We disagree with Sanhua that its allocation methodology accounts for yield losses between inputs and outputs. To calculate each FSV's inputs, Sanhua summed all the reported FOPs for that FSV, which included brass, copper, and other components such as plastic charge port caps. By using the sum of all FOPs for each FSV, Sanhua distorts the relationship between the scrap offset and the input that generated the scrap. For example, an FSV manufactured with a plastic charge port cap is allocated brass based on the sum of its FOPs, which include the weight of that

[121] *See* Sanhua Verification Report at 27.
[122] *See* Sanhua's 1st SQR at 8-11 and exhibits SD-3a through SD-3f.
[123] *See* Sanhua Verification Report at 27 for detailed discussion of these calculations.
[124] *See* Preliminary Analysis Memorandum at 6.
[125] *See* Sanhua Verification Report at 29-30.
[126] *See, e.g.*, Sanhua's 1st SQR at 14 and Sanhua Verification Report at exhibit VE-20.
[127] *See* Sanhua Verification Report at exhibit VE 20.

cap. The Department finds it unreasonable to allocate brass scrap to an FSV whose allocation basis includes a component that bears no relationship to the scrap offset being claimed. Likewise, Sanhua allocated copper scrap among FSVs based on each FSV's sum of FOPs, which includes primarily brass inputs. As a result, the allocation of copper scrap for an FSV with more brass inputs than another FSV will be higher and may not necessarily reflect the relationship of the copper consumed in the production of that FSV.[128] Moreover, Sanhua's scrap allocation is based on its reported FOPs which, as discussed in the preceding comment, do not reflect differences between FSV production yields. Because we find that the starting basis of Sanhua's scrap allocation methodology (*i.e.*, the brass and copper FOPs) is not reflective of the FSVs produced, we also find that Sanhua's scrap allocation methodology is not reflective of the FSVs produced. Furthermore, Sanhua's scrap allocation methodology resulted in instances where the sum of the reported net FOPs (input FOPs less scrap FOPs) for certain CONNUMs were less than the finished product weights reflected in Sanhua's CQR data file.[129] For these reasons, we find Sanhua's scrap allocation methodology to be unreasonable.

Our findings at verification confirmed our concerns. The analysis provided in the Sanhua Verification Report shows for most of the products examined that Sanhua's scrap offset allocation methodology resulted in higher scrap offsets than the yields reflected in the technical drawings of the components made of brass or copper inputs.[130] Sanhua argues that the Department's yield analysis is incorrect because it does not include butt-ends, damaged components, and damaged finished products. We disagree in regard to butt-ends. The technical drawings we examined at verification of the inputs necessary (*e.g.*, brass bar) to produce the resulting valve components (*e.g.*, valve body) all show that the dimensions of the inputs are greater than the dimensions of the resulting components.[131] As such, without any record evidence to the contrary, we find it reasonable to assume that the butt-ends referred to by Sanhua are accounted for in the yield loss between the weight of the inputs and the weight of the resulting components reflected in the technical drawings.

Sanhua asserts that damaged components (self-produced and purchased) and damaged finished products are also scrap and that these types of scrap contribute significantly to the total scrap generated during the POR.[132] The documents examined at verification show that the brass and copper inputs consumed to produce these damaged components or products were not allocated among the FSVs produced during the POR.[133] Further, Sanhua stated that returned FSVs, which became waste during the POR, were not produced during the POR and, as such, were not included in the allocation of inputs or scrap.[134] Because the brass and copper consumed in the production of the damaged components or products or the quantity of purchased components is not included in Sanhua's reported brass, copper, or purchased components FOPs, we find it unreasonable to grant Sanhua an offset to those FOPs for the scrap generated from the damaged components or products. As articulated by Sanhua, the Department's practice is to allow

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[128] *See* Sanhua Verification Report at exhibit VE-20.
[129] *See* Preliminary Analysis Memorandum at 6.
[130] *See* Sanhua Verification Report at 28-29.
[131] *Id.*, at VE 18.
[132] *See* Sanhua's Case Brief at 28-29.
[133] *See* Sanhua Verification Report at exhibit VE 10 (overall reconciliation showing total POR brass and copper consumption), VE 19 (raw material allocations) and VE 17 (production quantities).
[134] *See* Sanhua's 1st SQR at 18 -19.

respondents an offset to the reported FOPs for scrap generated during the production of the merchandise.[135] In this case, the scrap generated from the damaged components or products was not generated from the production of the subject merchandise. Therefore, the Department determines that the scrap offsets associated with the damaged components or finished products should be disallowed and that Sanhua's scrap offsets should be adjusted to exclude the damaged components or finished products. However, we are unable to adjust Sanhua's claimed scrap offset for these final results because the information necessary to make such an adjustment is not on the record of this case.[136]

We agree with Petitioner, in part, that the Department's scrap offset adjustment in the *Preliminary Results* assumes perfect production (*i.e.*, that any differences between the sum of the input weights and the finished valve weight were captured and sold as scrap). Therefore, for these final results, we have relied upon facts otherwise available pursuant to section 776(a)(2) of the Act and taken a different approach in adjusting Sanhua's reported scrap offsets. More specifically, we have instead relied on the analyses provided in the Sanhua Verification Report.[137] Our analysis compares Sanhua's reported brass and copper offsets for each FSV to the sum of the standard yield losses of all brass or copper components within each FSV to determine whether the reported scrap offset was under- or over-reported. We disagree with Sanhua that our analysis conflates self-produced components with purchased components. Because purchased components are not self-produced, the scrap generated from those components must logically be damaged components. Because we have determined that scrap from damaged components should be disallowed for these final results, we find that our analysis, which uses Sanhua's actual production of these components as facts otherwise available, to be reasonable.

To calculate the scrap adjustment for the final results, we summed the over- and under-reported brass and copper scrap offset quantities for all products examined at verification and divided this amount by the total reported brass and copper scrap offset for the same products to determine the overall over- or under-reported brass and copper scrap offset percentage of adjustment. We then applied this percentage adjustment to the CONNUM-specific brass and copper scrap offset quantities to determine the CONNUM-specific scrap adjustment.[138] Although this adjustment does not resolve all of the Department's concerns with Sanhua's scrap allocation methodology, we find, as facts available, that this adjustment reasonably limits the brass and copper offset to the yield losses attributable to only those components produced using brass and copper inputs. We find that this approach is not adverse to Sanhua because it acknowledges that scrap is generated in the production of FSV and permits an offset and it includes both over- and under-reported scrap amounts. We also find this adjustment to be reasonable because it is calculated

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[135] *See, e.g.*, *Multilayered Wood Flooring from the People's Republic of China: Final Determination of Sales at Less Than Fair Value,* 76 FR 64318 (October 18, 2011) and accompanying Issues and Decision Memorandum at Comment 23; *see also Narrow Woven Ribbons with Woven Selvedge from the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 75 FR 41808 (July 19, 2010), and accompanying Issues and Decision Memorandum at Comment 2.

[136] We note that the documentation regarding the number of pieces and related weights of damaged components is not available on the record. Documentation collected at verification reflects the number of pieces of damaged products, but not the corresponding product weights. *See* Sanhua Verification Report at exhibit VE-17.

[137] *See* Final Analysis Memorandum at 5.

[138] *Id.*, at 6.

based on the weighted-average over- and under-reported quantities of each product examined and represents both subject and non-subject merchandise.

Consistent with Sanhua's brass and copper consumption allocations, Sanhua is put on notice that the Department may expect and request a more precise reporting of its scrap offsets in any future review of the company.

Finally, we find Sanhua's allegations that its scrap allocations are based on its normal books and records to be misleading. Sanhua does not track scrap generation on a product-specific basis in its normal books and records.[139] Although the actual quantities of scrap used by Sanhua in its allocations are from its normal books and records, the allocations at issue here are not accomplished in the normal course of Sanhua's business.[140] In regard to Sanhua's assertions that the Department should use the total copper tube consumed during the POR and the total standard copper input in the technical drawings to determine the overall yield loss of copper inputs, we find that this suggested methodology unreasonable because it does not differentiate processing yields among copper products.

Comment 5: Reported FOPs and Finished FSV Weights

Petitioner

- The Department should apply adverse inferences where significant errors exist in Sanhua's reported FOPs because actual finished FSV weights exceeded reported net FOP weights. For any final margin calculations based on Sanhua's data, product-specific discrepancies between the finished weight of the product and the sum of the reported FOPs for that products should be corrected using an adverse inference (*i.e.*, the Department should increase the reported FOPs by the highest percentage difference noted for the CONNUMs examined at verification).[141]
- The Department's tests at verification confirmed that there are significant errors in Sanhua's reported FOPs because actual finished product weights exceeded reported net FOP weights and that the reported FOPs were not product-specific. [142]
- Sanhua's reported "maximum tolerance" relating to certain products has no mitigating value because FOPs cannot be less than finished weights regardless of any "tolerances."[143]

Sanhua

- No adjustment is necessary in regard to any differences between the net reported FOP weights and the actual weights of the FSVs. Because both the inputs for the FSV and scrap offsets reported were obtained by allocation, as they were not tracked to the specific product in the normal course of business, it is inevitable that a product might be

[139] *See* Sanhua's DQR at D-5 and exhibit D-6q.
[140] *See* Sanhua Verification Report at 27.
[141] *See* Petitioner's Case Brief at 5; *see also* Sanhua Verification Report at 30.
[142] Petitioner refers to Sanhua Verification Report at 30.
[143] *Id.*

allocated more or less input and scrap than the actual ones, which will lead to a difference between the net FOP and the sample product weight.

- The technical drawings and worksheets provided in the responses, as well as sample products provided during the verification, demonstrated that the reported actual finished product weights were overstated in comparison to the standard weights of the finished FSV and the sample weights taken at verification.[144]
- Impurities, such as the oil debris in the scrap, will reduce the net FOP of an FSV. Conversely, the weight tolerance of an FSV might increase the product weight. However, any resulting differences are well within the tolerance of the product.[145]
- The Department should not adjust both the difference between the actual weight and the net FOP weight that was caused, in part, by the over reported scrap, and Sanhua's reported scrap offsets in the final results. If both adjustments were made, the Department, in effect, would be double-counting the over-reporting of Sanhua's scrap offsets.

Department's Position: The Department has determined that partial AFA is not warranted in this case with respect to the differences between Sanhua's reported net FOPs and the FSV weights in its U.S. sales data file. Sanhua responded to the Department's requests in its first and second supplemental section D questionnaires.[146] With respect to this issue, Sanhua timely complied with all requests for information. Furthermore, we find that Sanhua reasonably followed the methodologies from prior segments in this review and cooperated with the Department's requests for information. In addition, because the Department did not request Sanhua to revise that reporting methodology during the course of the segment or otherwise provide Sanhua with advance notice that a revised reporting methodology is warranted, we do not find that Sanhua did not act to the best of its ability. As such, we find that partial AFA is not warranted in regard to the differences between Sanhua's reported net FOPs and the FSV weights reported in its U.S. sales database.

The Department has established that it is improbable that a respondent is able to produce one kilogram of subject merchandise with less than one kg of input, regardless of the methodology used.[147] Therefore, in instances where the Department finds that the net FOPs reported by a respondent are less than the weight of the subject merchandise, the Department has adjusted the reported FOPs so that the net FOPs is at least equal to the weight of the subject merchandise.[148] In the *Preliminary Results*, the Department adjusted Sanhua's scrap offsets in those instances where the net FOPs reported (*i.e.*, consumption FOPs less scrap offsets) for a particular

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[144] Sanhua refers to the Sanhua Verification Report at 3 and 30.
[145] *See* Sanhua's Case Brief at 33.
[146] *See* Sanhua's February 7, 2013 submission at 8-11 and April 9, 2013 submission at 9-13.
[147] *See, e.g.*, *Final Determination of Sales at Less Than Fair Value and Critical Circumstances: Certain Malleable Pipe Fitting from the People's Republic of China*, 68 FR 61395 (October 28, 2003), and accompanying Issues and Decision Memorandum at Comment 1.
[148] *Id.*; *see also Utility Scale Wind Towers From the Socialist Republic of Vietnam: Final Determination of Sales at Less Than Fair Value*, 77 FR 75984 (December 26, 2012), and accompanying Issues and Decision Memorandum at Comment 4.

CONNUM was less than the weight reported for that CONNUM in Sanhua's U.S. sales data file.[149]

At verification, we compared the reported net FOPs to the sample weights taken at verification and the related weights from the U.S. sales database for selected FSVs.[150] While we agree with Sanhua that the actual sample weights taken at verification were less than the standard weights and reported sales weights of those products, we find that the difference between the weights is within the weight tolerances afforded by the production specifications.[151] Because weight tolerances for FSVs can be either negative or positive, we find that sample weights taken at verification from production subsequent to the POR may or may not be exactly the same as the actual weight of the FSVs included in the U.S. dales database. Because the weights of the FSVs may be more or less than the standard weight reflected on Sanhua's technical drawings or the weights included in Sanhua's U.S. database, we have not adjusted our analysis based on the sample weights taken at verification.

We agree with Petitioner that Sanhua's net FOPs cannot be less than the finished weights of the FSVs. As shown in the Sanhua Verification Report, weight tolerances may account for differences between the actual finished weight of an FSV and the finished weight reflected on sales documents.[152] However, tolerances cannot account for net FOPs that are less than the actual finished weights of the FSVs. Furthermore, because the debris included in the weight of the scrap offset is not included in the reported FOPs, we find it inappropriate for the net weight of the FOPs to be less than the finished weights of the FSVs as a result of the debris.

We agree with Sanhua that adjusting for scrap and not considering such an adjustment when comparing the net FOPs to the FSV sales weight would amount in double-counting. Therefore, because the analysis presented in the Sanhua Verification Report does not take the scrap adjustment discussed in Comment 4, above, into consideration, we are not relying on the analysis in the Sanhua Verification Report for these final results. Instead, as facts available pursuant to section 776(a)(2), we are performing the same net FOP to sales weight analysis the we did in the *Preliminary Results* after adjusting for Sanhua's scrap offsets, as described above in Comment 4, above.[153]

Comment 6: Surrogate Country

Sanhua

- The Department should continue to use the Philippines as a surrogate country for the final results of review because: (1) the Thai HTS does not provide the information required to value brass bar and rod, the most significant input in the production of the subject merchandise; and (2) there are no audited financial statements on the record from Thailand that can be used for the purposes of determining the financial ratios.

[149] *See* Preliminary Analysis Memorandum at 6, "By-Products."
[150] *See* Sanhua Verification Report at 30.
[151] *Id.*, at VE-18.
[152] *Id.*
[153] *See* Final Analysis Memorandum at 2.

- The pronouncements of the Office of the United States Trade Representative ("USTR") renders Thai import data unusable for the purposes of determining SV. Specifically, in 2012, the USTR stated:

> The United States continues to have serious concerns about the lack of transparency in the Thai customs regime and the significant discretionary authority exercised by Customs Department officials. The Customs Department Director General retains the authority and discretion to arbitrarily increase the customs value of imports. The United States has raised concerns with the Thai government regarding this authority and has urged Thailand to eliminate this practice. The U.S. Government and industry also have expressed concern about the inconsistent application of Thailand's transaction valuation methodology and reports of repeated use of arbitrary values by the Customs Department.[154]

  Sanhua claims further that the USTR expanded on this statement in the most recent assessment, repeating the above statement, and adding the remark: "In addition, overly punitive penalties and the threat of criminal prosecution over minor or technical issues in Customs import documentation are significant concerns for importers."[155]
- The International Labor Organization ("ILO") has repudiated the Thai labor data in category 6A because it was found to be inaccurate.[156] Thus, the significant defects in the Thai data render Thailand unusable for the purposes of determining this SV.

Petitioner

- Thailand is a suitable surrogate country because it produces identical and comparable merchandise and has adequate data upon which to determine SV.
- Sanhua's claim that there is insufficient Thai data to determine surrogate financial ratios is erroneous, because Petitioner placed the financial statements of several Thai companies that produce identical or similar merchandise on the record of this review, such as (1) DunAn Metals (Thailand) Co., Ltd. ("DunAn Thailand"), which produces identical merchandise, and (2) Emori Environmental Products Co., Ltd. ("Emori Environmental"), Tozen Thailand Co., Ltd. ("Tozen Thailand"), and P.C. Takashima (Thailand) Co., Ltd. ("P.C. Takashima"), each of which produces comparable merchandise, such as brass valves.

Department's Position: When the Department investigates imports from an NME country, section 773(c)(1) of the Act directs it to base normal value ("NV"), in most circumstances, on the NME producer's FOPs, valued in a surrogate market-economy ("ME") country or countries considered to be appropriate by the Department. In accordance with section 773(c)(4) of the Act, in valuing the FOPs, the Department shall utilize, to the extent possible, the prices or costs

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[154] *See* Office of the United States Trade Representative, 2012 National Trade Estimate Report on Foreign Trade Barriers at page 369 (included on the record as Attachment 1 to letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Rebuttal Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 27, 2013 ("Sanhua's Post-Preliminary Rebuttal SV Comments")).
[155] *See* Office of the United States Trade Representative, 2013 National Trade Estimate Report on Foreign Trade Barriers (included on the record as Attachment 1 to Sanhua's Post-Preliminary Rebuttal SV Comments).
[156] *See* Sanhua's Post-Preliminary Rebuttal SV Comments at Attachment 2.

of FOPs in one or more ME countries that are: (1) at the same level of economic development as the NME country; and (2) significant producers of comparable merchandise.[157]

As we explained in the *Preliminary Results*, both the Philippines and Thailand satisfied these two statutory criteria. However, we selected the Philippines as the primary surrogate country *vis-a-vis* Thailand because (1) the Philippines is at the same level of economic development as the PRC;[158] (2) the Philippines is a significant producer of comparable merchandise;[159] and, (3) the Philippines provides the best available information for valuing the Sanhua's FOPs.[160]

Subsequent to the *Preliminary Results*, no party has claimed that either the Philippines or Thailand is not at the same level of economic development as the PRC or that these countries are not significant producers of comparable merchandise. As a consequence, the Department will not revisit its analysis of these determinations. Instead, we will limit our discussion of surrogate-country selection to the comments raised by the interested parties; namely, data quality and availability with respect to certain FOPs.

Policy Bulletin 04.1 states that, if more than one country satisfies the economically comparable and significant producer criteria for surrogate country selection purposes, "then the country with the best factors data is selected as the primary surrogate country."[161] Importantly, *Policy Bulletin 04.1* explains further that "data quality is a critical consideration affecting surrogate country selection" and that "a country that perfectly meets the requirements of economic comparability and significant producer is not of much use as a primary surrogate if crucial factor price data from that country are inadequate or unavailable."[162]

Section 773(c)(1) of the Act instructs the Department to value the FOPs based upon the "best available information" from an appropriate market economy ME country or a country that the Department considers appropriate. When considering what constitutes the best available information, the Department considers several criteria, including whether the SV is publicly-available; contemporaneous with the POR; represents a broad market average; from an approved surrogate country; tax and duty exclusive; and specific to the input.[163] The Department's preference is to satisfy the breadth of the aforementioned selection criteria.[164] Moreover, it is the

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[157] *See* Policy Bulletin 04.1: Non-Market Economy Surrogate Country Selection Process, (March 1, 2004), *also available at:* http://enforcement.trade.gov/policy/bull04-1.html ("Policy Bulletin 04.1").
[158] *See* Memorandum to Eugene Degnan, "Request for a List of Surrogate Countries for an Administrative Review of the Antidumping Duty Order on Frontseating Service Valves ("FSVs") from the People's Republic of China ("China")," dated August 29, 2012.
[159] *See* Letter from Petitioner, "Petitioner's Comments on Surrogate Country Selection in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated September 17, 2012, at 2.
[160] *See Preliminary Results*, and accompanying Decision Memorandum at 6-10.
[161] *See Policy Bulletin 04.1*.
[162] *Id.*
[163] *See, e.g., Notice of Final Determination of Sales at Less Than Fair Value and Affirmative Critical Circumstances, In Part: Certain Lined Paper Products From the People's Republic of China*, 71 FR 53079 (September 8, 2006), and accompanying Issues and Decision Memorandum at Comment 3.
[164] *See, e.g., Administrative Review of Certain Frozen Warmwater Shrimp from the People's Republic of China: Final results and Partial Rescission of Antidumping Duty Administrative Review*, 76 FR 51940, 51943 (August 19, 2011) and accompanying Issues and Decision Memorandum at Comment 2.

Department's practice to carefully consider the available evidence in light of the particular facts of each industry when undertaking its analysis of valuing the FOPs.[165]

With these precepts in mind, we discuss the available SV data for certain FOPs in turn.

A. Brass Bar and Rod

We disagree with Petitioner that the Department should select Thailand as the primary surrogate country in this review because it has better data with which to value Sanhua's FOPs. This is especially true with respect to brass bar and rod, the primary input used in the production of subject merchandise. As we stated in the *Preliminary Results*, Petitioner's recommended Thai HTS category for brass bar and rod includes profiles, which are at a higher level of manufacturing than brass bar and rod.[166] No party has submitted any information since the *Preliminary Results* that undercuts that earlier finding. As a result, the Thai HTS category is not as specific as the Philippine HTS data for this input, given that the latter does not include profiles.[167]

B. Brass Scrap,[168] Packing Materials and Labor

The available record data for other FOPs confirms that the Global Trade Atlas ("GTA") data from the Philippines is the best available information. For example, the Thai HTS system does not include a separate category for brass scrap.[169] Consequently, there is no Thai data on the record to value brass scrap, the most significant material offset used in the determination of NV.[170]

Moreover, although Petitioner provided Thai HTS numbers for every raw material used in the production of subject merchandise, it did not provide any Thai SVs for packing materials.[171] As

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[165] *See Certain Preserved Mushrooms from the People's Republic of China: Final Results and Final Partial Rescission of the Sixth Administrative Review*, 71 FR 40477 (July 17, 2006) and accompanying Issues and Decision Memorandum at Comment 1.

[166] *See Preliminary Results*, and accompanying Decision Memorandum at 9 *citing* letter from Petitioner, "Petitioner's Comments on Surrogate Values of Production in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated October 16, 2012 ("Petitioner's SV Comments") at Exhibit A.

[167] *See* Sanhua's SV Comments at Exhibit SV-4a; *see also* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: Factor Valuation Memorandum for the Preliminary Results of Review, dated May 2, 2013 ("Preliminary Factor Valuation Memorandum") at Attachment 2.

[168] For additional discussion on this FOP, see Comment 7 below.

[169] *See* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Rebuttal Surrogate Value Information Submission by Zhejiang Sanhua Co., Ltd.," dated October 26, 2012 ("Sanhua's Rebuttal SV Comments") at 3.

[170] *See* comments 3 and 4 above for additional discussion of the valuation of brass bar and rod, and brass scrap in this review.

[171] *See* Petitioner's SV Comments at Exhibit A; *see also* See letter from Petitioner, "Petitioner's Additional Surrogate Value Submission in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated February 19, 2013 ("Petitioner's 2nd Rebuttal SV Comments"); and letter from Petitioner, "Petitioner's Submission of Surrogate Values for Final Results in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated June 17, 2013 ("Petitioner's Post-Preliminary SV Comments").

a consequence, there is no record evidence to support Petitioner's claim that the Thai GTA includes quality data for every raw material, energy, and packing material required to value the subject merchandise.

With respect to the available record data to value labor, neither party placed any ILO data for Thailand on the record of this review. Thus, there is no Thai data on the record to value this input. As a consequence, the Philippine ILO data is the only data available with which to calculate the SV for labor, and as we explained in the *Preliminary Results*, it satisfies the SV criteria.[172] Notably, no party has placed any alternative labor data on the record of this review.

C. Financial Ratios[173]

We also disagree with Petitioner that certain financial statements from Thailand are the best available to value Sanhua's financial ratios. We rejected the financial statements of DunAn Thailand, Emori Environmental, and Tozen Thailand in the *Preliminary Results*.[174] Specifically, we did not use DunAn Thailand because (1) DunAn Thailand received an exemption from corporate income tax[175] under the Investment Promotion Act ("IPA") of B.E. 2520 (IPA Sec. 31) that the Department has previously determined to constitute a countervailable subsidy;[176] and (2) DunAn Thailand is not located in our primary surrogate country.[177] We found that no information on the record indicates that either Emori Environmental or Tozen Thailand produces merchandise comparable to the merchandise under review.[178] Specifically, we stated that an examination of each of the audited financial statements shows that neither company incurred depreciation expenses for production equipment; rather, these companies included depreciation only for office furniture, office machinery, computer equipment, and vehicles.[179] Consequently, as we stated in the *Preliminary Results*, these companies appear to be sales offices, rather than producers of comparable merchandise.[180] Moreover, Emori Environmental did not obtain a qualified opinion from its auditor.[181] None of the parties have placed any information on the record since the *Preliminary Results* that would lead us to change our determination with respect to these companies.[182] Therefore, we will not use them for the final results of review.

However, we disagree with Sanhua's contention that none of the Thai financial statements on the record of this review are useable for the purposes of determining the surrogate financial ratios. Specifically, since the *Preliminary Results*, Petitioner placed the financial statements of P.C. Takashima on the record of this review. Although we have determined not to select Thailand as

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[172] *See Preliminary Results*, and accompanying Decision Memorandum at 17.
[173] For additional discussion on this FOP, see Comment 8 below.
[174] *See Preliminary Results*, and accompanying Decision Memorandum at 19-20.
[175] *See* Petitioner's Surrogate-Value Comments at Exhibit F, note 14.
[176] *See Final Negative Countervailing Duty Determination: Bottle-Grade Polyethylene Terephthalate (PET) Resin From Thailand*, 70 FR 13462 (March 21, 2005); *see also Ball Bearings and Parts Thereof from Thailand: Final Results of Countervailing Duty Administrative Review*, 61 FR 729 (January 6, 1997).
[177] *See Preliminary Results*, and accompanying Decision Memorandum at 19.
[178] *Id.*, and accompanying Decision Memorandum at 20.
[179] *Id.,* citing Petitioner's Second Rebuttal Surrogate-Value Comments at Exhibit 1, note 3 for Emori Environmental, and Petitioner's Second Rebuttal Surrogate-Value Comments at Exhibit 2, note 10 for Tozen Thailand.
[180] *Id.*
[181] *See* Petitioner's 2nd Rebuttal SV Comments at Exhibit 1, "Report of Certified Auditor."
[182] *See* our discussion in Comment 8 below concerning information placed on the record after the *Preliminary Results*.

our primary surrogate country, our examination of P.C. Takashima's financial statements did not reveal any flaws that would make them unusable for the purposes of determining this SV.[183] In addition, Sanhua placed no evidence or argument on the record demonstrating that P.C. Takashima's financial statements were unusable for the purposes of determining the surrogate financial ratios in this review.[184] However, because we have not selected Thailand as the surrogate country in this review based on other factors, discussed above and below, we have not used the financial statements of P.C. Takashima in our calculations for the final results and, instead, followed our regulatory preference of selecting SVs from a single surrogate country.[185]

D. Other Considerations

We disagree with Sanhua that the USTR's criticism of the reliability of the Thai import data renders the Thai import data unusable for the determination of SVs. The reports that Sanhua cited do not address any material inputs specific to this review.[186] In addition, while these reports indicate that the USTR expressed concern over the practices of the Thai Customs Department officials, we cannot conclude from these reports that the entirety of the Thai import data should, *a priori*, be rejected as unreliable. We recently reached an identical conclusion in a separate proceeding,[187] and will do the same in the instant review.

Therefore, based on an examination of the available record evidence, the Department has again determined not to select Thailand as the primary surrogate country because: (1) we are unable to value brass bar and rod, the major input used in the production of subject merchandise, using Thai GTA data; (2) the Thai HTS does not include an HTS category specific to brass scrap, which is used to make the most significant adjustment to material value in the determination of NV; (3) there is no data on the record from Thailand to value packing materials; and (4) there is no labor data on the record with respect to Thailand. Therefore, we have selected the Philippines as the primary surrogate country because it has the best available information as to brass bar and rod, all but one raw material, packing material, brass scrap, labor, and financial ratios.

Comment 7: Surrogate Value for Brass Scrap

Petitioner

- The SV for brass scrap used in the *Preliminary Results* overstates the value of brass scrap and, as a result, understates NV because the SV for brass scrap used in the *Preliminary Results* was higher than the SV for brass bar and rod, the input that generated the scrap. As a consequence, the Department capped the SV of the brass scrap at the value of brass bar and rod. Citing *Steel Wire Garment Hangers from the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 73 FR 47587 (August 14, 2008) and accompanying Issues and Decision Memorandum at Comment 7, Petitioner contends that the Department has previously acknowledged that when a scrap value is higher than

[183] *See* Petitioner's Post-Preliminary SV Comments at Attachment 2.
[184] *See* Sanhua's Case Brief and Sanhua's Rebuttal Brief.
[185] *See* 19 CFR 351.408(c)(2).
[186] *See* Sanhua's Post-Preliminary Rebuttal SV Comments at Attachment 1.
[187] *See Xanthan Gum from the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 33351 (June 4, 2013), and accompanying Issues and Decision Memorandum at Comment 1.

the corresponding material input value, it produces an "unreasonable result." Thus, the Department should base the SV for brass scrap for the final results on the GTA data for secondary scrap (that is, scrap that is to be re-melted) from another acceptable surrogate country, such as Thailand.

Sanhua

- Petitioner's suggestion that the Department determine the SV for brass scrap using another country "such as Thailand," rather than the Philippines, is erroneous because the Philippines GTA system has an HTS number for brass scrap, whereas the Thai GTA has only a broad basket category for copper waste and scrap and no category for brass and copper scrap.
- The Department has many sources of valuing brass scrap from the Philippines: (1) the Department can continue to use the brass scrap value capped at the raw material value, as used in the *Preliminary Results*, or (2) the Department could use the value of brass scrap from the previous review period and adjust it for inflation.

Department's Position: We disagree with Petitioner's contention that it is feasible to value brass scrap with an SV from Thailand. As Sanhua correctly noted, there is no HTS category for brass scrap in Thailand, but rather only a broad basket category for copper waste and scrap.[188] Moreover, Petitioner did not propose an SV for brass scrap in its SV comments.[189] Therefore, for the final results, we will continue to value brass scrap using GTA data from the Philippines.

However, further examination of the data on the record reveals that there is no useable contemporaneous GTA data from the Philippines for brass scrap covering the POR on the record of this review. Specifically, all of the imports of brass scrap into the Philippines during the POR are from India.[190] Because we have previously determined not to use imports from India because India may maintain broadly available, non-industry-specific export subsidies,[191] these imports are not useable for the purposes of the determination of this SV.

For the final results, we will value brass scrap using information placed on the record of this review pertaining to GTA data on imports into the Philippines for the previous POR, adjusted for inflation to render the value contemporaneous with the POR.[192] We previously have found that GTA data, such as the data in question, is publicly-available, representative of broad market averages, free of duties and taxes.[193] Moreover, we find that the GTA data is specific to the

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[188] *See* Sanhua's Rebuttal SV Comments at 3.
[189] *See* Petitioner's SV Comments at Exhibit A.
[190] *See* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: Factor Valuation Memorandum for the Preliminary Results of Review," dated May 2, 2013 at Attachment 2a.
[191] *Id.*, at 4.
[192] *See* Sanhua's SV Comments at Exhibit SV-4c; *see also See* letter from Sanhua, "Frontseating Service Valves from the People's Republic of China; A-570-933; Surrogate Value Information for the Final Determination by Zhejiang Sanhua Co., Ltd.," dated June 17, 2013 ("Sanhua's Post-Preliminary SV Comments") at SV2-6.
[193] *See, e.g.*, *Certain Preserved Mushrooms from the People's Republic of China: Final Results of Antidumping Duty Administrative Review*, 77 FR 55808 (September 11, 2012) and accompanying Issues and Decision Memorandum at Comment 3.

input in question because the description of HTS 7404.00.00.01 covers "Copper Waste and Scrap, of Brass," the very type of scrap produced in Sanhua's production process.

Comment 8: Selection of the Surrogate Financial Statements

Prior to the *Preliminary Results*, Petitioner placed the financial statements of DunAn Thailand,[194] Halcyon Technology Public Company Limited ("Halcyon Technology"),[195] Patkol Public Company Limited ("Patkol"),[196] Emori Environmental Products Co., Ltd. ("Emori Environmental"),[197] and Tozen Thailand Co., Ltd. ("Tozen Thailand"),[198] on the record from Thailand. Sanhua placed the financial statements of PT Tembaga Mulia Semanan TBK ("PT Tembaga Mulia") on the record from Indonesia,[199] and Falcon Metals Corporation ("Falcon Metals") from the Philippines.[200]

In the *Preliminary Results*, we declined to use any of these financial statements for purposes of determining the surrogate financial ratios.[201] Instead, we placed the 2010 financial statements of FVC Philippines, Inc. ("FVC Philippines") on the record of this review.

Subsequent to the *Preliminary Results*, Petitioner placed the financial statements of P.C. Takashima on the record from Thailand.[202] Sanhua placed the financial statements of Concord Metals Inc. ("Concord Metals"),[203] Nation Manufacturing and Industrial Product Corporation ("Nation Manufacturing"),[204] and Makati Foundry Inc. ("Makati Foundry")[205] on the record from the Philippines.

None of the parties to the proceeding presented affirmative arguments concerning use of the financial statements of Halcyon Technology, Patkol, or PT Tembaga Mulia in their case or rebuttal briefs. No party has submitted any evidence on these statements since the Preliminary Results that would undercut our earlier determinations. Moreover, Petitioner mentions in passing that we should use the financial statements from DunAn Thailand and Emori Environmental; however, it did not provide any evidence or detailed argument since the Preliminary Results that makes us question our earlier determinations. Finally, although no party expressly argued for its use, we explain above in Comment 6 why we will not rely upon the financial statements of P.C. Takashima in these final results. Therefore, we continue to find these statements are not the best available information to value Sanhua's financial ratios and will not address these statements in the following discussion. As a consequence, the following six

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[194] *See* Petitioner's SV Comments at Exhibit F.
[195] *See* letter from Petitioner, "Petitioner's Rebuttal Comments on Zhejiang Sanhua Co., Ltd.'s Surrogate Value Information Submission in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated October 26, 2012 at Exhibit 3.
[196] *Id.,* at Exhibit 5.
[197] *See* Petitioner's 2nd Rebuttal SV Comments in an un-numbered exhibit.
[198] *Id.*
[199] *See* Sanhua's SV Comments at Exhibit SV-3a.
[200] *Id.,* at SV-4f.
[201] *See Preliminary Results,* and accompanying Decision Memorandum at 19 and 20.
[202] *See* Petitioner's Post-Preliminary SV Comments at Attachment 2.
[203] *See* Sanhua's Post-Preliminary SV Comments at Attachment SV2-2.
[204] *Id.,* at SV2-3.
[205] *Id.,* at SV2-4.

financial statements are under consideration in these final results: Falcon Metal, Concord Metals, Nation Manufacturing, FVC Philippines, Tozen Thailand, and Makati Foundry.

In selecting financial statements for purposes of calculating financial ratios, the Department's policy is to use data from ME surrogate companies based on the "specificity, contemporaneity, and quality of the data."[206] In accordance with 19 CFR 351.408(c)(4), the Department normally will use non-proprietary information gathered from producers of identical or comparable merchandise in the surrogate country to value manufacturing overhead, general expenses, and profit.[207] Although the regulation does not define what constitutes "comparable merchandise," it is the Department's practice to, where appropriate, apply a three-prong test that considers the: (1) physical characteristics; (2) end uses; and (3) production process.[208] For purposes of selecting surrogate producers, the Department examines how similar a proposed surrogate producer's production experience is to the NME producer's.[209] The Department, however, is not required to "duplicate the exact production experience of" an NME producer, nor must it undertake "an item-by-item analysis in calculating factory overhead."[210] The Department also rejects financial statements of surrogate producers whose production process is not comparable to the respondent's production process when better information is available.[211] The Department generally prefers to rely on more than one surrogate financial statement.[212]

In light of parties' arguments, after examining the eleven financial statements on the record of this review, we have determined that the financial statements of one company, Makati Foundry, represents the best information available for calculating surrogate financial ratios for the final results of review.

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[206] *See, e.g., Steel Wire Garment Hangers From the People's Republic of China: Final Results of Antidumping Duty Administrative Review, 2010-2011,* 78 FR 28803 (May 16, 2013) ("*Steel Wire Garment Hangers*") and accompanying Issues and Decision Memorandum at Comment *1D; Certain Steel Wheels from The People's Republic Of China: Notice of Final Determination of Sales of Less Than Fair Value And Partial Affirmative Final Determination Of Critical Circumstances,* 77 FR 17021 (March 23, 2012) and accompanying Issues and Decision Memorandum at Comment 3.

[207] *See Steel Wire Garment Hangers* and accompanying Issues and Decision Memorandum at Comment 1D.

[208] *See Certain Woven Electric Blankets From the People's Republic of China: Final Determination of Sales at Less Than Fair Value,* 75 FR 38459 (July 2, 2010) and accompanying Issues and Decision Memorandum at Comment 2; *Certain Cased Pencils from the People's Republic of China; Final Results and Partial Rescission of Antidumping Duty Administrative Review,* 67 FR 48612 (July 25, 2002) and accompanying Issues and Decision Memorandum at Comment 5.

[209] *See Certain Oil Country Tubular Goods from the People's Republic of China: Final Determination of Sales at Less Than Fair Value, Affirmative Final Determination of Critical Circumstances and Final Determination of Targeted Dumping,* 75 FR 20335 (April 19, 2010) and accompanying Issues and Decision Memorandum at Comment 13.

[210] *Id.* (citing *Nation Ford Chem. Co. v. United States,* 166 F.3d 1373, 1377 (Fed. Cir. 1999); *Magnesium Corp. of America v. United States*, 166 F.3d 1364, 1372 (Fed. Cir. 1999)).

[211] *See Persulfates from the People's Republic of China: Final Results of Antidumping Duty Administrative Review,* 70 FR 6836 (February 9, 2005) and the accompanying Issues and Decision Memorandum at Comment 1.

[212] *See, e.g.*, *Final Determination of Sales at Less Than Fair Value: Coated Free Sheet Paper from the People's Republic of China,* 72 FR 60632 (October 25, 2007) and accompanying Issues and Decision Memorandum at Comment 3B; *Brake Rotors From the People's Republic of China: Final Results and Partial Rescission of the Sixth Antidumping Duty Administrative Review and Final Results of the Ninth New Shipper Review,* 69 FR 42039 (July 13, 2004) and accompanying Issues and Decision Memorandum at Comment 2.

A summary of the parties' comments and our positions follow.

A. Falcon Metal

Sanhua

- The Department rejected the use of Falcon Metal in the *Preliminary Results* because Falcon Metal's financial statements did not identify the type of merchandise produced or the raw materials used in its production process. Nevertheless, Falcon Metal is the best source of information for valuing surrogate financial ratios in this review. Specifically, Sanhua placed public information on the record showing that: (1) website information Falcon Metal's business includes valves; (2) the Philippine Security and Exchange Commission registration information shows that Falcon Metal is a manufacturer; (3) the Philippine water utility classifies Falcon Metal as a manufacturer of brass fittings; (4) the BrassCraft category of "brass fittings" includes valves and are comparable to brass valves; and, (5) the Department observed at verification that the brass valves produced by Sanhua are composed of many kinds of "brass fittings."

Petitioner

- Falcon Metal is not a suitable surrogate company because there is no information on the record showing that Falcon Metal manufactures FSVs or brass valves. Rather, Sanhua's evidence indicates that Falcon Metal is involved in trading and may sell fire protection equipment, foundry equipment, and "valves." Moreover, the Department rejected Falcon Metal in the *Preliminary Results*, noting that its financial statements and other evidence do not indicate that the company actual used the relevant raw materials or produced identical or comparable merchandise. Thus, Falcon Metal represents a less suitable surrogate company than financial statements of the Thai producers Emori Environmental, Tozen Thailand, and P.C. Takashima.

Department's Position: We disagree with Sanhua that Falcon Metal has the most suitable financial statements for the purposes of determining the surrogate financial ratios. Specifically, citing Sanhua's SV Comments[213] at Exhibit SV-4f, we stated in our Preliminary Decision Memorandum that Falcon Metal's financial statements do not identify the type of merchandise produced or the raw materials used in its production process.[214] We disagree that the information that Sanhua placed on the record since the *Preliminary Results* rebuts our conclusion.

Specifically, the "website" information Sanhua placed on the record constitutes two separate, third-party, business-directory websites which Sanhua claims associates Falcon Metals with "valves."[215] However, neither website specifically identifies Falcon Metals as a producer of identical or comparable merchandise. Moreover, the first third-party website states that the business type for Falcon Metals is "Industrial Services and Equipment."[216] Listed on the website

[213] *See* Sanhua's SV Comments.
[214] *See Preliminary Results,* and accompanying Decision Memorandum at 20.
[215] *See* Sanhua's Post-Preliminary SV Comments at Attachment SV2-1.
[216] *Id.*

are the words "Falcon faucets and valves; metal castings of brass, bronze, or copper alloy;" however, the website does not specify whether Falcon Metals is a producer or reseller of those items.[217] In addition, the information is not dated. The second third-party website has no information concerning Falcon Metals, other than its name, location, fax, and phone number.[218] Although the word "valves" appears on this page, it is in the context of directing customers to search for more companies in that industry.[219] Therefore, this website does not identify what Falcon Metals produces. Moreover, Falcon Metals does not appear to have a website. Therefore, these websites do not indicate whether Falcon Metals produces merchandise that is either identical or comparable.

We disagree with Sanhua's that other sources demonstrate that Falcon Metal is a producer of identical or comparable merchandise. Specifically, the information found on the website of the Philippine Securities and Exchange Commission ("SEC") shows that Falcon Metal is one of 56,105 manufacturers found on the Philippine SEC website.[220] The Philippine SEC website does not identify what Falcon Metal produces.[221] Moreover, information from the Philippine water authority states that Falcon Metal is an accredited manufacturer of brass fittings,[222] but does not indicate whether Falcon Metal produces merchandise that is identical or comparable to the subject merchandise.[223] We find information from BrassCraft particularly unconvincing. Specifically, there is no information or argument on the record that links BrassCraft to Falcon Metal in anyway whatsoever. Consequently, BrassCraft's classification of needle and humidifier valves as a subset of brass fittings,[224] is not relevant to the Falcon Metal, and does not imply that brass fittings, needle valves and/or humidifier valves are identical or similar to the subject merchandise. In addition, Petitioner provided information from a business website in the Philippines that specifies Falcon Metal's line of business as "trading."[225] Finally, we note that there is no information or affirmative argument on the record that brass fittings, needle valves, or humidifier valves represent merchandise that is either identical or comparable to the subject merchandise in this review.

Finally, Sanhua's contention that the "Department observed at verification that the brass valves produced by Sanhua are composed of many kinds of 'brass fittings'" is not supported by evidence on the record:[226] The verification report is silent on the issue of brass fittings.[227] Moreover, there is no record evidence that Sanhua produces brass fittings, or that subject merchandise is comprised of brass fittings.[228] For example, Sanhua's financial statements state that, "{t}he business scope of the company is: sale and production of service valve, electronic

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[217] *Id.*
[218] *Id.*
[219] *Id.*
[220] *Id.*
[221] *Id.*
[222] *Id.*
[223] *Id.*
[224] *Id.*
[225] *See* letter from Petitioner, "Petitioner's Submission of Surrogate Values for Final Results in the Third Administrative Review of Certain Frontseating Service Valves from the People's Republic of China: Case No. A-570-933," dated June 27, 2013 ("Petitioner's Post-Preliminary Rebuttal SV Comments"). at Attachment 1.
[226] *See* Sanhua Verification Report.
[227] *Id.*
[228] *See generally*, Sanhua's AQR, CQR and DQR DQR, 1st SQR and 2nd SQR.

expansion valve, drain pump, solenoid valve, check valve, compressor, compress piping unit, electromechanical hydraulic pressure control pump and other electromechanical hydraulic pressure control unit. Main production: Refrigeration control units."[229] As a consequence, Sanhua's implication that Falcon Metal produces identical or comparable merchandise on the basis of Brasscraft's classification of needle valves or humidifier valves as brass fittings is unsupported by record evidence.

B. Concord Metals

Sanhua

- Sanhua placed public information on the record showing that: (1) Concord Metals' website indicates that it produces comparable merchandise (brass valves); (2) Concord Metals' 2011 financial statements indicate that Concord Metals is a manufacturer and that it has no transactions with affiliated parties; (3) the Philippine water utility classifies Concord Metals as a manufacturer of valves; and, (4) Concord Metals' audited financial statements include enough information to calculate the surrogate financial ratios.

Petitioner

- Concord Metals is not a suitable surrogate company for the purposes of determining surrogate financial ratios solely because its name appears on a list of accredited suppliers. Rather, the record indicates that Concord Metals is a reseller of valves manufactured in China by its affiliate Fujian Shengli Valves Co. Ltd. Moreover, Concord Metals' operations in the Philippines are limited to an office and a warehouse. In addition, the Department rejected Concord Metals for these reasons in previous reviews.

Department's Position: We disagree that Concord Metals constitutes an acceptable company with which to value surrogate financial ratios in this review. Specifically, even though its website states that Concord Metals "is a leading machining and fabrication company"[230] and that its product line includes, "cast iron, pressure fitting valves, hydrants and saddle clamps,"[231] it also indicates that its merchandise may be produced by its sister company in the PRC.[232] As Petitioner noted, the Concord Metals' website provides addresses in the Philippines only for an office and a warehouse.[233] Moreover, neither the website nor the financial statements on the record indicate what Concord Metals "produces" in the Philippines.[234] Finally, because of the specific, contradictory information in Concord Metals's financial statements and on its website, we do not find general information from a Philippine water utility, which classifies Concord Metals as a manufacturer of valves, to be persuasive. Therefore, we have determined not use

[229] *See* Sanhua AQR at A-16, A-17, and Exhibit A-14a.
[230] *See* Sanhua's Post-Preliminary SV Comments at Attachment SV2-2.
[231] *Id.*
[232] *See* Petitioner's Post-Preliminary Rebuttal SV Comments at Attachment 2.
[233] *Id.*
[234] *Id.; see also* Sanhua's Post-Preliminary SV Comments at Attachment SV2-2.

these financial statements to value the surrogate financial ratios for subject merchandise in this review.

C. Nation Manufacturing

Sanhua

- Sanhua placed the following public information on the record showing: (a) Nation Manufacturing's website indicates that it produces comparable merchandise (valves); (b) the Philippine water utility classifies Nation Manufacturing as a manufacturer of brass valves; (c) Nation Manufacturing's audited financial statements include enough information to calculate the surrogate financial ratios.

Petitioner

- Nation Manufacturing cannot be used as a surrogate company in the instant review based on product lines and material inputs. Specifically, Nation Manufacturing's status as a qualified supplier for waterworks projects does not indicate that Nation Manufacturing produced FSVs or comparable products during the POR. Rather, the record shows that Nation Manufacturing produced: polyvinyl chloride ("PVC") pipes, PVC fittings, molded PVC fittings, PVC electrical pipes, PVC sewer pipes, PVC sewer fittings, high-density polyethylene ("HDPE") pipe and tubing, plastic compression fittings, HDPE butt fusion fittings, and HDPE electro fusion fittings. Thus, all of Nation Manufacturing's products represent plastic fittings and pipes, and Petitioner argues that Nation Manufacturing's financial statements are less suitable as a source for surrogate financial ratios than the Thai producers Emori Environmental, Tozen Thailand, and PC Takashima.

Department's Position: We disagree that Nation Manufacturing constitutes an acceptable company with which to value surrogate financial ratios in this review. Specifically, we disagree with Sanhua that Nation Manufacturing's website indicates that it produces identical or comparable merchandise. Rather, its website identifies its products as: uPVC pipes, uPVC fittings, molded uPVC fittings, uPVC electrical pipes, uPVC sewer pipes, uPVC sewer fittings, HDPE pipe and tubing, plastic compression fittings, HDPE butt fusion fittings, and HDEP electric fusion fittings.[235] Therefore, we agree with Petitioner that Nation Manufacturing produces fittings and pipes of plastic and does not produce identical or comparable merchandise. In addition, Nation Manufacturing's audited financial statements do not identify what the company produces or what raw material it uses.[236] As a consequence, because we have specific information from the company's website, we do not find general information from the Philippine water authority, which classifies Nation Manufacturing as a producer of brass valves, to be persuasive.. Therefore, we have determined not use these financial statements to value the surrogate financial ratios for subject merchandise in this review

[235] *See* Petitioner's Post-Preliminary Rebuttal Surrogate Value Comments at Attachment 2.
[236] *See* Sanhua Post-Preliminary SV Comments at SV2-3.

D. FVC Philippines

Sanhua

- The financial statements of FVC Philippines should not be used for the purposes of determining surrogate financial ratios because there are better sources of surrogate financial ratios on the record and these financial statements are outside of the period of review ("POR").

Petitioner

- Petitioner did not address this issue.

Department's Position: We agree with Sanhua that we should not use the financial statements of FVC Philippines to determine the surrogate financial ratios. Specifically, although we used these financial statements in the final results of the immediately-preceding review and in the *Preliminary Results*, they are not contemporaneous with the instant review. Moreover, as explained below, we have better and more contemporaneous sources of information with which to value the surrogate financial ratios.

E. Tozen Thailand

Sanhua

- Petitioner erroneously provided an address of a Thai factory, Tozen Industrial Co., Ltd., which is different from Tozen Thailand Co., Ltd. ("Tozen Thailand"), a sales office without production.
- Petitioner's proposed financial ratio calculations are in error because Petitioner: (1) classified "consumable materials" as overhead, rather than material cost; (2) included "commission expense" in selling, general, and administrative expenses ("SG&A"), rather than classify it as a direct selling expense; and (3) erroneously included "profit from the sale of asset and other income" in "profit," even though it has nothing to do with the production and sale of merchandise.

Petitioner

- Sanhua's statements with respect to Tozen Thailand are erroneous. Specifically, Tozen Thailand's website states that "major production facilities are located in Japan, China, Malaysia, and Thailand," and lists separate addresses in Thailand for a factory and for offices.
- Commissions should not be excluded from the numerator in the determination of SG&A because commissions are selling expenses and, thus, are properly included in SG&A.

Department's Position: We find that we should not use the financial statements of Tozen Thailand to determine the surrogate financial ratios. Since the *Preliminary Results*, Petitioner provided pages from Tozen Thailand's website, which stated that Tozen Thailand had production facilities in Thailand and identified the name and address of a production facility, Tozen

Thailand Industrial Co., Ltd.[237] We note two things: (1) the Department originally placed this information on the record prior to the *Preliminary Results*;[238] and (2) the presence of "a factory" in Thailand does not compensate for the fact that the financial statements Petitioner placed on the record for Tozen Thailand do not account for production equipment.[239] In addition, Tozen Thailand's company profile included in the same document states that it is a "world class manufacturer of expansion joint and flexible hoses in South East Asia and admirable market leader in Thailand."[240] As a consequence, even if Tozen Thailand's financial statements accounted for the production experience of any facility in Thailand, it is not clear that that facility produces comparable merchandise. Thus, for these reasons, and because Tozen Thailand is not located in the primary surrogate country,[241] we have determined not to use these financial statements for the determination of surrogate financial ratios in the final results.

Therefore, because we have determined not to use these financial statements for the final results, we will not address the specific issues parties have raised with respect to calculation of the surrogate financial ratios using these statements.

F. Makati Foundry

Sanhua

- The Department found Makati Foundry to be an appropriate source of surrogate financial ratios in the 2010-2011 review. There has been no change in information since that time. In addition, public information on the record shows that: (a) Makati Foundry's website indicates that it produces comparable merchandise (valves); (b) the Philippine water utility classifies Makati Foundry as a manufacturer of valves; and (c) Makati Foundry's audited financial statements include enough information to calculate the surrogate financial ratios.

Petitioner

- Despite the fact that the Department considered Makati Foundry to be an appropriate surrogate company in the previous review, Makati Foundry manufactures "cast-iron valves and fittings" and "different types of fire hydrants, cast-iron manhole frames and covers and other specialized water valves that cater to the needs of various sectors." In addition, Makati Foundry states that it "ventured into PVC pipes manufacturing" in 1995, but does not claim to produce any products that use brass or that are comparable to FSVs. Moreover, the Department rejected the iron valves as comparable merchandise in prior reviews. As a result, even if valves were more comparable to FSVs than some other alternatives, Makati Foundry's large cast-iron valves for water distribution are less comparable to FSVs based on materials,

[237] *See* Petitioner's Post-Preliminary SV Comments at Attachment 1.
[238] *See* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: Websites of the Financial Statement Companies," dated May 2, 2013, at Attachment 5.
[239] *See* Petitioner's 2nd Rebuttal SV Comments at Exhibit 2, note 10.
[240] *Id.*
[241] 19 CFR 351.408(c)(2).

production processes, and product uses than are the products of other Thai companies, Emori Environmental, Tozen Thailand, and PC Takashima, whose contemporaneous financial data Petitioner placed on the record.

Department's Position: In light of parties' arguments, we have determined that the financial statements of Makati Foundry represents the best information available for calculating surrogate financial ratios for the final results of review for the reasons set forth below.

- **Specificity:** Makati Foundry's website indicates that it produces butterfly valves, air release valves, check valves, float valves, and MF gate valves, and other types of valves used in the water industry.[242] Thus, Makati Foundry's own information confirms that it produces valves. As a consequence, Makati Foundry is the only Philippine company on the record of this review with contemporaneous financial statements that produces valves.

- **Contemporaneity:** Makati Foundry's financial statements cover the period calendar year 2011, which has an 8-month overlap with the POR.[243] Thus, we regard these statements as contemporaneous with the POR.

- **Quality of the Data:** Makati Foundry's financial statements are complete and sufficiently detailed to disaggregate materials, labor, overhead, and SG&A expenses.[244] There is no record evidence to indicate that Makati Foundry received benefits that the Department has a basis to believe or suspect to be countervailable.[245] Moreover, Makati Foundry earned a profit.[246]

We agree with Petitioner's characterization that Makati Foundry manufactures cast-iron valves and fittings, and different types of fire hydrants, cast-iron manhole frames and covers and other specialized water valves, and that it may even produce PVC pipes.[247] Nevertheless, despite the fact that Makati Foundry's products are not identical to the merchandise sold by Sanhua, it produces metal valves that are comparable to subject merchandise. As a result, its' products and production process most closely represent the production experience of the respondents. Thus, the Department considers the Makati Foundry's financial statements to represent the best available information on the record.

We disagree with Petitioner's characterization that the Department previously determined that metal valves are not comparable to the merchandise under review. Because there is no hierarchy for applying the above-mentioned criteria for determining comparability for the purposes of selecting which financial statements to use, the Department's practice is to evaluate the record

[242] *See* Sanhua's Post-Preliminary SV Comments at Exhibit SV2-4.
[243] *Id.*
[244] *Id.*
[245] *Id.*
[246] *Id.*
[247] *Id.*

evidence and make such decisions on a case-by-case basis.[248] In the first administrative review of this proceeding, we rejected the financial statements of two metal valve producers because we had better information on the record[249] – that is, we had the financial statements of a company that consumes significant amounts of brass and produced products similar to subject merchandise.[250] However, in the instant review, none of the Philippine companies whose financial statements are on the record produce brass valves. In addition, we have concluded that none of the Philippine companies whose financial statements are on the record appear to have significant consumption of brass. Although we prefer to select companies that produce brass valves, and/or consume a significant amount of brass, there are no financial statements of such companies on the record of this review. Therefore, we will select the financial statements of the companies on the record of this review from the primary surrogate country that produce the products which are most similar to the subject merchandise, which, in this case, is Makati Foundry, a producer of metal valves.

Comment 9: *Ex Parte* Meetings

Sanhua

- The Department deprived Sanhua of an equal opportunity to address issues raised on the record because the Department held off-the-record *ex parte* discussions without providing Sanhua details of the nature of the conversation, the questions asked, or the answers that the Department provided (if any). Sanhua specifically objects to:
- The March 14, 2013, telephone conversion between the Assistant Secretary for Enforcement and Compliance and Department staff and Congressman Robert Latta and his staff, discussing issues of concern to his constituent, Petitioner, in the underlying review.
- The May 10, 2013, meeting with Petitioner, Petitioner's counsel, and Petitioner's lobbyist. Sanhua notes that the memorandum to the file concerning this meeting included an email from Petitioner's lobbyist identifying issues raised in the *Preliminary Results* and additional issues that are not properly subject to review by the Department.[251]
- Sanhua was prevented from making any knowledgeable responses to Congressman Latta's remarks concerning the potential use of AFA prior to the preliminary results of review.
- Petitioner's *ex parte* meeting after the *Preliminary Results* effectively provided Petitioner an additional opportunity to comment on the *Preliminary Results* and deprived Sanhua of the opportunity to know the details and respond accordingly. Furthermore, because the

[248] *See Certain Oil Country Tubular Goods from the People's Republic of China: Final Determination of Sales at Less Than Fair Value, Affirmative Final Determination of Critical Circumstances and Final Determination of Targeted Dumping,* 75 FR 20335 (April 19, 2010) and accompanying Issues and Decision Memorandum at Comment 13.

[249] *See* our discussion of Oswal Industries and Rane Engine Valve in *FSVs 2008-2010 Final Results* and accompanying Issues and Decision Memorandum at Comment 1.

[250] *See,* generally, *FSVs 2008-2010 Final Results* and accompanying Issues and Decision Memorandum at Comment 1.

[251] Sanhua cited specifically, "discrepancies between findings and market," "Parker's situation," and to "identify a path forward to answer May 3rd Preliminary Decision." *See* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: *Ex Parte* Meeting with Parker-Hannifin Corporation ("Parker-Hannifin")," dated May 15, 2013 at Attachment 1.

meeting occurred before the deadline for filing post-preliminary SV comments, Petitioner had an additional opportunity to gauge the Department's attitude regarding the issues discussed and to draft its written comments accordingly.

- The Department's regulations do not have a provision for post-preliminary, private *ex parte* meetings. As a consequence, such *ex parte* meetings are unlawful. Thus, the Department may not consider any information received or discussed in the *ex parte* discussions, which are not part of the official record, and the decision making officials present at the *ex parte* discussions should recuse themselves from any further participation in the decision making for the final results.

Petitioner

- The Department should disregard Sanhua's objection to Petitioner's *ex parte* meetings. Sanhua is trying to intimidate the Department with a threat of litigation, should the Department determine to make adverse inferences in light of the errors and omissions discovered at verification. In addition, 19 CFR 351.104 explicitly permits *ex parte* meetings, and requires that the official record of a proceeding include all factual information and written argument, including "government memoranda pertaining to the proceeding, memoranda of *ex parte* meetings, determinations, notices published in the *Federal Register*, and transcripts of hearings." Petitioner asserts that the Department's explanations were sufficiently detailed and there is no prejudice to Sanhua.

Department's Position: We agree with Petitioner. In relevant part, section 777(a)(3) of the Act states:

> The administering authority . . . shall maintain a record of any ex parte meeting between--
>
> (A) interested parties or other persons providing factual information in connection with a proceeding, and
>
> (B) the person charged with making the determination, or any person charged with making a final recommendation to that person, in connection with that proceeding, if information relating to that proceeding was presented or discussed at such meeting. The record of such an ex parte meeting shall include the identity of the persons present at the meeting, the date, time, and place of the meeting, and a summary of the matters discussed or submitted. The record of the ex parte meeting shall be included in the record of the proceeding.

The Department's regulations also speak to *ex parte* meetings. In particular, 19 CFR 351.104(a) states that:

> The Secretary will include in the official record all factual information, written argument, or other material developed by, presented to, or obtained by the Secretary during the course of a proceeding that pertains to the proceeding. The official record will include government memoranda pertaining to the proceeding, memoranda of *ex parte* meetings, determinations, notices published in the Federal Register, and transcripts of hearings.

Thus, both the Act and the Department's regulations specifically permit and provide a procedure for *ex parte* meetings during the course of an administrative proceeding. In addition, contrary to Sanhua's assertions, neither the Act nor the Department's regulations limit the time period for holding *ex parte* meetings. Thus, we disagree that the *ex parte* meetings held by the Department, either before or after the *Preliminary Results*, were unlawful.[252]

Moreover, we disagree with Sanhua's contention that the Department failed to adequately document the *ex parte* meetings that were held and, thus, deprived Sanhua of an opportunity to address the issues that were raised. Specifically, after each *ex parte* meeting, the Department issued an *ex parte* memorandum.[253] Thus, the *ex parte* meetings are properly recorded on the record. The post-preliminary *ex parte* memorandum included email correspondence between one of Petitioner's representatives and the Department.[254] Thus, as required by Section 777(a)(3)(B) of the Act, the Department met its statutory requirements to inform parties to the proceeding about the identity of the persons present at the meeting, the issues discussed, and the documents submitted.

Participants in the *ex parte* meeting did not present to the Department or discuss any information that is not on the record – and Sanhua made no credible allegation that such events occurred. Indeed, had that occurred, the Department would have been required to place such information on the record, consistent with its legal obligations.[255] Therefore, Sanhua's contention that Department officials who participated in any *ex parte* meeting are prejudiced by the "new" information such that they should recuse themselves is speculative and otherwise has not merit.

Finally, we note that if Sanhua had any concerns with respect to the integrity of the *ex parte* meetings held during the course of this review and the Department officials present, it was also welcome to request an *ex parte* meeting of its own. It did not do so. Therefore, for the final results, we will not alter the record with respect to the *ex parte* meetings and we will not request Department officials who participated in them to recuse themselves from the proceeding.

Comment 10: Use of the Correct Data Set

Sanhua

- The Department claims to have based its margin calculations in the *Preliminary Results* on the information contained in the second FOP database, FOP02, filed in conjunction with Sanhua's supplemental questionnaire response. However, the Department actually used the FOP01 database filed with its original section D response. The Department should base its calculations for the final results on the FOP02 database.

[252] *See* section 777(a)(3) of the Act; 19 CFR 351.104(a).
[253] *See* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: *Ex Parte* Phone Call with Congressman Robert (Bob) Latta (5th District-OH)," dated March 19, 2013 ("Pre-Preliminary *Ex Parte* Memorandum"); *see also* Memorandum to the File, "2011-2012 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: *Ex Parte* Meeting with Parker-Hannifin Corporation ("Parker-Hannifin")," dated May 15, 2013 ("Post-Preliminary *Ex Parte* Memorandum").
[254] *See* Post-Preliminary *Ex Parte* Memorandum at Attachment 1.
[255] *See, e.g.,* 19 CFR 351.104(a).

Petitioner

- To the extent that the Department uses Sanhua's data for the purposes of the final results, the Department should base its calculations on Sanhua's most recent, verified database.

Department's Position: We agree that the Department did not use the FOP02 database in its calculations as claimed in the *Preliminary Results*.[256] The error was inadvertent. As a result, we are basing our calculations on the FOP02[257] database provided in Sanhua's supplemental questionnaire response,[258] as adjusted pursuant to our verification findings.[259]

Comment 11: Brokerage and Handling Calculations

Sanhua

- The Department erroneously calculated the brokerage and handling ("BNH") expenses for a 40-foot container, increasing the per-kilogram expense for a 40-foot container by the ratio of total cargo weight of the 40-foot container to the 20-foot container, so that, in moving from a 20-foot to a 40-foot container, the BNH charges increase by 152 percent, whereas the weight increases by only 123 percent. Thus, the Department's methodology is unreasonable. Therefore, the Department should correct this error for the final results by multiplying the overall dollar value of the per-container BNH charges by the relative weight of a 40-foot and 20-foot container, then dividing the result by the weight of the 40-foot container as proposed in Sanhua's Post-Preliminary SV Comments.[260]

Petitioner

- The Department should reject Sanhua's argument because the goal of the SV analysis is to determine the cost or charge that a manufacturer would have incurred had it been operating in a market-economy country. Moreover, nothing in Sanhua's argument calls into question the validity of the per-kilogram brokerage and handling charge that the Department used as an SV in its calculations.

Department's Position: We agree with Sanhua that it is distortive to increase the per-unit value of BNH based the relative size of the cargo containers.

In the *Preliminary Results*, we calculated brokerage and handling using a price list covering the fees required to export a standardized cargo of goods in the Philippines, as published in the World Bank's *Doing Business 2013, Economy Profile: Philippines* publication.[261] In addition,

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[256] *See* Memorandum to the File, "Frontseating Service Valves from the People's Republic of China: Analysis Memorandum for the Preliminary Results of the 2011-2012 Administrative Review: Zhejiang Sanhua Co., Ltd. ("Sanhua")," dated May 2, 2013, at 2.
[257] *See* Final Analysis Memorandum, at 4 and Attachments 8 and 10.
[258] *See* Sanhua's submission, "Frontseating Service Valves from the People's Republic of China; A-570-933; Response by Zhejiang Sanhua Co., Ltd. to the Sections C and D Supplemental Questionnaire," dated February 7, 2013.
[259] *See* Comments 2 through 5 of this memorandum.
[260] *See* Sanhua's Post-Preliminary SV Comments at Exhibit SV2-8.
[261] *See* Preliminary Factor Valuation Memorandum at 7.

we used the information in that publication to extrapolate the cost for a standard 40 foot container.[262] Specifically, we multiplied the standard per-unit cost of the 20-foot container by the ratio of the maximum cargo weight of a 40-foot container divided by the maximum cargo weight of the standard 20-foot container, as identified in the website http://www.foreign-trade.com/reference/ocean.cfm.[263]

However, for these final results, further examination of the record reveals that there is no record evidence to suggest that the per-unit BNH charges increase proportionally to the size of the container. Moreover, in the past we have stated that we do not adjust the per-unit BNH charges to account for the size of the container.[264] Therefore, for the final results, we have revised our calculations. Specifically, we will continue to base the per-unit SV for BNH on the per-unit costs identified in *Doing Business 2013, Economy Profile: Philippines* without making adjustments for container size.[265] The resulting calculations have the same mathematical result as the calculations proposed by Sanhua in Exhibit SV2-8 of its Post-Preliminary SV Comments.[266] Finally, although no party claims otherwise, we also note that the data from this source satisfies the Department's criteria for selecting SVs because it is publicly available; specific to the input in question;[267] representative of broad market average prices;[268] contemporaneous with the POR;[269] and free of taxes.

[262] *See* Preliminary Factor Valuation Memorandum at Attachment 9.
[263] *Id.*
[264] *See, e.g., Wooden Bedroom Furniture from the People's Republic of China: Final Results of Antidumping Duty New Shipper Reviews,* 76 FR 9747 (February 22, 2011) and accompanying Issues and Decision Memorandum at Comment 3.
[265] *See* Memorandum to the File, "Antidumping Duty Administrative Review of Frontseating Service Valves from the People's Republic of China: Factor Valuation for the Final Results of Review," dated concurrent with this memorandum at 2 and Attachments 1 and 9.
[266] *See* Sanhua's Post-Preliminary SV Comments at Exhibit SV2-8, where Sanhua proposes that the Department increase the total per-container BNH charge by the ratio of the weight of the 40-foot container to the 20-foot container, then divide the result by the weight of the 40-foot container.
[267] *See* Preliminary Factor Valuation Memorandum at Attachment 12.
[268] *See Hand Trucks and Certain Parts Thereof From the People's Republic of China: Final Results and Final Rescission in Part, of Antidumping Duty Administrative Review*, 76 FR 36083 (June 21, 2011) and accompanying Issues and Decision Memorandum at Comment 8; *see also Certain New Pneumatic Off-the-Road Tires From the People's Republic of China: Final Results of the 2009-2010 Antidumping Duty Administrative Review and Final Rescission, in Part,* 77 FR 14495 (March 12, 2012) and accompanying Issues and Decision Memorandum at Comment 11.
[269] *See* Preliminary Factor Valuation Memorandum at Attachment 12.

RECOMMENDATION

Based on our analysis of the comments received, we recommend adopting the above positions. If this recommendation is accepted, we will publish the final results of the review and the final weighted-average dumping margins in the *Federal Register*.

Agree ✓ Disagree _____

Ronald K Lorentzen

Ronald K. Lorentzen
Acting Assistant Secretary
for Enforcement and Compliance

November 29, 2013

Date