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5th Administrative Review
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DATE: October 4, 2006

MEMORANDUM TO: David M. Spooner
Assistant Secretary
for Import Administration

FROM: Stephen J. Claeys
Deputy Assistant Secretary
for Import Administration

SUBJECT: Issues and Decision Memorandum for the Fifth Antidumping Duty Administrative Review of Certain Polyester Staple Fiber from Taiwan

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SUMMARY

We have analyzed the case and rebuttal briefs of interested parties in the fifth administrative review of certain polyester staple fiber from Taiwan. As a result of our analysis, we have made changes to the preliminary results. We recommend that you approve the positions we have developed in the "Discussion of Issues" section of this memorandum. Below is a complete list of the issues in this review for which we received comments and rebuttals from interested parties:

General Comments

Comment 1: Coding of Regular/Specialty Fiber Products
Comment 2: FET's "Rebates"
Comment 3: Major Input Adjustment
Comment 4: Fixed Overhead Costs
Comment 5: Using the Revised Total Cost of Manufacture for G&A Expenses and Financial Expenses
Comment 6: Allocation of FET's G&A Expenses
Comment 7: Idled Equipment Expenses in the G&A Expenses Ratio

Comment 8: Investment Expenses in the Financial Expenses Ratio
Comment 9: Reconciliation of Total Consolidated Interest Expenses

BACKGROUND

On June 6, 2006, the Department of Commerce ("the Department") published in the Federal Register the preliminary results of the fifth administrative review of the antidumping duty order on certain polyester staple fiber ("PSF") from Taiwan.[1] The period of review ("POR") is May 1, 2004, through April 30, 2005. We invited interested parties to comment on the Preliminary Results.

On July 13, 2006, we received case briefs from Wellman, Inc. and Invista, S.a.r.l. (collectively, "the petitioners"), and Far Eastern Textile Limited ("FET" or "respondent"). On July 24, 2006, we received rebuttal briefs from the petitioners and FET.

DISCUSSION OF ISSUES

GENERAL

Comment 1: Coding of Regular/Specialty Fiber Products

Petitioners' Argument: The petitioners argue that FET has incorrectly coded "regular" fiber products as "specialty" fiber products. According to the petitioners, FET has stated on the record that none of its products meet the Department's criteria for specialty products. Specifically, the petitioners contend that the record demonstrates that FET does not add the chemical additives necessary for production of specialty fibers (dope dyed, anti-bacterial, flame retardant) during the polymerization stage of the PSF production process, as required for the classification of PSF as a specialty product. To support this claim, the petitioners cite to FET's January 20, 2006 letter in which FET stated that:

> The chemical additives are added during the fiber production process to produce polyester fibers with black coloring or anti-bacterial effect. (In our rebuttal comments on CONNUM submitted November 28, 2005, we incorrectly stated that the agent is added to the polymer production process, which we now correct.)

January 20, 2006 supplemental questionnaire response ("SQR") at TS-5 (emphasis in original). The petitioners argue that even though FET acknowledged that it does not meet the criteria for specialty fiber codes "5" (dope dyed), "6" (anti-bacterial), or "7" (flame retardant), FET has wrongly coded certain of its sales and costs as being specialty products.

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[1] See Certain Polyester Staple Fiber from Taiwan: Preliminary Results of Antidumping Duty Administrative Review, 71 FR 32514 (June 6, 2006) ("Preliminary Results").

The petitioners further claim that FET has tried to confuse the record on this issue and the petitioners cite several examples of this. First, the petitioners state that, when asked by the Department to discuss the introduction of chemical additives during the polymerization stage of PSF production, FET failed to do so in its May 8, 2006 SQR. The petitioners state that FET's response inappropriately focused on another topic.

Second, the petitioners state that FET has also tried to confuse the record by wrongly focusing discussions of coloring-agent, anti-bacterial, and flame retardant properties on non-subject textile fibers, instead of PSF products. For instance, with regard to dyed fibers, petitioners state that FET claims that only color fastness is required for "sportswear and summer suits and dresses." However, the petitioners point out that textile products, such as summer suits and dresses, are made with non-subject PSF of less than three denier. According to petitioners, subject merchandise of three denier or greater is never used in sportswear, summer suits and dresses, gowns or bed sheets - which FET implies are end-uses for subject PSF with coloring agents and anti-bacterial chemicals. Similarly, petitioners state that FET's discussion of flame retardant fibers wrongly focuses on non-subject textile fibers, not subject PSF. Petitioners assert that, while FET does not describe the end use products for flame retardant fibers, it does describe when flame retardant fibers are used - to reduce the loss of life and property caused by fire. The petitioners state that FET's reference to "loss of life" again suggests that the end use is wearing apparel made from non-subject textile fibers.

The petitioners argue that in order to prevent FET from manipulating the model matching process, the Department should re-code the "specialty fibers" product characteristic (SPECH/U) to code "1" to indicate that all of FET's products are "regular fiber," and not specialty fiber, in the final margin program. In addition, the petitioners state that the Department would need to calculate a new weighted-average cost for each revised control number (with the correct specialty fiber code).

FET's Argument: According to FET, the Department correctly treated the products in question as specialty products. FET states that the petitioners' objections should be rejected.

FET reminds the Department that, as stated in FET's August 30, 2005 questionnaire response at D-5, FET's production of subject merchandise consists of two stages: (1) the polymer production (polymerization) stage, and (2) the fiber production stage. FET states that, in the polymerization stage, polyester polymer and chips are produced from raw materials; and in the fiber production stage, PSF bales are produced from the polyester polymer and chips. According to FET, other additives are introduced during the polymerization stage to produce specialty chips. FET contends that the manufacture of specialty fibers involves the use of chips containing special characteristics, such as color, anti-bacterial, and flame retardant properties, which must be introduced during the fiber production process.

According to FET, the petitioners' arguments ignore the fact that specialty fibers must be produced from specialty chips, and specialty chips are produced in the polymerization stage.

Therefore, FET states that the chemical additives added to produce the specialty chips must be introduced during the polymerization stage of PSF production.

In the event that the Department does not accept this explanation, FET states that nonetheless, it is the Department's practice that the characteristics of the product provided to the customer are key for CONNUM purposes. Accordingly, FET states that drawing distinctions between different production methods to create a particular product characteristic is not important to the Department for CONNUM purposes. According to the respondent, this Department position was decided in the original investigation of Pasta from Italy.

FET discusses the physical characteristics of color fibers, anti-bacterial fibers, and flame retardant fibers. Regarding color fibers, FET states that fibers with the coloring agents added during the fiber production process have far better color fastness and water-wash-resistance compared to ordinary fibers that are dyed, regardless of the denier. FET states that while it may have inadvertently used textile products to illustrate the color fiber applications, this does not change the reality that color fastness is a key characteristic required by customers of subject merchandise. FET further states that fibers of under 3 denier are used to produce textile products and that fibers of 3 denier or greater are used to produce non-woven products, such as artificial leather, shoes interliner, automobile headliner, and automobile chairs.

FET states that anti-bacterial fibers are produced by adding the anti-bacteria chips during the fiber production process. FET asserts that anti-bacterial fibers aid in disease prevention and/or disease isolation compared to ordinary PSF. According to FET, its anti-bacterial fibers have anti-bacterial properties regardless of the denier. FET states that anti-bacterial fibers of less than 3 denier are used in anti-bacteria gowns, operating coats, and bed sheets for medial care; while anti-bacterial fibers of 3 denier or greater (subject merchandise) are used for anti-bacteria filter media for air conditioners, and fiberfill within quilts.

Regarding flame retardant fibers, FET notes that compared to ordinary combustible PSF, fibers with the flame retardant property aim to reduce the loss of life and property caused by fire. FET states that the end use of such fibers of less than 3 denier is wearing apparel; while the end use of fibers of 3 denier or greater is home furnishings, such as curtains, and/or chair covers in airplanes. FET states that the flame retardant property is critical in all of the aforementioned applications and claims that the petitioners' apparent suggestion otherwise is absurd.

Department's Position: Based on our review of FET's responses and the comments received regarding model matching characteristics, we disagree with the petitioners and find that FET has properly coded its specialty PSF products.

The Department elected to revisit the model matching criteria in this segment of the proceeding because classification of PSF products with certain physical characteristics has been highly contentious. See, e.g., Certain Polyester Staple Fiber From Taiwan: Preliminary Results of Antidumping Duty Administrative Review, 71 FR 32514 (June 6, 2006). Specifically, in the

case of the "fiber composition" criterion, we were concerned that the criterion may have combined two aspects of fiber composition: whether the fiber was conjugate or non-conjugate, and whether the fiber contained special additives (e.g., for biohealth or fire retardancy). Both the petitioners and the respondent commented on the Department's November 9, 2005 request for comments to possible changes to the model matching criteria. The Department considered the parties' comments and promulgated revised model matching criteria on February 2, 2006. At this time, the Department replaced the "fiber composition" field with two new fields: "fiber loft" and "specialty fibers." For the "fiber loft" field, we requested that FET identify whether the fiber was conjugate or non-conjugate. For the "specialty fibers" field, we asked FET to identify those fibers where the special properties are "attained by introducing chemical additives *during the polymerization stage* of PSF production." February 2, 2006 Model Matching Letter at 3 (emphasis added).

Based on our analysis of the information reported by FET, we have determined that the company properly classified the products in question as specialty products. First, we note that the language cited by the petitioners from FET's January 20, 2006 SQR at TS-5 regarding FET's correction of its earlier statement makes no mention of fire retardant products. Therefore, contrary to the petitioners' claim, FET has nowhere stated that the additives for flame retardant fibers are introduced during the fiber production process. Moreover, other evidence in the record demonstrates that FET introduces the major additive to make chips possessing flame retardant properties during the polymerization process. See May 8, 2006 SQR at 1-2, and lines 3 and 4 of FET Exhibit VS-1.a. Thus, FET's classification of flame retardant PSF as a specialty product is supported by the record and we do not address it further here.

Regarding the dope dyed and anti-bacterial fibers, we agree that there appear to be inconsistencies in FET's responses. However, the apparent inconsistencies arise from FET's characterization of its production process and the fact that FET does not manufacture certain of the chips used to produce these specialty products.

As described in its August 30, 2005 section D questionnaire response ("DQR") at D-5, FET distinguishes between its polymer production process (the polymerization process) and its fiber production process. In the former, polyester polymer and chips are produced from raw materials, while in the latter, PSF bales are produced from the polyester polymer and chips. For its anti-bacterial and dope dyed PSF, FET purchases chips containing the special additives. See December 28, 2005 SQR at Exhibits SS-3, SS-3.c.1, and SS-4; and May 8, 2006 SQR at 1. These chips are blended with the "regular" chips produced by FET, and this blend is used to produce the specialty PSF. See DQR at Exhibit D-2; December 28, 2005 SQR at 2-3; February 27, 2006 submission at 2; and May 8, 2006 SQR at 1. Because FET does not produce the chips with the special additives, it does not introduce these agents during *its* polymerization process. Nevertheless, the additives are already in the purchased chips and, hence, introduced in the polymerization stage of those chips. See May 8, 2006 SQR at 1.

Because the specialty additives are introduced in the polymerization process of the specialty chips, and FET used these chips in its fiber production process, we determine that FET properly reported its dope dyed and anti-bacterial PSF as specialty products.

Comment 2: FET's "Rebates"

Petitioners' Argument: While the petitioners agree with the Department's reclassification of FET's reported rebates as home market warranty expenses, the petitioners state that the Department should remove the value of two canceled sales from FET's reported rebates before reclassifying these expenses as home market warranty expenses.

FET's Argument: FET argues that the petitioners wrongly consider observations 744 and 762 of FET's home market sales database as canceled sales. FET indicates that these observations are not canceled sales, and thus, the Department's calculation at Attachment 4 of the Memorandum to the File, "*Preliminary Results Calculation Memorandum for Far Eastern Textile Limited*," dated May 31, 2006, is correct. According to FET, page 12 of the December 28, 2005 SQR, indicates that the reported rebates for the two observations are equivalent to the gross unit price because FET accepted the customers' claims that the totality of the delivered products failed to conform to specifications. FET further states that the goods were not returned to FET, and that FET refunded the total purchase price of the two sales. According to FET, the documentation on pages 2 and 4 of Exhibit SS-23.c of the December 28, 2005 SQR confirms FET's explanation.

Department's Position: We agree with FET. The customers' claims on these two sales were for product quality defects, which the Department does not treat as being confined to specific customers or sales, but rather as relating to a broader group of sales (in this case all home market sales). Therefore, we have continued to classify the amount at issue as a warranty expense and allocate it in accordance with the Preliminary Results. The issue of whether or not the sales in question were canceled does not affect our analysis and treatment of the expenses as a warranty expense in this case.

Comment 3: Major Input Adjustment

Petitioners' Argument: The petitioners argue that the Department should revise the major input test to consider all record evidence. According to the petitioners, FET changed major input data for both terephthalic acid ("PTA") and mono-ethylene glycol ("MEG") without explanation in its May 8, 2006 SQR at Exhibit VS-3. The petitioners state that, given the fact that FET made changes without explaining or identifying the changes, the Department should, as partial facts available, rely on the exhibits that result in the highest adjustment to PTA and MEG. In doing so, the petitioners state that the Department will properly rely on record information, while sending a clear message to FET that the Department will not tolerate unidentified and unexplained changes to the record. The petitioners recommend that the Department rely on FET's May 8, 2006 SQR at Exhibit V-3 for the PTA adjustment and FET's DQR at Exhibit D-6 for the MEG adjustment. Thus, for the final results, the petitioners recommend that the Department increase FET's total cost of manufacture ("TCOM") by this revised adjustment

factor to account for the difference between the market price and the transfer price of affiliate purchases of PTA and MEG.

FET's Argument: FET notes that the petitioners' claims regarding the major input test are contrary to what the Department already found in the preliminary results. According to FET, it revised its original major input charts (Exhibits D-5 and D-6 of its DQR) in Exhibit TS-15.a-1 of its January 20, 2006 SQR. FET stated that it performed this revision in response to a Department request that FET provide a detailed monthly worksheet of FET's purchases during the POR of PTA and MEG from affiliated and unaffiliated suppliers, and reconcile these amounts to the POR figures. FET states that it revised Exhibits D-5 and D-6 to reconcile to FET's books and cites to its explanation at page 8 of its January 20, 2006 SQR.

According to FET, based on the Department's request, FET supplemented its major input charts to indicate the percentages that PTA and MEG represented of the TCOM. FET states that it supplemented the percentages for PTA and MEG in Exhibit VS-3 of its May 8, 2006 response, based on revised FET-Exhibit TS-15.a-1, of the January 20, 2006 SQR. Thus, according to FET, the petitioners wrongly state that FET made changes without explaining them to the Department.

Department's Position: We agree with FET in part. The Department inadvertently relied on information contained in FET's DQR, although the major input data was revised in FET's January 20, 2006 SQR. Specifically, at page 8 of the January 20, 2006 SQR, FET states that it "hereby revises Exhibits D-5 and D-6 {of the DQR} based on the warehouse receipt dates of the purchased PTA and MEG." Accordingly, the Department has revised its calculations of the differences between the market price and the transfer price of affiliate purchases of PTA and MEG based on the January 20, 2006 SQR. As a result of these revisions, under section 773(f)(3) of the Tariff Act of 1930, as amended ("the Act"), the Department finds that no adjustment is necessary for MEG because the transfer price is higher than the market price and the affiliated supplier's COP. See Memorandum from Team, through Brandon Farlander, to the File, "*Final Results Calculation Memorandum for Far Eastern Textile Limited*," dated October 4, 2006 ("*FET Final Calculation Memorandum*").

Comment 4: Fixed Overhead Costs

Petitioners' Argument: The petitioners claim that, in the preliminary margin calculations, the Department wrongly computed FET's TCOM as being the sum of the direct material costs, direct labor costs, and variable overhead costs. The petitioners assert that the Department incorrectly omitted FET's fixed overhead costs in the calculation.

FET's Argument: FET did not comment on this issue.

Department's Position: We agree with the petitioners and have included FET's fixed overhead costs in the TCOM for the final results. See *FET Final Calculation Memorandum*.

Comment 5: Using the Revised Total Cost of Manufacture for G&A Expenses and Financial Expenses

Petitioners' Argument: The petitioners argue that the Department should correct a calculation error in the general and administrative ("G&A") and financial expenses calculations. According to the petitioners, the Department inadvertently erred in calculating G&A and financial expenses by failing to consider FET's revised TCOM, inclusive of the Department's PTA/MEG adjustment. To correct the errors, the petitioners state that the Department should apply the new G&A expenses (see Comments 6 and 7, below) and new financial expenses (see Comments 8 and 9, below) ratios to FET's fully revised TCOM.

FET's Argument: FET did not comment on this issue.

Department's Position: We disagree with the petitioners. It is the Department's normal practice to ensure that the denominator used to calculate the G&A expenses ratio is on the same basis as the amount to which it is applied. See Notice of Final Determination of Sales at Less Than Fair Value and Final Determination of Critical Circumstances: Diamond Sawblades and Parts Thereof from the Republic of Korea, 71 FR 29310 (May 22, 2006), and accompanying Issues and Decision Memorandum at Comment 34. We have therefore continued to apply the G&A and financial expenses ratios to FET's reported TCOM, and not the recalculated TCOM. Accordingly, we have made no change to the G&A and financial expenses calculations for the final results.

Comment 6: Allocation of FET's G&A Expenses

FET's Argument: FET argues that G&A expenses should be allocated to the entity that incurs them, with all other G&A expenses allocated by the cost of goods sold by each entity. FET states that, by allocating the total pool of G&A expenses based on costs incurred on a company-wide basis, the Department allocated G&A expenses in a manner that did not reasonably reflect the costs actually associated with the production and sale of PSF, nor in accordance with the records kept by FET in its ordinary course of business. FET asserts that the Department should not base G&A expenses on FET's company-wide income statement. Rather, FET argues that, as submitted in Exhibit VS-4-1 of its May 8, 2006 SQR, the Department should calculate the G&A expenses ratio based on FET's PSF-specific G&A expenses, plus an allocated portion of the corporate-level G&A expenses. FET implies that 19 U.S.C. § 1677b(f) requires the Department to base FET G&A costs on the records FET keeps in the normal course of business (i.e., its tracking of G&A expenses incurred by particular divisions and by particular product groups).

Petitioners' Argument: The petitioners argue that the Department correctly based FET's G&A expenses on FET's audited, company-wide financial statements. According to the petitioners, this is consistent with long-standing Department policy as evidenced in Persulfates From the People's Republic of China: Final Results of Antidumping Duty Administrative Review, 66 FR 42628 (August 14, 2001), and accompanying Issues and Decision Memorandum at Comment 5. The petitioners argue that FET wrongly concluded that its internally-allocated and "tracked G&A

expenses" meet the level of accounting authority envisioned under 19 U.S.C. § 1677b(f)(1)(A). According to the petitioners, the statute directs the Department to rely on accounting records kept under generally accepted accounting principles ("GAAP"), such as audited financial statements, not internally-allocated and "tracked" expenses. The petitioners conclude that the Department properly abided by the requirements of 19 U.S.C. § 1677b(f)(1)(A) in relying on FET's audited, company-wide financial statement for FET's G&A expenses.

Department's Position: We agree with the petitioners. As G&A expenses are general in nature, and do not relate to specific product groups or divisions, we normally allocate all such expenses over the cost of sales for the company as a whole. This methodology also avoids any distortions that may result if, for business reasons, company-wide general expenses are allocated disproportionately between divisions. See Final Determination of Sales at Not Less Than Fair Value: Certain Color Television Receivers from Malaysia, 69 FR 20592 (April 16, 2004), and accompanying Issues and Decision Memorandum at Comment 22.

We disagree with FET's assertion that 19 U.S.C. § 1677b(f) supports the use of G&A expenses by product groups, when available, "based on the records of the exporter or producer of the merchandise. . ." FET's internal allocation of expenses to specific product groups does not meet the standard of audited financial statements, nor does it support the Department's treatment of these expenses as G&A expenses. Therefore, we have continued to calculate FET's G&A expenses based on its company-wide audited unconsolidated financial statements.

Comment 7: Idled Equipment Expenses in the G&A Expenses Ratio

Petitioners' Argument: The petitioners argue that the Department should recalculate FET's G&A expenses to include expenses related to idled equipment that were wrongly omitted by FET. Specifically, the petitioners opine that the Department considers expenses associated with idled equipment as part of a company's G&A expenses. According to the petitioners, for the final results, the Department should apply the newly calculated G&A ratio to the revised TCOM to determine FET's G&A expenses.

FET's Argument: FET states that it has included all expenses associated with idled equipment in the G&A calculation.

Department's Position: We agree with FET that idled equipment expenses are properly included in FET's G&A expenses. The Department's review of Exhibit VS-4-1 of the May 8, 2006 SQR, confirms that the "depreciation of idle property," "land tax of idle property," and "building tax of idle property" expenses are a component of FET's non-operating expenses. These non-operating expenses (denoted as letter "c") are included in FET's reported G&A expenses ratio. Therefore, we have made no change for the final results.

Comment 8: Investment Expenses in the Financial Expenses Ratio

FET's Argument: FET argues that the Department distorted the cost of the subject merchandise

by incorrectly adding the interest expenses of Yuang Ding Investment Co., Ltd. ("Yuang Ding") -- a FET affiliate solely involved with investments unrelated to FET's ordinary business - as a financing expense for FET. FET proposes deducting the interest expenses incurred by Yuang Ding since its interest expenses have nothing to do with FET's manufacturing business, or the production or sale of PSF.

FET states that if the Department continues to include Yuang Ding's interest expenses associated with its investment business, then the Department should reduce that amount for Yuang Ding's short-term interest income resulting from its investment activity. FET asks the Department to now request Yuang Ding's short-term interest income, which was unavailable at the time of the preliminary results, and make the appropriate adjustment.

Alternatively, FET argues that interest expenses should be allocated based on assets, since borrowing costs are incurred to finance assets. FET further states that interest expenses related to financial investment can and should be imputed. FET refers to Exhibit D-34 of its DQR for the appropriate imputed investment ratio.

FET states that, if the Department insists on using the full amount of consolidated interest expenses, the Department should use the interest income relating to investment to offset such interest expenses. FET clarifies that the Department should deduct that portion of the income from investments that corresponds to the ratio of short-term and long-term investments on the asset side of the financing statement.

Finally, FET contends that if the Department insists on using the full amount of consolidated interest expenses, and only allows FET to offset its financial expense with the short-term interest income earned on the working capital accounts, it will yield a distorted result. This is because an asymmetry would then exist between the numerator (all financial expenses associated with spending on ordinary and non-operating business investment activities) and the denominator (the company-wide cost of goods sold only concerning the manufacturing operation) to calculate the financial costs. According to FET, the denominator that the Department uses to calculate the financial ratio is company-wide cost of goods sold, which only relates to FET's manufacturing business, and has nothing to do with FET's investment business. In contrast, FET states that the financial expenses relate to both the ordinary manufacturing business and non-operating investments. FET concludes that the approach adopted by the Department in order to determine the amounts for financial costs for FET results in a distorted allocation of costs associated with the manufacturing operation.

Petitioners' Argument: The petitioners argue that the Department correctly relied on FET's consolidated, audited financial statements when calculating FET's financial expenses ratio. According to the petitioners, the Department should reject FET's argument to reduce the consolidated financial expenses by the amount of interest expenses incurred by Yuang Ding, and continue to rely on its standard practice of looking to the respondent's consolidated, audited financial statements for the financial expenses ratio calculation. Petitioners offer two reasons for this position: (1) the nature of the relationship between FET and Yuang Ding, and (2) FET's

argument would have the Department ignore its long-standing policy that considers consolidated, audited interest expenses (due to the fungibility of money). In support of these points, the petitioners cite to Notice of Final Determinations of Sales at Less Than Fair Value: Steel Wire Rope From India and the People's Republic of China; Notice of Final Determination of Sales at Not Less Than Fair Value: Steel Wire Rope From Malaysia, 66 FR 12759 (February 28, 2001) ("Steel Wire Rope from India, the PRC, and Malaysia"), and accompanying Issues and Decision Memorandum (for India) at Comment 3. According to the petitioners, FET offered no argument as to why the Department's fungibility of money concept should not be applied in using FET's consolidated, audited financial statements. In addition, the petitioners state that the Department should reject the remaining suggestions made by FET to (1) reduce consolidated interest expenses by Yuang Ding's short-term interest income, as Far Eastern never submitted this information to the Department and (2) reduce consolidated interest expenses by interest income related to investments, as Far Eastern has not met its burden of demonstrating that this income is strictly short-term.

Department's Position: We agree with the petitioners. As noted in Steel Wire Rope from India, the PRC, and Malaysia, at Comment 3 (for India):

> The Department's long-standing practice is to calculate this rate based on the financing expenses of the consolidated entity. If the Department were to ignore that the consolidated entity determines the capital structure of its subsidiaries and affiliates, we would calculate costs that did not reasonably reflect the costs associated with the production and sale of the merchandise.

Because of the fungibility of money, FET's argument that interest expenses related to Yuang Ding should be excluded is misplaced. Yuang Ding is properly consolidated in FET's financial statement, and therefore, the fact that Yuang Ding is solely involved with investments is not relevant. Thus, we have continued to base FET's financial expenses ratio on its consolidated financial statements. Second, FET has not met its burden of demonstrating that Yuang Ding's interest is earned on short-term deposits of working capital.[2] Therefore, no adjustment is necessary on the issue of Yuang Ding's interest expenses.

Comment 9: Reconciliation of Total Consolidated Interest Expenses

Petitioners' Argument: According to the petitioners, the addition of Yuang Ding's interest expenses to FET's submitted interest expenses (which do not contain Yuang Ding's interest expenses) does not reconcile to the interest expenses shown on FET's consolidated income

[2] Working capital is defined as current assets minus current liabilities. Working capital is widely used to measure a business's ability to meet its short-term obligations with its current assets. Charles T. Horngren and Walter T. Harrison, Jr., Accounting, 879-80 (Prentice Hall 2nd ed. 1992).

statement. The petitioners state that, while the reason for this disparity is unknown, the Department should follow its standard practice of allocating consolidated interest expenses over consolidated cost of sales. Therefore, the petitioners opine that the Department should recalculate FET's interest expenses ratio based on FET's consolidated financial statements. The petitioners recommend that the Department apply the corrected interest ratio to a revised total of the cost of goods manufactured and packing expenses to properly account for FET's total consolidated interest expenses.

FET's Argument: FET argues that the petitioners wrongly conclude that the addition of Yuang Ding's interest expenses to FET's submitted interest expenses does not reconcile to the interest expenses on FET's consolidated income statement. FET provides a reconciliation on page 5 of its rebuttal brief. According to FET, the petitioners' denominator in the financial expenses ratio is incorrect.

Department's Position: The Department agrees that FET has reconciled its reported interest expenses to its consolidated income statement. See FET's August 5, 2005 section A questionnaire response, at Exhibit A-13; see also FET's April 25, 2006 SQR, at Exhibit 5S-20. The reported interest expenses include adjustments for (1) interest expenses related to Yuang Ding (which the Department has added back for calculation purposes), (2) short-term interest income, and (3) exchange gains. The petitioners' argument for using a denominator different from FET's total cost of sales from its consolidated financial statements less packing is not persuasive given the Department's general practice of relying on the total consolidated cost of sales.

RECOMMENDATION

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

AGREE _____ DISAGREE _____

_____
David M. Spooner
Assistant Secretary
for Import Administration

_____
Date