UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

A-475-840
Investigation
Public Document
E&C/OI: Team

December 7, 2020

MEMORANDUM TO: Jeffrey I. Kessler
Assistant Secretary
for Enforcement and Compliance

FROM: James Maeder
Deputy Assistant Secretary for
Antidumping and Countervailing Duty Operations

SUBJECT: Issues and Decision Memorandum for the Final Affirmative Determination in the Less-Than-Fair-Value Investigation of Forged Steel Fluid End Blocks from Italy

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I. SUMMARY

The Department of Commerce (Commerce) determines that forged steel fluid end blocks (fluid end blocks) from Italy are being, or are likely to be, sold in the United States at less than fair value (LTFV), as provided in section 735 of the Tariff Act of 1930, as amended (the Act). The period of investigation (POI) is October 1, 2018 through September 30, 2019. Two companies, Lucchini Mame Forge S.p.A. (Lucchini) and Metalcam S.p.A. (Metalcam), were examined.

After analyzing the comments submitted by interested parties, we have made certain changes to the *Preliminary Determination*.[1] We recommend that you approve the positions described in the "Discussion of the Issues" section of this memorandum.

Issues:

Comment 1: Whether Application of Adverse Facts Available (AFA) is Warranted for Metalcam
Comment 2: Constructed Value Profit and Constructed Value Selling Expenses
Comment 3: Date of Sale for Metalcam
Comment 4: Lucchini's Direct Material Costs
Comment 5: Major Input/Transactions Disregarded Adjustment
Comment 6: Constructed Export Price Profit Calculation for Lucchini
Comment 7: Commission Rate for Lucchini
Comment 8: Inventory Carrying Costs for Lucchini

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[1] *See Forged Steel Fluid End Blocks from Italy: Preliminary Affirmative Determination of Sales at Less Than Fair Value, Postponement of Final Determination, and Extension of Provisional Measures*, 85 FR 44500 (July 23, 2020) (*Preliminary Determination*), and accompanying Preliminary Decision Memorandum (PDM).

II. BACKGROUND

On July 23, 2020, Commerce published in the *Federal Register* its preliminary affirmative determination in the LTFV investigation of fluid end blocks from Italy. On August 4, 2020, and August 14, 2020, the petitioners[2] submitted post-preliminary determination comments.[3] On August 12, 17, and 19, 2020, Metalcam and Lucchini submitted respective replies to the petitioners' post-preliminary determination comments.[4] On August 24, 2020, pursuant to 19 CFR 351.310(c), the petitioners, Metalcam, and Lucchini requested that Commerce hold a public hearing. On September 2, 2020, Commerce issued questionnaires requesting additional information from Metalcam and Lucchini in lieu of performing on-site verifications required under section 782(i) of the Act.[5] On September 11, 2020, we received responses from both companies to our inquiries.[6] On October 2, 2020, we invited parties to comment on the *Preliminary Determination* and the September 11, 2020, responses to Commerce's requests for additional information.[7] On October 20, 2020, we received case briefs from the petitioners and Metalcam.[8] On November 2, 2020, we received rebuttal briefs from Metalcam, and Lucchini.[9] On November 10, 2020, we received a rebuttal brief from the petitioners.[10] On November 13, 2020, we held a virtual public hearing.

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[2] The petitioners are the FEB Fair Trade Coalition; Ellwood Group (comprised of Ellwood City Forge Company, Ellwood Quality Steels Company, and Ellwood National Steel Company); and A. Finkl & Sons, Company.
[3] *See* Petitioners' Letters, "Forged Steel Fluid End Blocks from Italy: Petitioner's Post-Preliminary Comments," dated August 4, 2020, and "Forged Steel Fluid End Blocks from Italy: What Is Metalcam Hiding?" dated August 14, 2020.
[4] *See* Metalcam's Letters, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Response to Petitioner's Post-Preliminary Comments and Request for Ex Parte Meeting," dated August 12, 2020; and "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Response to Petitioner's August 14, 2020 Tirade," dated August 19, 2020; *see also* "Lucchini's Letter, "Case A-475-840: Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Response to Petitioner's Post-Preliminary Comments," dated August 17, 2020.
[5] *See* Commerce's Letters to Metalcam and Lucchini,, dated September 2, 2020.
[6] *See* Metalcam's Letters, both titled "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Post-Prelim Questionnaire Response," and dated September 11, 2020 (submitting, separately, responses to the sales and cost portions of the questionnaire in lieu of verification); and Lucchini's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mamé Forge S.p.A Post-Preliminary Questionnaire," dated September 11, 2020.
[7] *See* Commerce's Letter dated October 2, 2020.
[8] *See* Petitioners' Letter, "Forged Steel Fluid End Blocks from Italy: Petitioner's Case Brief," dated October 20, 2020 (Petitioners' Case Brief); and Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Case Brief," dated October 20, 2020 (Metalcam's Case Brief).
[9] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Rebuttal Brief," dated November 2, 2020 (Metalcam's Rebuttal Brief); and Lucchini's Letter, "Antidumping Duty Investigation of Fluid End Blocks from Italy: Lucchini Mamé Forge S.p.A. Rebuttal Brief," dated November 2, 2020 (Lucchini's Rebuttal Brief).
[10] On November 5, 2020, Commerce rejected the petitioners' November 2, 2020 rebuttal brief because certain portions of it did not meet the requirements of 19 CFR 351.309(d)(2). *See* Commerce's November 5, 2020 Letter. The petitioners resubmitted their rebuttal brief, after redacting certain information that we found unresponsive to the arguments raised in Metalcam's October 20, 2020 case brief. *See* Petitioners' Letter, "Forged Steel Fluid End Blocks from Italy: Resubmission of Petitioner's Rebuttal Brief," dated November 10, 2020 (Petitioners' Rebuttal Brief)).

III. CHANGES FROM THE PRELIMINARY DETERMINATION

1. For Lucchini, we have adjusted Lucchini's submitted costs to reflect the cost of fluid end blocks which were scrapped after production due to quality control issues. Additionally, we adjusted Lucchini's costs to reflect the application of the major input and transactions disregarded rules to Lucchini's purchases of ingots from affiliated parties. For further details, *see* Comments 4 and 5.
2. For Lucchini, we applied the applicable commission rate to the corresponding U.S. sales. For further details, *see* Comment 7.

IV. DISCUSSION OF THE ISSUES

Comment 1: Whether Application of Adverse Facts Available (AFA) is Warranted for Metalcam

<u>Petitioners' Arguments (Cost)</u>:

- Metalcam's costs are unverifiable and unreconcilable to its financial statements and other source accounting information.
  - Metalcam's reported costs do not reconcile to its financial statements as the overall reconciliation of these costs to the financial statements includes a formula error which results in an understatement of the reported costs.[11]
  - Metalcam's reported direct material costs allocated to specific product families do not reconcile with its trial balance or to its internal operating report.[12]
  - Metalcam's various constituent elements of cost, such as direct materials, external machining, internal costs, *etc.,* do not reconcile to the financial statements or to its internal operating reports (*e.g.,* the *Conto Economico*).[13] Metalcam's reported external machining costs are understated.[14]
  - Metalcam under reported external machining costs when compared with values of outside works in its financial statements.[15] It also appears that to tie the balance for external machining to its supporting documents, Metalcam is using a plug figure.[16]
  - Metalcam's minor input chart for rough machining is flawed.[17]
- Metalcam reported negative values for raw materials costs for some job orders for a non-merchandise under consideration (MUC) product.[18]
- Metalcam's costs are built upon allocations that find no support in Metalcam's source accounting information or in the administrative record.[19]
- Metalcam lowered its actual POI costs for forged ingots that are held in semi-finished inventory waiting for a fluid end block order.[20]

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[11] *See* Petitioners' Case Brief at 8-11.
[12] *Id.* at 13.
[13] *Id.* at 15-22.
[14] *Id*.
[15] *Id.* at 18.
[16] *Id.* at 20.
[17] *Id.* at 21-22.
[18] *Id.* at 25-28.
[19] *Id.* at 28-31.
[20] *Id.* at 31.

- Metalcam made previously undisclosed methodological changes to its reporting in response to the in lieu of verification questionnaire.[21]
- Metalcam withheld requested information by failing to submit requested translations.[22]
- Metalcam failed to cooperate to the best of its ability.[23]

Petitioners' Arguments (Sales):

- Metalcam's sales reconciliation is unverifiable insofar as it fails to tie to the verification's requested source accounting documents.[24]
  - In its verification questionnaire, Commerce requested that Metalcam provide screenshots from the financial accounting system for all sales revenue general ledger accounts that support the total sales value for the POI, as reflected in the trial balance.[25]
  - Metalcam explained and showed that the amount reflected in the financial accounting system for certain general ledger accounts needed to be adjusted to support its POI sales submission.[26]
  - These adjustments find no basis in Metalcam's books and records or in its source accounting information, rendering them unverifiable.[27]
  - The reconciling items associated with these adjustments were not presented in sales reconciliations submitted to Commerce; further, Metalcam did not describe in its submissions its practice of splitting the total values for certain invoices between appropriate fiscal quarters, making this substantive change a methodology that was first disclosed at verification.[28]

Metalcam's Rebuttal Arguments (Cost):

- Metalcam made the same formula error in the overall cost reconciliation for a corresponding reconciling item which resulted in the overstatement of the reported costs. The net result of the error pointed out by the petitioners and the corresponding error for a differing time period continues to show that Metalcam's reported cost file is overstated.[29]
- Metalcam's material costs are properly reported and reconcile to the financial statements. The raw materials (*materie prime*) from the *Conto Economico* (internal operating report) for the POI ties to the general ledger in the trial balance and to the related source documents.[30] The material costs in the worksheet for the product family level costs can't be reconciled to the financial statements as the material cost in this worksheet is an accumulation of ingot and processing costs when multiple job orders are combined to fill a sales order.[31]The same applies to other process based constituent cost elements, *e.g.*, External Machining, in this worksheet.[32]

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[21] *Id.* at 43-44.
[22] *Id.* at 44.
[23] *Id*.
[24] *See* Petitioners' Case Brief at 36.
[25] *Id*.
[26] *See* Petitioners' Case Brief at 36-37.
[27] *Id*. at 37.
[28] *Id*. at 39.
[29] *See* Metalcam's Rebuttal Brief at 3-6.
[30] *Id.* at 7-9.
[31] *Id.* at 9-10.
[32] *Id.* at 14.

- In its questionnaire in lieu of verification, Commerce asked Metalcam to explain how the Job Order Standard Costs by Product Family was generated. Metalcam was never asked to reconcile its Job Order Standard Costs by Product Family to its trial balance or to its internal operating report.[33]
- Metalcam's external machining (third party works) cost in *Conto Economico* tie to the financial statements.[34] Metalcam did not use any plug number to tie the numbers, the numbers on the source documents can be traced back to the financial statements.[35]
- The minor input chart is a comparison of rough machining services provided only for fluid end blocks from affiliated and unaffiliated suppliers which is different from the total external services in the general ledger. The minor input chart, unlike the external services in the general ledger, does not report the costs of machining performed on non-subject products and finish machining services on the fluid end blocks, it only includes rough machining for BEB's.[36]
- Internal costs from *Conto Economico* ties to the financial statements but the same will not tie to the standard cost by product family for reason explained above (i.e., costs are comingled in the constituent costs elements).[37]
- Only a small number of job orders for a non-subject merchandise product have negative values for raw material costs.[38] Any minor amount added to the non-subject merchandise products would not result in a change to the reported costs for the subject merchandise.[39]
- Metalcam has not omitted or allocated any cost away for submission purposes and the allocation factor used in its worksheets are supported by the underlying source documents.[40]
- Metalcam's cost buildup provided for a job order, relevant supporting documents and explanation is not new, the same information provided to Commerce, in Metalcam's response to the in lieu of verification questions, was already on the record.[41]

<u>Metalcam's Rebuttal Arguments (Sales)</u>:

- Metalcam's sales reconciliation is verifiable and ties to the requested source accounting documents. Metalcam fully demonstrated how its reconciliation ties to source accounting documentation in its response to the questionnaire in lieu of verification (sales) – Metalcam has demonstrated a complete accounting of the total value of each split or moved invoice.[42]
    - Metalcam's fiscal year trial balance for 2018 for all sales revenue general ledger accounts ties directly to accounting records (including for specific accounts the petitioners identify), and the annual trial balance itself ties to Metalcam's audited financial statements.

[33] *Id.* at 10-11.
[34] *Id.* at 12-13.
[35] *Id.* at 17.
[36] *Id.* at 18.
[37] *Id.* at 18-19.
[38] *Id.* at 19-20.
[39] *Id.*
[40] *Id.* at 20-22.
[41] *Id.* at 20-21.
[42] *See* Metalcam's Rebuttal Brief at 24-26, 28-29.

- Concerning the sales revenue general ledger accounts identified by the petitioners, Metalcam identified in its financial accounting system invoices, the value of which was either split between certain fiscal quarters or moved from one account into another in the same fiscal quarter for purposes of preparing quarterly trial balances.
- None of the sales revenue general accounts identified by the petitioners involve invoices related to subject merchandise; further, the total value of shifted or split invoices across fiscal quarters during 2018 and 2019 is substantially insignificant in relation to Metalcam's total revenue, *i.e.*, immaterial.[43]
- Metalcam's preparation of financial information for "interim periods," related to the POI and reflecting a quarterly basis, are for internal purposes only. Thus, while the quarterly information ties in aggregate, *i.e.*, on a yearly basis, to Metalcam's financial accounting system and its audited financial statement, Metalcam does not make accounting entries to reflect the immaterial reclassifications of certain invoices or the splitting of certain invoices' values between fiscal quarters for purposes of interim quarterly trial balance preparation – such manual movements have no effect on audited fiscal year financial reporting. Notably, there are no such shifts across calendar years that are not otherwise recorded with an adjusting entry.[44]
- The manual movements across internal trial balance periods bear no effect on Metalcam's reconciliation as Metalcam additionally relied on the extract of sales from its sales system which ties to its financial system for purposes of reconciliation.[45]
- Metalcam's internal trial balance and its financial accounting (via ERP extract of sales) have been consistently reflected in Metalcam's reconciliation and do not constitute new factual information.[46]

Commerce's Position: We disagree with the petitioners that total AFA is warranted for Metalcam. According to section 776(a) of the Act, Commerce shall use the facts otherwise available in reaching a determination if: (1) necessary information is not available on the record; or (2) an interested party or any other person; (A) withholds information that has been requested by the administering authority or the Commission under this title; (B) fails to provide such information by the deadlines for submission of the information or in the form and manner requested, subject to subsection (c)(1) and (e) of section 782; (C) significantly impedes a proceeding under this title; or (D) provides such information that cannot be verified as provided in section 782(i).

Further, section 776(b) of the Act provides that, if Commerce finds that an interested party has failed to cooperate by not acting to the best of its ability to comply with a request for information, it may use an inference that is adverse to the interest of that party in selecting from the facts otherwise available.

In this case, we disagree that application of facts available under section 776(a) of the Act is warranted, l*et al*one application of AFA under section 776(b) of the Act. In particular, we find that all necessary information is available on the record of this investigation, and Metalcam has

[43] *Id*. at 28.
[44] *Id*. at 27.
[45] *Id*. at 29.
[46] *Id*. at 26.

not withheld information, failed to provide information within established time limits, significantly impeded this proceeding, or provided information that cannot be verified. We find that, throughout the course of this investigation, Metalcam has cooperated with Commerce's requests for information, and it has answered each request for information to the best of its ability. Therefore, we find no basis to apply facts available or facts available with an adverse inference in this case.

In accordance with section 773(f)(1)(A) of the Act, Commerce will normally calculate costs based on the records of the producer of the merchandise, if such records are kept in accordance with the generally accepted accounting principles (GAAP) of the exporting country and reasonably reflect the costs associated with the production and sale of the merchandise.[47] Metalcam reported its costs according to its normal books and records which, in accordance with Italian GAAP, follows the International Financial Reporting Standards (IFRS).[48] Hence, the issue at hand is whether Metalcam's reported product control (CONNUM)-specific costs reasonably reflect the costs associated with the production of forged steel fluid end blocks. As background, Metalcam's cost accounting system, a component of its ERP system, accounts for the total cost of manufacturing at the job order level.[49] In the normal course of business, Metalcam captures costs for each forged product on a job order basis which in turn forms the basis for the reported manufacturing costs to Commerce.[50] The costs in the job orders are based on standard costs and Metalcam calculated a variance at the steel plant and forging mill level that is applied to the standard costs to derive the actual cost. For reporting purposes, Metalcam identified the physical characteristics, as defined by Commerce, for each order and then weight-averaged, using production quantities, the actual costs of each fluid end block specific product within a CONNUM to determine the reported costs.

In considering each point raised by the petitioners, we first examined the argument regarding the formula error made by Metalcam in preparing the reconciliation of its cost of goods sold from its audited financial statements to its total reported fluid end block costs. We agree with the petitioners that the cost reconciliation worksheet contained a formula error in one of the reconciling items, where the appropriate amounts from the trial balance for a period outside the POI (*i.e.*, October to December 2019) were not properly summed.[51] However, after fully examining the record, as noted by Metalcam, we found the same formula error in the corresponding reconciling item where the appropriate amounts from the trial balance for a period within the POI (*i.e.*, October to December 2018) were not properly summed.[52] Because one of these reconciling items is a subtraction and the other error is an addition, the net result of these two errors continues to show that Metalcam's reported cost file reconciled to its financial statement costs.[53]

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[47] *See, e.g.*, *Notice of Final Determination of Sales at Less Than Fair Value: Light-Weight Rectangular Pipe and Tube from Mexico*, 73 FR 35649 (June 24, 2008), and accompanying Issues and Decision Memorandum (IDM) at Comment 10.
[48] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Section D Questionnaire Response," dated April 6, 2020 (Metalcam's April 6, 2020 DQR) at 10.
[49] *Id.* at 13.
[50] *Id.* at 17.
[51] *See* Metalcam's April 6, 2020 DQR at Exhibit D-18-B.
[52] *Id.*
[53] *See* Metalcam's Rebuttal Brief at 4-5.

The petitioners allege that costs as reported in Metalcam's trial balance, the *Conto Economico* (internal operating report) and the product family level standard costs do not reconcile. We disagree. In our review of the trial balance and the internal operating report for the POI, we find that they are in agreement. While the trial balance and internal operating report may not reconcile to the product family level standard costs by constituent cost elements (*e.g.*, steel ingot cost, external machining costs), they do reconcile in total (after applying the calculated cost variance).[54] The product family level standard costs, at the constituent cost level, cannot be reconciled to the trial balance or to the internal operating report as it is a characteristically different report compared to the other two documents from Metalcam's accounting systems. The product family level standard cost worksheet is a summarization of standard costs in all the job orders during the POI. This worksheet provides a breakdown of the constituent cost elements (*e.g.*, steel ingot, external machining costs) as recorded in the job orders. Metalcam has explained in its response to our supplemental questionnaires and comments during the course of this proceeding that when multiple fluid end blocks are pulled together to fill a sales order, Metalcam's process cost system will accumulate the costs of the fluid end blocks up to the point where multiple fluid end blocks are combined and this reflects the total costs up to that point in the "Steel Ingot" field.[55] The Steel Ingot field in the product family cost worksheet, therefore, not only includes the cost of materials (ingot) but also includes some processing costs like forging, heat treatment and external machining. Therefore, the constituent cost elements in the product family level standard costs for, *e.g.*, Steel Ingot, External Machining, *etc*., cannot be compared to the raw materials and external services costs in the trial balance or internal operating report which records costs on the basis of the nature of expenses. However, in total, the costs recorded in Metalcam's trial balance, internal operating report, and product family level standard costs, adjusted by the variance, reconcile.[56]

The petitioners assert, for the first time, that Metalcam's minor input chart for rough machining is flawed as the costs for rough machining reported in the minor input chart does not reconcile to the external machining costs in the product family costs worksheet, internal operating report and the trial balance. While we agree with the petitioners that the minor input chart does not tie to the product family costs worksheet or trial balance, we disagree that the minor input chart is flawed as the information in the chart is merely a portion of the total machining costs in the product family cost worksheet and the trial balance. Specifically, the reported rough machining costs in the minor input chart is a subset of the total external services cost in the trial balance, it does not include the costs of machining services performed on the non-subject merchandise and finish machining services for the subject merchandise, it only includes rough machining costs for fluid end blocks.[57]

[54] *See* Metalcam's April 6, 2020 DQR at Exhibit D-18-B; *see also* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam's Supplemental Section D Questionnaire Response," dated May 22, 2020 (Metalcam's May 22, 2020 SQR) at Exhibit SD-16-A; and Metalcam's Rebuttal Brief at 8 and 13.
[55] *See* Metalcam's April 6, 2020 DQR at 15, Exhibits D-21-A and D-21-B; *see also* Metalcam's May 22, 2020 SQR at 6.
[56] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Supplemental Section D Questionnaire Response," dated June 29, 2020 (Metalcam's June 29, 2020 SQR) at Exhibit SD-35-B.
[57] *See* Metalcam's April 6, 2020 DQR at 8 and Exhibit D-7.

In its case brief, the petitioners, for the first time in the proceeding, point to what appears to be an anomaly in the material costs for certain non-subject products (*i.e.*, the material costs in the worksheet are negative). While we agree with the petitioners that record evidence shows that certain material costs for non-subject merchandise are negative, we note that the anomaly impacts a very small number of job orders and any adjustment will likely result in an increase in the cost of non-subject merchandise, possibly resulting in a reduction to the reported costs of the subject merchandise. This assertion is made because earlier in the proceeding we noted a negative value for internal machining costs for subject merchandise and we asked Metalcam for an explanation. Metalcam explained that there was an error in the data query that was used in generating the reported data.[58] Metalcam submitted a revised cost file after correcting the faulty query that resulted in an increase to the cost of subject merchandise.[59] Further, the anomaly here was not raised until the briefing stage, although it has been on the record for months prior to the preliminary determination. Therefore, because the anomaly is insignificant with respect to the total job orders reported, is related only to non-subject merchandise, and record evidence does not show that this anomaly affects the reported cost of subject merchandise, we find no adjustment to Metalcam's reported cost is warranted.

The petitioners also allege that Metalcam lowered its actual POI costs for forged ingots that are held in semi-finished inventory waiting for a fluid end blocks order. Record evidence does not support a claim that there is an understatement of the reported costs due to ingot costs being held in semi-finished inventory. A review of the cost of sales in the trial balance for the POI shows that the inventory changes in the value of semi-finished goods are appropriately included in the cost of sales, and likewise appropriately included in the reported cost of manufacture as demonstrated in the overall cost reconciliation.[60]

In summary, Metalcam's reported costs are reasonable, product-specific, rely on their normal books and records, and reconcile to Metalcam's audited financial statements, which are prepared in accordance with Italian GAAP. Metalcam responded to all of our requests for information in a timely manner and participated fully in this proceeding. Metalcam did not withhold information that we requested or in any way impeded this investigation. Accordingly, we used the complete, accurate, and verifiable cost data on the record in determining Metalcam's weighted-average dumping margin for purposes of the final determination.

With regard to the petitioners' argument concerning Metalcam's sales reconciliation, we find that there is no basis in the petitioners' arguments for us to conclude that Metalcam's sales reconciliation failed to tie to the questionnaire's requested source accounting documents. In its questionnaire requesting additional information, Commerce requested that Metalcam "provide screen shots from the financial accounting system for all 14 sales revenue general ledger accounts and two discounts/disputes selling expenses general ledger accounts that support the total values for the 4th quarter 2018 and 1st-3rd quarters of 2019…," as reflected in Metalcam's POI trial balance excerpt.[61] In its response, Metalcam provided information from its financial

[58] *See* Metalcam's May 22, 2020 SQR at 8.
[59] *Id.,* and Exhibit SD-30 (*metacp02).*
[60] *See* Metalcam's April 6, 2020 DQR at Exhibit D-18-B.
[61] *See* Commerce's Letter to Metacam at 1.

accounting system for all 16 sales revenue-related general ledger accounts for fiscal year 2018, 1st-3rd quarters of 2018, and 1st-3rd quarters of 2019 that supports the values reflected in the trial balance excerpt that formed the basis for the first two steps of Metalcam's reconciliation of reported U.S. sales.[62]

The values in Metalcam's 2018 fiscal year trial balance for all 16 general ledger accounts tied directly to financial accounting records;[63] the total sales revenue value for fiscal year 2018 (across all 16 accounts) in the trial balance was reconciled to Metalcam's fiscal year 2018 audited financial statements.[64] For certain sales revenue general ledger accounts, Metalcam explained that, in finalizing its books at end of 2018 and/or 2019 fiscal years, for purposes of preparing quarterly trial balances, a certain limited number of invoices was either reclassified from one sales revenue general ledger account to the other, or the total invoice value for certain invoices booked at year end was appropriated to those fiscal quarters in which the respective revenue should have been recognized.[65] For all such instances, Metalcam identified how the invoices in question were recorded in its financial accounting system, provided all such invoices, and reconciled the values between financial accounting system and trial balance for all affected general ledger accounts in affected periods.[66] Thus, the petitioners' assertion is misleading when arguing that Metalcam's manual movement of certain revenue items finds no basis in Metalcam's books and records, rendering the reconciliation unverifiable. The invoices in question themselves (reflected in the financial accounting system) form an integral part of Metalcam's books and records, and the nature of revenue activity described in affected invoices, taken together with the names and structure of sales revenue general ledger accounts, support the narrative Metalcam provided on the record justifying certain anticipated divergences between financial accounting and trial balance information, affecting certain general ledger accounts.[67]

For example, for invoices split between fiscal quarters, invoice descriptions identify specific fiscal months or fiscal quarters for which certain management and technical service charges are assessed to affiliates.[68] Similarly, for invoices reclassified from one sales revenue general ledger account into the other, invoice descriptions identify sales of certain plant equipment, originally booked in the sales revenue account designated for a different revenue activity.[69] The petitioners similarly allege that the reclassifications in question have no support in Metalcam's source accounting information, presumably due to a lack of accounting entries documenting such changes, rendering the reconciliation unverifiable. We disagree.

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[62] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Post-Prelim Questionnaire Response," dated September 11, 2020 (Metalcam's September 11, 2020 SQR) at 1 and Exhibit VE-1; *see also* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Supplemental Section AC Questionnaire Response," dated June 29, 2020 (Metalcam's June 29, 2020 SQR) at Exhibit SAC2-5 (U.S. Sales Reconciliation).
[63] *See* Metalcam's September 11, 2020 SQR at Exhibit VE-1.
[64] *See* Metalcam's June 29, 2020 SQR at Exhibit SAC2-5.
[65] *See* Metalcam's September 11, 2020 SQR at 1-11.
[66] *Id.* at 1-11 and Exhibits VE-1 and VE-1-A through VE-1-G.
[67] *Id*.
[68] *Id*. at 4-11 and Exhibits VE-1-C through VE-1-G.
[69] *Id*. at 2 and Exhibit VE-1-A.

First, the record confirms Metalcam's assertion that none of the invoices in question related to sales of MUC, and their total value is insignificant in relation to Metalcam's total POI revenue.[70] Second, the record shows that none of the invoices, that were either split between certain fiscal quarters or moved from one account into another, crossed over from Metalcam's one fiscal year to another (*i.e.*, from 2018 to 2019 or vice versa).[71] As such, Metalcam's explanation that it has no obligation to make accounting entries for immaterial reclassifications of certain invoices that have no effect on its audited fiscal year financial reporting, is corroborated by the underlying information on the record. Therefore, we have no basis to find that a lack of accounting entries for the invoices in question jeopardizes, in any way, the integrity of the reconciliation of reported U.S. sales provided by Metalcam on the record.

Importantly, while the petitioners' argument to discredit the sales reconciliation centers on invoices that do not relate to MUC, the petitioners ignore other portions of Commerce's inquiries concerning Metalcam's reported reconciliation of its U.S. sales. Specifically, Commerce also requested that Metalcam: (1) provide POI general ledger detail for "Foreign Sales Revenues" general ledger account, identifying therein all POI U.S. sales of fluid end blocks; (2) reconcile the total value of POI U.S. sales of fluid end blocks in this detail to the total value of reported U.S. sales (as shown in Metalcam's reconciliation); (3) demonstrate how Metalcam queried its accounting system to extract (*i.e.*, ERP download) all sales of all products made in all countries, invoiced during the POI, and how the results of the query support the quantity and value thereof, as reflected in Metalcam's reconciliation; and (4) demonstrate, using ERP download (also previously provided in the record),[72] how the quantity and value for various categories of sales shown in steps of Metalcam's reconciliation of U.S. sales are supported. Metalcam provided information in response to all items Commerce requested, with no discrepancies.[73] Lastly, we find misleading the petitioners' following arguments: that the reconciling items associated with the adjustments in question were not presented in the sales reconciliations previously submitted to Commerce; and that Metalcam's practice of splitting certain invoices between appropriate fiscal quarters is a substantive change in a methodology that was first disclosed at verification.

First, we find no merit in the assertion that the limited practice of appropriating certain invoices in certain general ledger accounts between appropriate fiscal quarters for interim quarterly trial balance preparation purpose is "substantive," given that, as explained above, the cumulative effects of reclassifications in question is immaterial to Metalcam's financial performance. Second, Metalcam's reconciliation of reported U.S. sales commenced with reconciling the total revenue in audited 2018 fiscal year income statement to the POI total value in the trial balance, and then directly to the quantity and value (all sales, all markets) in the ERP download.[74] Commerce's inquiry, in its tailored design, was the first instance provided to Metalcam to reconcile, individually, all 16 sales revenue-related general ledger accounts in its financial accounting system to the trial balance for the POI, and we find that there is nothing in

[70] *Id.*
[71] *Id.*
[72] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam Supplemental Section AC Questionnaire Response," dated May 14, 2020 at Exhibit SAC-32.
[73] *See* Metalcam September 11, 2020 QR at 11-13 and Exhibits VE2-VE8; *see also* Metalcam's June 29, 2020 SQR at Exhibit SAC2-5 (U.S. Sales Reconciliation).
[74] *See* Metalcam's June 29, 2020 SQR at Exhibit SAC2-5 (U.S. Sales Reconciliation).

Metalcam's reporting that serves as evidence warranting the use of facts available with an adverse inference.

In sum, as stated above, we disagree that application of facts available under section 776(a) of the Act is warranted, let alone application of AFA under section 776(b) of the Act for Metalcam for the final determination and will rely on the data and information provided by Metalcam to calculate a weighted-average dumping margin.

Comment 2: Constructed Value Profit and Constructed Value Selling Expenses

Petitioners' Arguments:

- Commerce should use the financial statements of either Metalcam or Bharat Forge for the purpose of calculating constructed value (CV) profit.[75]
- Commerce's overarching goal when evaluating potential sources for CV profit is "replicating the statutorily preferred method of 773(e)(2)(A)".[76] Accordingly, Commerce must assess whether the financial statements reflect the profit and selling expenses attributable to the foreign like product in the foreign country. Thus, Commerce determines "how specialized the foreign like product is, what percentage of sales are of foreign like product or general category of merchandise, and what portion of sales to which markets, *etc*.".[77]
- Commerce explained that differences in physical characteristics, production processes, requisite testing and certification, how the products will be used, and the market conditions of the industries in which the products are used all affect the profit earned on different products.[78]
- To capture the basic characteristics of fluid end blocks production and sales, Commerce should focus on made-to-order specialized forged steel products produced using a large open-die process. While not all companies that produce forgings use an open die process, this specialized equipment is necessary for the production of fluid end blocks. Therefore, the definition of same general category of merchandise necessarily involves the use of large open-die presses because these presses are the most important critical capital asset involved in the production of fluid end blocks. For that reason, there should be record evidence demonstrating that the producer in question has at least one open die forge of a tonnage capable of fluid end block production.[79]
- Additionally, because fluid end blocks are subject to highly stringent testing, it is unlikely that a producer not involved in the production of fluid end blocks would possess the full range of testing capability.[80]

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[75] *See* Petitioners' Case Brief at 67.
[76] *See Certain Frozen Warmwater Shrimp from Thailand: Final Results and Final Partial Rescission of Antidumping Duty Administrative Review*, 72 FR 52065 (September 12, 2007), and accompanying IDM at Comment 17.w
[77] *See Certain Oil Country Tubular Goods from the Republic of Korea: Final Determination of Sales at Less Than Fair Value and Negative Final Determination of Critical Circumstances*, 79 FR 41983 (July 18, 2014), and accompanying IDM at Comment 1.
[78] *Id.*
[79] *See* Petitioners' Case Brief at 70.
[80] *Id.* at 71.

- Fluid end blocks are consumed by users in the oil and gas industry. These users also consume other large open-die products. The key similarity among these products consumed by users in the oil and gas industry is that they are made to order.[81]
- Commerce should use the Metalcam statements under section 773(e)(2)(B)(i) of the Act because Metalcam is an in-country fluid end block producer and Metalcam's financial statements contain sufficient detail when combined with questionnaire responses to allow Commerce to determine the amount of sales revenue attributable to home-market sales of similar forged products.[82]
- Other factors that support the use of Metalcam's financial statements include the fact that the majority of sales are custom made products for customers in the oil and gas industry, all of Metalcam's forges exceed 3,500 tons, and Metalcam uses the same allocation bases for both MUC and NONMUC. Additionally, Metalcam is capable of conducting a large range of quality testing. Finally, because Metalcam does not perform research and development, its costs are not distorted by large research and development expenditures.[83]
- If Commerce does not use Metalcam's financial statements to calculate CV profit, it should use the financial statements of Bharat Forge, pursuant to section 773(e)(2)(B)(iii) of the Act.[84]
- While Bharat Forge is an Indian producer of fluid end blocks, Bharat has robust home-market sales of the same general category of merchandise and Commerce often resorts to third country producers.[85]
- Commerce should not rely on the financial statements of OFAR S.p.A. (OFAR) because the company is unprofitable after proper adjustments are made to the profit amount shown on the financial statements.[86]
- OFAR discloses in its financial statements that its controlling parent is unprofitable and Commerce's practice where respondents are held by a holding company is to include unrecovered holding company parent company expenses in the respondent's costs.[87]
- OFAR's parent company provides administrative services to OFAR and those services should be examined in accordance with the transactions-disregarded rule. Because OFAR's parent company has consistent losses, it is apparent that the administrative services are provided at less than market value. By definition, transactions that are disregarded are outside the ordinary course of trade and Commerce has explained that, when selecting financial statements to use as a source for CV profit, its "preference... is to closely simulate the preferred method which requires that sales of the foreign like product be in the ordinary course of trade."[88]
- Other reasons that support the use of either the Metalcam or Bharat Forge financial statements over those of either OFAR or Cogne Acciai Speciali S.p.A. (Cogne) include the facts that the financial statements of Metalcam and Bharat Forge cover more of the POI and

[81] *Id.*
[82] *Id.* at 72.
[83] *Id.* at 73.
[84] *Id.* at 77.
[85] *Id.* at 78.
[86] *Id.* at 79.
[87] *See Large Diameter Welded Pipe from Canada: Final Affirmative Determination of Sales at Less Than Fair Value*, 84 FR 6378 (February 27, 2019), and accompanying IDM at Comment 6.
[88] *See, e.g.*, *Notice of Final Results of the Ninth Administrative Review of the Antidumping Duty Order on Certain Pasta from Italy*, 72 FR 7011 (February 14, 2007), and accompanying IDM at Comment 2.

have larger portions of home-market sales. In addition, Commerce has no factual basis for making a determination about Cogne's and OFAR's product lines and sales activities. Finally, the record does not contain evidence concerning the customer base of either OFAR or Cogne.[89]

Lucchini's Arguments:

- Commerce should not rely on Metalcam's financial statements to calculate CV profit.[90]
- The petitioners are incorrect when they argue that there is a close similarity of operations between Lucchini and Metalcam because "both are integrated producers, both have fluid end block forges of similar capacity, and both operate in Italy."[91] The petitioners ignore the fact that unlike Metalcam, Lucchini does not have its own melt shop. Moreover, not only is Metalcam's extremely high profit rate heavily influenced by sales to customers in the United States, Metalcam's profit rate cannot be considered reasonable within the meaning of section 773(e)(2)(B)(iii) of the Act because it is considerably higher than the profit rate recorded by other Italian forging companies.[92]
- The petitioners' alternative argument that Commerce should rely on the financial statements of Bharat Forge is flawed because Bharat Forge is an Indian producer and Commerce has made clear that its preference is to utilize the profit and selling expenses reflecting sales in the foreign country under consideration which, in this proceeding, is Italy.[93] Additionally, while Lucchini and the majority of Italian producers focus on traditional sectors such as oil and gas and power generation, Bharat Forge is "highly active in high-value, innovative forgings for the aerospace and defense industries, as well as the automotive industries."[94]
- Although the petitioners argue that OFAR was unprofitable in 2018, the petitioners rely on the financial data from 2017 to make their argument. Moreover, there is no evidence on the record to support the petitioners' assertions that OFAR's parent company incurred losses during 2018 and that "GIVA consistently reports losses *{indicating}* that the fees they charge OFAR are materially understated" and "substantially distorts OFAR's CV profit."[95]
- The petitioners' attempt to discredit the Cogne financial statements is flawed, not only because the petitioners themselves relied on Cogne's financial statements for the purposes of filing the petition and thus indicated that Cogne is a representative member of the Italian forging industry, but also because Cogne's financial statements overlap for three months with the POI and Cogne has sufficient sales in Italy.[96]

[89] *See* Petitioners' Case Brief at 83.
[90] *See* Lucchini's Rebuttal Brief at 24.
[91] *See* Lucchini's Rebuttal Brief at 25.
[92] *Id.*
[93] *See Biodiesel from Indonesia: Final Determination of Sales at Less Than Fair Value*, 83 FR 8835 (March 1, 2018), and accompanying IDM at Comment 5.
[94] *See* Lucchini's Rebuttal Brief at 26.
[95] *Id.* at 27.
[96] *Id.* at 29.

Metalcam's Arguments:

- Commerce evaluated and determined for the purposes of the *Preliminary Determination* that the use of Metalcam's financial statements are not suitable under section 773(e)(2) of the Act.[97]
- If Commerce uses Metalcam's financial statements because Metalcam produces the "same general category of product" it would necessarily have to include subject merchandise in its calculation which will be in contravention of the law.[98]
- The statute does not define the term "general category of products" for purposes of section 773(e)(2)(B)(i) or (iii) of the Act.[99] However, the SAA provides that the term "encompasses a category of merchandise broader than the "foreign like product."[100] That section of the statute does not say that CV profit should be based on: (1) the same general category of products as the subject merchandise; plus (2) subject merchandise itself. Instead, it is broader, but not inclusive of, subject fluid end blocks.[101]
- Because Metalcam's financial statements include subject merchandise and non-subject merchandise, the financial statements as a whole cannot be used for CV profit and selling expenses.[102]
- It will be contrary to the statue to include the CV profit attributable to subject merchandise when it is not sold in the home market.[103] Furthermore, as fluid end blocks account for a significant percentage of the overall sales of Metalcam, it will be simply absurd to do so.[104]
- The petitioners' reliance on Commerce's decisions in the *Oil Country Tubular Goods* investigations is misplaced as petitioners fail to note the key distinction in that investigation where subject merchandise and non-subject merchandise were not commingled.[105]

Commerce's Position: For the final determination we have continued to rely on the publicly available financial statements for the fiscal year ending December 31, 2018, of two Italian producers of open die forged products (including fluid end blocks), (Cogne)[106] and OFAR.[107] We continue to find that the CV profit rate for these two companies represent the best source for determining CV profit in this proceeding, based on the criteria established under section

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[97] *See* Metalcam's Rebuttal Brief at 32.
[98] *Id.* at 32-33.
[99] *See Biodiesel from Indonesia: Final Determination of Sales at Less than Fair Value,* 83 FR 8835 (March 1, 2018), and accompanying IDM at 35-36.
[100] *See* Statement of Administrative Action accompanying Uruguay Round Agreements Act (SAA), H.R. Doc. 103-316, vol. 1 (1994) at 840.
[101] *See* Metalcam's Rebuttal Brief at 33.
[102] *Id*.
[103] *Id.*
[104] *Id.*
[105] *Id* at 34.
[106] *See Forged Steel Fluid End Blocks from the Federal Republic of Germany, India, and Italy: Initiation of Less-Than-Fair-Value Investigations,* 85 FR 2394, 2397 (January 15, 2020), and accompanying Initiation Checklist; *see also* Petitioners' Letter, "Fluid End Blocks from China, Germany, India, and Italy: Antidumping and Countervailing Duty Petitions," dated December 19, 2019, Volume I at 55 and Volume II at Exhibit GEN-48.
[107] *See* Metalcam's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Metalcam's Factual Information and Comments on Constructed Value Profit and Selling Expenses, dated April 20, 2020 at Exhibits 1 and 7. We recalculated the profit rate for OFAR in Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Determination – Metalcam S.p.A.," dated July 16, 2020.

773(e)(2)(B)(iii) of the Act and in *Pure Magnesium from Israel* and *CTVs from Malaysia*.[108] The information meets our criteria in that it is contemporaneous, represents Italian producers of comparable merchandise (including fluid end blocks and, thus, is reflective of business operations and products similar to the respondents under investigation), and it appears to predominantly reflect sales (and thus profits) in the Italian market at issue in this investigation.

The petitioners argue that if a portion of OFAR's parent company's losses for the fiscal year 2018 are allocated to OFAR, in accordance with Commerce's practice, the result would be a net loss for OFAR. Because OFAR is not a respondent in this investigation, we do not have enough information on the record to make such a determination, as we do not know what services, if any, were provided by the parent, whether OFAR reimbursed its parent for such services, or how such payments were recorded in OFAR's books and records. Furthermore, we do not have the audited financial statements of OFAR's parent company on the record. Therefore, we have continued to rely on the stand alone audited financial statements of OFAR, as submitted.

In regard to the petitioners' assertion that Commerce should use Metalcam's financial statements to calculate CV profit, we disagree. The CV profit rate calculated from Metalcam's financial statements as submitted by the petitioners, relates to sales of both subject and non-subject merchandise, and the subject merchandise, which accounts for a significant percentage of the overall sales, is all sold in the United States, not the home market. Furthermore, the record does not contain segmented data, *i.e.,* information concerning the profit attributable to the sales of the same general category of products produced (non-MUC), or other information for Metalcam, that would allow CV profit to be calculated using sales and cost information solely from the same general category of products produced by Metalcam. For these reasons, if Commerce were to use Metalcam's financial statements to calculate CV profit, the profit on U.S. sales of fluid end blocks would be included in the profit used to construct normal value, and compared to those same U.S. sales prices. This is unreasonable because it creates a potential for circularity in the calculation.

Further, the petitioners argue that if Commerce does not use Metalcam's financial statements to calculate CV profit, then it should use the financial statements of Bharat Forge, an Indian producer of fluid end blocks and a respondent in a concurrent Indian fluid end block antidumping duty investigation. While there have been certain cases where record evidence has not allowed Commerce to calculate CV profit using sales and cost data from the home country of the respondent,[109] the statue expresses a clear preference for using data that reflects the production and sales in the home market in calculating CV profit under section 773(e)(2)(B), which in this case is Italy. As such, it has been Commerce's practice, where appropriate information is available on the record, to use data to calculate CV profit based on the clear preference expressed by the statute. In the instant case, we have record information (*i.e.*, the financial statements of OFAR and Cogne) that allow Commerce to calculate CV profit based on sales and cost data of comparable merchandise in the foreign country (*i.e.*, Italy), and there is no

[108] *See Notice of Final Determination of Sales at Less Than Fair Value: Pure Magnesium from Israel*, 66 FR 49349 (September 27, 2001) (*Pure Magnesium from Israel*), and accompanying IDM at Comment 8; *see also Notice of Final Determination of Sales at Less Than Fair Value: Certain Color Television Receivers from Malaysia,* 69 FR 20592 (April 16, 2004) (*CTVs from Malaysia*), and accompanying IDM at Comment 26.
[109] *See Certain Oil Country Tubular Goods from the Republic of Korea,* 79 FR 41983 (July 18, 2014), and accompanying IDM at Comment 1.

basis to deviate from this statutory preference or Commerce's practice, and use financial data that is not representative of the home market.

Lastly, because the financial statements of the Italian surrogate producers, including those of Cogne and OFAR, do not segregate selling expenses from general operating costs, we relied on Metalcam's and Lucchini's indirect selling expenses incurred in the export market, as reported in the companies' respective section C questionnaire responses, as a proxy for CV selling expenses. We determined that these data fairly represent selling expenses of the open-die forged products industry in general and, thus, satisfy the "any other reasonable method" criteria under section 773(e)(2)(B)(iii) of the Act, as best information available on the record.

Comment 3: Date of Sale for Metalcam

Metalcam's Arguments:

Commerce should use order date as the appropriate date of sale for purposes of calculating a margin for Metalcam in the final determination.[110] Commerce erroneously found in the *Preliminary Determination* that invoice date is the appropriate date of sale because Metalcam's sales of fluid end blocks are made-to-order and there was a single instance where an order was changed.[111]

- In *Welded Steel Pipe from Korea*, Commerce found that the material terms of sale are set on the contract date and any subsequent changes are immaterial in nature or, if material, rarely occur.[112]
- In *Welded Steel Pipe from Korea*, Commerce also found that lag time between contract date and invoice date, as in a made to order sale, supports using contract date or purchase order date as the date of sale.[113] Similarly, in *Large Power Transformers from Korea*, Commerce expanded on the idea that a purchase order date is often the appropriate date of sale for large capital equipment.[114]
- In *Welded Steel Pipe and Tube from Thailand*, in observing that most of the changes in quantity were within the tolerances indicated in the contract, Commerce concluded that there was no discernible pattern of changes in the material terms of sale after the date of contract.[115]

[110] *See* Metalcam's Case Brief at 2.
[111] *Id*.
[112] *Id*. at 2 (citing *Circular Welded Non-Alloy Steel Pipe from the Republic of Korea; Final Results of Antidumping Duty Administrative Review*, 63 FR 32833-32836 (June 16, 1998) (*Welded Steel Pipe from Korea*)).
[113] *Id*. at 3 (citing *Welded Steel Pipe from Korea*).
[114] *Id*. (citing *Large Power Transformers from the Republic of Korea: Final Determination of Sales at Less than Fair Value*, 77 FR 40857 (July 11, 2012) (*Large Power Transformers from Korea*), and accompanying IDM at Comment 1).
[115] *Id*. at 3-4 (citing *Certain Welded Carbon Steel Pipes and Tubes from Thailand; Final Results of Antidumping Duty Administrative Review*, 65 FR 65910 (October 13, 2000) (*Welded Steel Pipe and Tube from Thailand*), and accompanying IDM at Comment 1).

- In *Hot Rolled Steel from Romania*, Commerce determined that customer order acknowledgment best reflected the date on which the material terms were set in part because any change or modification to this document require an issuance of a new one.[116]
- In *Sahaviriya*, the court cited in favor of reliance on invoice date over contract date because of the "multiple changes exceeding the contract tolerances of multiple contracts, representing multiple sales to multiple customers."[117]
- Commerce's precedent supports a finding here that purchase order date is the appropriate date of sale when material changes after purchase order date occur rarely. Here, there was only a single instance where Metalcam issued a new purchase order, rather than just issuing an invoice including the material changes, further supporting the notion that material terms of sale are set by the purchase order.[118]
- Commerce's *Preliminary Determination* did not demonstrate that there is a pattern of changes in the material terms of sale after the purchase order date. This is so because, with one exception, there are not multiple changes, in price, quantity, or any other material term, after purchase order date.[119]

Petitioners' Rebuttal Arguments:

- Commerce need not address Metalcam's date of sale argument because there is no reliable basis to calculate a dumping margin, given that Metalcam has failed to provide verifiable evidence to support its factual submissions.[120]
- Metalcam has not met the regulatory standard, as affirmed by the administrative and judicial precedent, for Commerce to use a date of sale other than invoice date.[121]
  - There is no factual dispute, and Metalcam admits in the record, that certain material terms of sale were changed after the issuance of a purchase order in question. Thus, Metalcam has not demonstrated that material terms of sale are set at the time the purchase order is issued.[122]
  - The Court has previously considered the proper date of sale for made to order merchandise, finding that the theoretical impact of a made-to-order sales process does not control where the record evidences any post-purchase order changes to material

[116] *Id*. at 4 (citing *Certain Hot-Rolled Carbon Steel Flat Products from Romania: Final Results of Antidumping Duty Administrative Review*, 7 (April 11, 2007) (*Hot Rolled Steel from Romania*), and accompanying IDM at Comment 1).
[117] *Id*. (citing *Sahaviriya Steel Industries Public Company Ltd. v. United States*, 714 F. Supp. 2d 1263 (CIT 2010) (*Sahaviriya*)).
[118] *Id*. at 5.
[119] *Id*.
[120] *See* Petitioners' Rebuttal Brief at 2-4 (citing Petitioners' Case Brief at 5-47).
[121] *Id*. at 6-7 (citing *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27348-49 (May 19, 1997) (*Preamble*); 19 CFR 351.401(i); *Union Steel Mfg. Co. v. United States*, 968 F. Supp. 2d 1297, 1321-1322 (CIT 2014), *SeAH Steel Corp. v. United States*, 25 C.I.T. 133, 135 (2001) (*SeAH Steel*), *Notice of Final Determination of Sales at Less Than Fair Value: Certain Large Diameter Carbon and Alloy Seamless Standard, Line and Pressure Pipe from Mexico*, 65 FR 39358 (June 26, 2000), and accompanying IDM at Comment 2; *Habaş Sinai ve Tibbi Gazlar lstihsal Endustrisi A.Ş. v. United States*, 361 F. Supp. 3d 1314, 1327 n.20 (CIT 2019); *Allied Tube and Conduit Corp. v. United States*, 132 F. Supp. 2d 1087, 1090-92 (CIT 2001) (*Allied Tube*); and *Yieh Phui Enter. Co. v. United States*, 791 F. Supp. 2d 1319, 1325 (CIT 2011) (*Yieh Phui*)).
[122] *Id*. at 7-8.

terms. The same "reality" is characteristic of Metalcam's U.S. sales in this investigation.[123]

- Metalcam is the only mandatory respondent in any of the fluid end blocks investigations to claim a date other than invoice date as the date of sale. Metalcam has failed to substantiate with record evidence that it is an outlier among its fluid end blocks industry peers, and record evidence demonstrates the opposite.[124]
- None of the agency practice or judicial opinions that Metalcam cites undermines the conclusion that Metalcam has not carried its burden to establish a date of sale other than invoice date.
  - The Court, in abstaining to reject the regulatory presumption in favor of invoice date, found insufficient the reasons similar to the ones Metalcam advances when relying on *Welded Steel Pipe from Korea*.[125] In contrast to the record in that case, the information in this case establishes that material terms of sale do change after the purchase order date; furthermore, unlike in that case, use of invoice date here more closely aligns sale date with the typically post-purchase order job order-based cost data that is used to develop the CV.[126]
  - In *Large Power Transformers from Korea*, Commerce found that the purchase order takes place before production begins and is the document which commits the parties to the purchase and production of an actual large power transformer. Here, the customer for the purchase order in question did not have to purchase fluid end blocks after the original purchase order; the supply agreement with Metalcam's largest customer simply commits Metalcam to supply fluid end blocks to it but does not commit the customer to specific purchases; and Metalcam's purchase order sales database demonstrates that purchase orders do not always precede production.[127]
  - W*elded Pipe and Tube from Thailand* is inapposite because Metalcam's sale for the purchase order in question changed in material terms beyond just the quantity. Metalcam's citation to *Hot-rolled Carbon Steel from Romania* is similarly inapposite insofar as it addresses the same type of sales process as that in *Welded Pipe and Tube from Thailand*.[128]
  - Far more relevant to Commerce's analysis in this case is the Court's affirmance of Commerce's reliance upon invoice date in a situation where only one sale was adjusted between purchase order and invoice beyond contractual tolerance levels.[129] Likewise, where a respondent permitted a change in payment terms between the contract date and invoice date, the Court found these post-contract changes in material terms of sale to support the reliance upon invoice date as the date of sale.[130]

[123] *Id*. at 8-9 (citing *Yieh Phui*, 791 F. Supp. 2d at 1326).
[124] *Id*. at 9 (citing *Preamble*, 62 FR at 27348-50, and *Al Tech Specialty Steel Corp. v. United States*, 22 C.I.T. 941, 945 (1998)).
[125] *Id*. at 10 (citing *SeAH Steel*, 25 C.I.T. at 138-39).
[126] *Id*. at 11.
[127] *Id*.
[128] *Id*. at 12.
[129] *Id*. at 12 (citing *Allied Tube*, 132 F. Supp. 2d at 1090-91).
[130] *Id*. at 12-13 (citing *SeAH Steel*, 25 C.I.T. at 136-137).

        - In *Sahaviriya*, the Court examined the totality of the changes after purchase order, and found them substantial, holding that the use of invoice date was proper. Metalcam's sales pursuant to the purchase order in question provide for circumstances no different from those present in *Sahaviriya*.[131]
    - Metalcam overstates and/or misrepresents its "made-to-order" claim, given the factual record, exemplified as follows.[132]
        - For the purchase order in question, it was not updated until after Metalcam completed production, meaning that Metalcam produced fluid end blocks for the order in question without a purchase order.[133]
        - Metalcam's cost verification exhibits demonstrate that Metalcam commences certain steps in the production of fluid end blocks prior to receiving a purchase order.
        - There are some instances in Metalcam's purchase order sales database where the date of purchase order followed production job date.

Commerce's Position: We continue to find that the invoice date is the appropriate date of sale for purposes of margin calculation for Metalcam in the final determination. In identifying the date of sale of the MUC, Commerce will normally, in accordance with 19 CFR 351.401(i), "use the date of invoice, as recorded in the exporter or producer's records kept in the normal course of business." Commerce may use a date other than the date of invoice if it is satisfied that a different date better reflects the date on which the exporter or producer establishes the material terms of sale.[134] In *Allied Tube,* the U.S. Court of International Trade found that "… a date other than invoice date 'better reflects' the date when 'material terms of sale' are established if the party shows that the 'material terms of sale' undergo no meaningful change (and are not subject to meaningful change) between the proposed date and the invoice date."[135]

In this investigation, focusing on the nature of changes in the material terms of sale and their significance, rather than the frequency of changes thereof, we found that the material terms of sale can undergo substantial changes from the date of the purchase order if the order is upgraded to a different product. Specifically, in the *Preliminary Determination*, we stated, "the record shows that the per-unit price for certain sales of fluid end blocks invoiced during the POI changed after the date of the original purchase order, as a result of customer's requested change to the type of finished form of the ordered product and, consequently, the product's price."[136] We also observed in the *Preliminary Determination* that Metalcam did not rely on the date of the revised/updated purchaser order as the date on which the terms of sale are presumably finalized – Metalcam submitted a sales database that was constructed based on the date of original purchase order, thus containing no U.S. sales made pursuant to the revised/updated purchase order in question.[137] Further, Metalcam's arguments ignore Commerce's rationale for relying on invoice date over purchase order date as the date of sale. Specifically, in the *Preliminary Determination* we stated the following:

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[131] *Id*. at 13.
[132] *Id*. at 14-15 and Exhibit 1.
[133] *Id*. at 14.
[134] *See* 19 CFR 351.401(i).
[135] *See Allied Tube* (quoting 19 CFR 351.401(i)).
[136] *See Preliminary Determination* PDM at 13.
[137] *Id*., n.62.

> Our decision to rely on Metalcam's sales databases of U.S. sales with an invoice date during the POI is also informed by the superiority of such data (in terms of accuracy of information) over the sales databases of U.S. sales with a purchase order date during the POI, because the progressive versions of the latter submitted throughout this investigation contained a number of transactions which haven't yet been invoiced, and for which certain expenses have not yet been incurred … Because the record shows that a purchase order can be cancelled, and/or subsequently re-issued for an upgraded product, however infrequently that may occur, it is unknown whether un-invoiced transactions will materialize at all or materialize at the contracted quantity or price. Further, Metalcam's sales databases of U.S. sales with a purchase order date during the POI are missing warehousing expenses and warehousing revenues for a number of transactions for which Metalcam reported such items in its sales databases of U.S. sales with an invoice date during the POI.[138]

This discussion demonstrates that Metalcam's reliance on certain administrative precedent where Commerce considered the frequency of changes to contract's material terms of sale is subverted in this case – here, it cannot be determined with confidence whether the purchase order in question (that was upgraded to a different product) will have remained as a single or unique such occurrence, once unsettled (*i.e.*, ordered but not shipped) transactions have been invoiced. Notwithstanding, there are numerous cases in which Commerce did not consider the frequency of changes (or the prevalence of repeat change occurrences) to the material terms of sale of contracts as a prerequisite in determining the appropriate date of sale.[139] In fact, the petitioners are correct that the Court affirmed Commerce's reliance on invoice date as the date of sale even in a situation where it affected the material terms of a single sale. Specifically, in *Allied Tube*, the Court found, "{g}iven the regulatory presumption favoring the use of invoice date, the existence of this one sale beyond contractual tolerance levels suggests sufficient possibility of changes in material terms of sale so as to render Commerce's date of sale determination supported by substantial evidence. Accordingly, the court finds that the agency was entitled to apply its regulation and allow date of invoice to constitute date of sale."[140] Here, as mentioned above, the record is unequivocal that certain material terms of sale have changed for a specific purchase order in question. As such, in light of this judicial precedent, there is nothing on the record that undermines Commerce's decision to rest on the regulatory presumption under 19 CFR 351.401(i) in favoring the date of invoice as the date of sale for Metalcam in this investigation.

Further, Metalcam's argument that a date of purchase order is warranted here because fluid end blocks are made-to-order is not convincing. The record does not elaborate on what is meant by "order" or "made" vis-a-via the issuance of sales documents for and the production of fluid end blocks. While the purchase order sales database reports the dates of purchase orders and

[138] *Id.*, n.63 (internal citations omitted).
[139] *See*, *e.g.*, *Certain Oil Country Tubular Goods from Turkey: Preliminary Results of Antidumping Duty Administrative Review; 2016-2017*, 83 FR 26957 (June 11, 2018), and accompanying PDM at 8 (considering an exemplified change to the order's quantity for a single comparison market sale as sufficient evidence in favor of determining the date of sale based on invoice date), unchanged in *Certain Oil Country Tubular Goods from Turkey: Final Results of Antidumping Duty Administrative Review; 2016-2017*, 83 FR 64107 (December 13, 2018).
[140] *See Allied Tube*, 132 F. Supp 2d at 1092.

applicable work orders, there is no explanation of how the issuance of purchase order fits into the precise timing of the commencement of production of fluid end blocks that will ultimately meet the requirements of the purchase order (*i.e.*, how both dates are interconnected or interdependent). Moreover, the petitioners are correct that the made-to-order nature of product or lead times are not, in themselves, controlling of Commerce's date of sales determination. Specifically, in *Yieh Phui*, the Court found that, despite the U.S. sales process hypothetically establishing material terms of sale at contract date, "{i}n reality, the material terms of U.S. sales changed after contract date despite (1) the alleged commercial formalities, (2) the made to order nature of the U.S. merchandise, and (3) the parties' course of conduct."[141]

Taken cumulatively, Commerce's decision in the *Preliminary Determination* to use invoice date as the date of sale was both: (1) a reflection that Commerce was not sufficiently satisfied, in accordance with 19 CFR 351.401(i), that a purchase order date better reflects the date on which Metalcam establishes the material terms of sale; and (2) a recognition that the accuracy of Metalcam's dumping margin calculation is best preserved by the use of Metalcam's sales database based on invoice date that does not suffer from the missing data, identified above, present in Metalcam's sales database based on purchase order date. For these reasons, for purposes of this final determination and consistent with our regulatory presumption for invoice date, we continue to use the date of invoice as the date of sale for Metalcam's reported U.S. sales of fluid end blocks made during the POI.

Comment 4: Lucchini's Direct Material Costs

Petitioners' Arguments:

- Lucchini's submitted direct material costs include an embedded yield loss which was not disclosed until its response to Commerce's in lieu of verification questionnaire. Moreover, because Lucchini did not disclose the yield loss in a timely manner, Commerce was unable to assess its reasonableness. Accordingly, Commerce should apply partial adverse facts available to Lucchini's reported direct materials cost.[142]
  - Contrary to Lucchini's statement that in the original section D questionnaire response it had illustrated the derivation of its reported ingot costs starting with its normal books and records, Lucchini did not provide an adequate explanation between its reported costs and purchased ingots from its books and records.[143]
  - Because Lucchini's initial response was unclear, Commerce sent Lucchini a supplemental questionnaire instructing Lucchini to further explain its reported direct materials cost for several production lots.[144]
  - Lucchini failed to provide an adequate explanation for each of the selected production lots. Specifically, Lucchini provided a narrative explanation for only one of the selected production lots and submitted minimal supporting documentation. Thus, Lucchini prevented Commerce from analyzing Lucchini's submitted costs.[145]

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[141] *See Yieh Phui*, 791 F. Supp. 2d at 1326-1327.
[142] *See* Petitioners' Case Brief at 47.
[143] *Id*. at 48.
[144] *Id*.
[145] *Id*. at 49.

- In its lieu of verification questionnaire, Commerce instructed Lucchini to explain the conversion of purchase cost (on a weight basis) to submitted per-unit costs (reported on a per-piece basis).
- In response, Lucchini identified a large yield loss attributable to quality issues. Specifically, Lucchini explained that a portion of the reconciliation between the ingot's reported purchase price and ingot's costs reflected in the database pertained to the fact that a portion of the ingot had been scrapped for quality reasons.[146]
- Lucchini's belated disclosure of the substantial yield loss associated with the selected ingot due to unsubstantiated quality issues was highly improper because verification is not the time to submit new information.[147]
- Moreover, even though Commerce limits non-prime product costs to their sales value,[148] Lucchini's methodology understated direct materials cost by not assigning full cost to finished goods.[149] Additionally, because Lucchini incorporated a yield loss into its calculations and claimed a scrap offset, Lucchini effectively double-counted its scrap offset.[150]
- Lucchini did not disclose the potential for large yield losses prior to verification and stated in its original questionnaire response that it allocated total ingot costs over the fluid end blocks produced from the ingot. Accordingly, the disclosure of large yield losses due to quality issues in response invalidates previous responses. Additionally, Lucchini's disclosure that portions of ingots could be scrapped for quality reasons and that it assigns full costs to scrapped pieces in its verification questionnaire response was untimely.[151]
- Lucchini's failure to disclose these issues in a timely manner warrants the application of partial adverse facts available pursuant to section 776(b) of the Act because Lucchini's failure to disclose these issues prevented Commerce from soliciting additional information earlier in the investigation.[152]
- In the alternative, Commerce should adjust Lucchini's reported direct materials' costs to reflect the difference between the total purchase costs reported in its schedule of purchases (reported on a weight basis) and the ingot costs shown in Lucchini's submitted costs (reported on a per-piece basis).[153]

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[146] *Id*. at 50.
[147] *Id*.
[148] *See Certain Oil Country Tubular Goods from Taiwan: Final Determination of Sales at Less Than Fair Value*, 79 FR 44395 (July 31, 2014), and accompanying IDM at Comment 5.
[149] *See Fine Denier Polyester Staple Fiber from Taiwan: Final Affirmative Determination of Sales at Less Than Fair Value*, 83 FR 24745 (May 30, 2018) (*Fine Denier PSF LTFV*), and accompanying IDM at Comment 1.
[150] *See Finished Carbon Steel Flanges from India: Final Results of Antidumping Duty Administrative Review; 2017-2018*, 85 FR 21391 (April 17, 2020), and accompanying IDM at Comment 1.
[151] *See* Petitioners' Case Brief at 52.
[152] *Id.* at 55; *see also United States Steel Corp. v. United States*, 179 F. Supp. 3d 1114, 1132-35 (CIT 2016); *United States Steel Corp. v. United States*, 219 F. Supp. 3d 1300, 1320-21 (CIT 2017); *Certain Corrosion-Resistant Steel Products from Italy: Final Determination of Sales at Less Than Fair Value and Final Affirmative Determination of Critical Circumstances, in Part*, 81 FR 35320 (June 2, 2016), and accompanying IDM at Comment 3; and *Certain Steel Nails from the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Partial Affirmative Determination of Critical Circumstances*, 73 FR 33977 (June 16, 2008), and accompanying IDM at Comment 21.F.
[153] *See* Petitioners' Case Brief at 55.

- o To calculate the proposed alternative adjustment, Commerce should use the subset of ingots which were both purchased and consumed during the POI and adjust for the difference between the costs shown in the schedule of purchases and those included in Lucchini's submitted costs.[154]

<u>Lucchini's Rebuttal Arguments</u>:

- Contrary to the petitioners' assertion, Lucchini did not fail to demonstrate how it calculated the per-piece ingot cost of each of the selected production lots and did not only provide "minimal supporting documentation".[155]
  - o Lucchini fully complied with Commerce's request for each of the selected production lots, having submitted detailed calculation worksheets and supporting information from its accounting system. Moreover, Lucchini provided a detailed narrative explanation for one of the examples to explain the calculations for one of the production lots and explained that the same methodology applied to each of the selected production lots.[156]
  - o Commerce may not apply adverse facts available pursuant to sections 776(a)(1) and 776(b)(1) of the Act unless information is missing from the record and Commerce determines that a respondent has failed to act to the best of its ability.
  - o Lucchini has complied with all of Commerce's requests for information and has acted to the best of its ability.[157]
  - o Lucchini neither hid information concerning yield losses nor understated its reported direct materials cost.[158]
  - o The petitioners' arguments concerning the duplication of its reported scrap offset are misplaced and reflect petitioners' misunderstanding of Lucchini's cost reporting. Specifically, the petitioners conflate the valuation of scrap generated during the production of the MUC which serves as the basis for the reported scrap offset and treatment of discarded defective ingots (treated as non-prime outputs for which no offset is claimed).[159]
  - o Non-prime outputs such as defective ingots are not used to produce MUC and any costs associated with them were recaptured either in the form of scrap sales or supplier credit notes.[160] Indeed, one of the credit notes which the petitioners argue was not disclosed prior to verification is referenced in Exhibit D-2 of its original section D questionnaire response.[161] Moreover, the credit note disclosed in Exhibit D-2 shows that Lucchini received a credit note from the supplier to recover any purchase costs not recouped by the sale of the defective ingot as scrap.[162]
  - o Moreover, Lucchini demonstrated how the claimed scrap offsets were linked on a production-lot specific basis.[163]

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[154] *Id.* at 56.
[155] *See* Lucchini's Rebuttal Brief at 10.
[156] *Id.* at 11.
[157] *Id.* at 13.
[158] *Id.* at 13.
[159] *Id.* at 14.
[160] *Id.* at 15.
[161] *Id.*
[162] *Id.* at 17.
[163] *Id.*

- Concerning the petitioners' alternative proposed calculation, because the petitioners only provides a vague narrative explanation of the unsubstantiated calculation and references the need to make "necessary and appropriate refinements to the data," it is difficult to reverse engineer the calculations. Thus, it would be inappropriate for Commerce to rely on the calculations.[164]
- Even assuming that Commerce is unable to make sense of the petitioners' proposed calculations, the petitioners appear to ignore key differences between the information presented in Lucchini's schedule of purchases and the ingots consumed in the production of MUC completed during the POI. Such differences include the facts that some ingots were scrapped for quality reasons, Lucchini's submitted costs reflect the consumption of partial ingots consumed before and after the POI, and some ingots were consumed in the production of merchandise not under consideration (NONMUC).[165]

Commerce's Position: For the final determination, we adjusted Lucchini's reported costs to account for the cost of completed MUC which was scrapped for quality reasons. Although Lucchini recognizes that these costs are allocable to completed MUC in its normal books and records, its submitted costs do not include the costs of these items.[166] Commerce's practice is to ensure a fully yielded cost by allocating total input cost over the total of finished goods production.[167] We do not consider products scrapped for quality reasons to constitute finished goods production. Accordingly, because Lucchini provided information concerning the total POI cost of non-conforming products on a product-group specific basis,[168] we have allocated the cost of non-conforming products in the product group which contains MUC, over the production quantity of conforming finished goods.

In regard to the application of AFA, because Lucchini responded to Commerce's requests for information throughout this proceeding and disclosed the potential for fluid end blocks being scrapped after the completion of production due to quality defects and reported purchase adjustments in its original section D questionnaire response,[169] we disagree that Lucchini failed to act to the best of its ability. Lucchini disclosed these issues in a timely manner so the application of partial adverse facts available pursuant to section 776(b) of the Act is not warranted. Further, we disagree with the petitioners that Lucchini's methodology results in an overstatement of its scrap offset. Record evidence demonstrates that Lucchini's scrap offset is limited to scrap cut away during the production process and that items scrapped for quality reasons are not factored into the submitted per-unit costs.[170] Moreover, while it is appropriate to adjust Lucchini's reported costs to reflect the costs of fluid end blocks which were scrapped due to quality defects, it is not appropriate to do so for those ingots scrapped for quality reasons

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[164] *Id.* at 18.
[165] *Id.* at 19.
[166] *See* Lucchini's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A Section D Questionnaire Response," dated April 3, 2020 (Lucchini's April 3, 2020 DOQR) at 27 and Lucchini's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A. Second Section D Supplemental Questionnaire Response," dated June 29, 2020 (Lucchini's June 29, 2020 2SDQR) at Exhibit S2D-7(a).
[167] *See Fine Denier PSF LTFV* IDM at Comment 1.
[168] *See* Lucchini's April 3, 2020 DOQR at Exhibit D-25.
[169] *See* Lucchini's April 3, 2020 DOQR at 27 and Exhibit D-2.
[170] *See* Lucchini's June 29, 2020 2SDQR at 6.

because the cost of those ingots are fully recovered. Specifically, through the use of credit notes from the ingot supplier to reflect the difference between the ingot's purchase price and the proceeds from the sale of the defective ingot as scrap, Lucchini fully recovers any costs associated with the ingots scrapped for quality reasons, and there are no costs to be allocated to finished goods.[171] Finally, we note that, despite the petitioners' characterization of our supplemental questionnaire as instructing Lucchini to explain the conversion of the purchase cost (on a per piece basis) to the reported cost (on a per-unit weight basis), our supplemental questionnaire did not explicitly instruct Lucchini to demonstrate a weight conversion and Commerce found Lucchini's response to our supplemental questionnaire sufficient.[172]

Comment 5: Major Input/Transactions Disregarded Adjustment

Petitioners' Arguments:

- The major-input adjustment applied by Commerce at the preliminary determination was understated.[173]
  - For the purposes of submitting information concerning its ingot purchases of major inputs from affiliated parties, Lucchini provided a self-selected subset of purchased ingots used to produce MUC, rather than the total universe of purchased ingots.[174]
  - In its response to the petitioners' pre-preliminary comments in which the petitioners argued that Commerce should use Lucchini's total universe of ingot purchases, Lucchini argued against the petitioners' proposed calculation because "most" of the MUC is produced using only certain grades and that "almost of the totality of the ingots used" are a certain type of steel.[175]
  - Commerce's practice is to analyze the arm's-length nature of all purchases from affiliated parties rather than a self-selected subset.[176]
  - While there have been instances where Commerce conducted the major input analysis by grade, the record of this proceeding does not contain the necessary information to do so because Lucchini provided a single weighted-average cost of production (COP).[177]

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[171] *See* Lucchini's April 3, 2020 DOQR at Exhibit D-2; *see* also Lucchini's Letter June 29, 2020 2SDQR at Exhibit S2d-7(a); and Lucchini's Letter, "Case A-475-840: Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A Post-Preliminary Questionnaire," dated September 11, 2020 at 8 (Lucchini's September 11, 2020 Post-Prelim Qre Response).

[172] Specifically, Commerce requested that, for selected production runs, Lucchini "include a detailed narrative which explains each step of the calculations" and "explain and submit documentation to support each of the reported ingot costs." *See* Lucchini's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A. Section D Supplemental Questionnaire Response," dated April 29, 2020, at 12. Lucchini responded adequately by providing the invoice for each of the ingots consumed partially in the production of the requested runs, a worksheet which showed how each of the ingots' costs had been allocated across production runs, and an illustrative narrative explanation which explained its cost calculation methodology. *See* Lucchini's Letter, "Antidumping Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A. Section D Supplemental Questionnaire Response," dated May 27, 2020 at 64 (Lucchini's May 27, 2020 DSQR).

[173] *See* Petitioners' Case Brief at 58.

[174] *Id.* at 60.

[175] *Id.* at 61.

[176] *See Chlorinated Isocyanurates from Japan: Final Determination of Sales at Less Than Fair Value*, 79 FR 56059 (September 18, 2014), and accompanying IDM at Comment 3.

[177] *See Certain Frozen and Canned Warmwater Shrimp from Ecuador: Final Determination of Sales at Less Than Fair Value*, 69 FR 76913 (December 23, 2004), and accompanying IDM at Comment 7.

- Moreover, Lucchini has not demonstrated the grades of the reported ingots which is necessary for Commerce to conduct its analysis on a grade-specific basis.[178]

Lucchini's Rebuttal Arguments:

- Commerce did not err in calculating the major input adjustment based on the type of ingots which account for the majority of Lucchini's MUC production during the POI. Moreover, Commerce can identify those finished goods in the database which were produced using other types of ingots.[179]
  - The petitioners' methodology improperly dilutes the purchases of high price stainless steel ingots with purchases of non-stainless ingots which leads to a larger price differential between purchases from affiliated and unaffiliated suppliers.[180]
  - The record contains ample evidence which permits Commerce to conduct a grade-specific analysis including, but not limited to, the CONNUM structure and information contained in the Petition.[181]
  - If Commerce chooses to apply a major input adjustment to reflect the small portion of non-stainless ingots, it should not use the distortive calculation proposed by the petitioners and should instead calculate a separate major input adjustment attributable to non-stainless ingots solely.[182]

Commerce's Position: We have revised our calculation of the major input adjustment applied in the *Preliminary Determination*.[183] For the final determination, in applying the transactions disregarded and the major input rules pursuant to sections 773(f)(2) and (3) of the Act, we analyzed the stainless and non-stainless steel ingot purchases separately.

While Commerce does not automatically separate inputs by grade of steel,[184] Commerce has done so when there are significant physical and/or chemical differences justifying separate treatment and the record supports such analysis.[185] The record of this proceeding contains sufficient information for Commerce to not only distinguish between stainless and non-stainless steel, the physical characteristics established by Commerce at the beginning of this investigation recognize the propriety of doing so. Specifically, in its comments on product characteristics, the petitioners proposed as the first product characteristic chromium content and explained that "{c}hromium is an important and costly chemical element... the proposed dividing line of 10.5

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[178] *See Certain Carbon and Alloy Steel Cut-To-Length Plate from Austria: Final Results of the Antidumping Duty Administrative Review; 2016-2018*, 84 FR 68106 (December 13, 2019), and accompanying IDM at Comment 3; *see also, Certain Cut-To-Length Carbon-Quality Steel Plate Products from the Republic of Korea: Final Results of Antidumping Duty Administrative Review; 2012-2013*, 79 FR 54264 (September 11, 2014), and accompanying IDM at Comment 3.
[179] *See* Lucchini's Rebuttal Brief at 20.
[180] *Id.*
[181] *Id.* at 21.
[182] *Id.*
[183] *See* Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Determination – Lucchini Mame Forge S.p.A.," dated July 16, 2020*; see also* Lucchini's May 27, 2020 DSQR at 37.
[184] *See Certain Carbon and Alloy Steel Cut-To-Length Plate from Austria: Final Results of the Antidumping Duty Administrative Review; 2016-2018*, 84 FR 68106 (December 13, 2019), and accompanying IDM at Comment 3.
[185] *Id.*

percent tracks the split between stainless and non-stainless steel grades."[186] Accordingly, Commerce established chromium content as the first product characteristic.[187] Therefore, Lucchini's cost database enables Commerce to distinguish MUC produced from stainless steel ingots from MUC produced using non-stainless steel ingots.[188]

Concerning the petitioners' argument that Commerce lacks the requisite information to conduct a bifurcated analysis of affiliated party purchases, we disagree. Lucchini submitted information concerning its POI purchases of stainless and non-stainless steel ingots segregated by the type of steel.[189] Section 773(f)(3) of the Act requires that, for major inputs, Commerce compare the input's transfer price, market price and COP. Lucchini submitted the COP for those ingots which were a major input and thus Commerce is able to conduct its analysis. Concerning the remaining ingots, while the petitioners are correct that Commerce does not have the applicable COP, these ingots do not constitute a major input and are thus subject to the transactions disregard rule in section 773(f)(2) of the Act.[190] Therefore, because the transactions disregarded rule only requires a comparison of the market price and transfer price, Commerce has the requisite information to conduct its analysis.

Comment 6: Constructed Export Price Profit Calculation for Lucchini

<u>Petitioners' Arguments</u>:

- Commerce should adjust Lucchini's sales data to account for various selling expenses.[191]
  - The Lucchini North America (LNA) Profit Rate Is Not Appropriate for constructed export price (CEP) Profit.
  - In the *Preliminary Determination*, Commerce erroneously relied on profit obtained from the 2019 financial statement of LNA.[192]
  - LNA is not an appropriate source for CEP profit because it is a part of the Railway Division of LMA and not the Forging and Casting Division, which explains its minimal involvement with fluid end blocks; the products it does handle are not specialized like fluid end blocks.
  - In response to an inquiry regarding subject merchandise that was sold and invoiced to U.S. customers via LNA, Lucchini explains, "{Lucchini} itself negotiates and makes the sales to the unaffiliated customer on its own account, and LMA invoices the sale

[186] *See* Petitioners' Letter, "Antidumping Duty Investigations of Forged Steel Fluid End Blocks from Germany, India, and Italy: Petitioner's Comments on Product Characteristics," dated February 4, 2020 at 2.
[187] *See* Commerce's Letter, "Antidumping Duty Investigations of Forged Steel Fluid End Blocks from Germany, Italy, and India – Product Characteristics," dated February 13, 2020.
[188] Additionally, in response to Commerce's request, Lucchini submitted documentation to support the reported physical characteristics for selected CONNUMs. *See*, *e.g.*, Lucchini's Letter, "Antidumping/Countervailing Duty Investigations of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A Section C Second Supplemental Questionnaire Response," dated June 4, 2020, at Exhibit S2AC-6 (Lucchini's June 4, 2020 ACSQR).
[189] *See* Lucchini's May 27, 2020 DSQR at 37.
[190] Due to the business proprietary nature of our determination that the transactions-disregarded rule applies to the remaining ingots, see Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Final Determination – Lucchini Mame Forge S.p.A.," dated concurrently with this memorandum.
[191] *See* Petitioners' Case Brief at 63.
[192] *Id*.

through its affiliate LNA (because LNA is the importer of record."[193] LNA is not even part of the Forging and Casting Division.

- Finally, the LNA profit rate used in the *Preliminary Determination* is not representative of fluid end blocks, which are a made-to-drawing custom product.
- LMA acknowledges that the LNA profit earned on the volume of fluid end blocks covers only expenses.
- Consistent with Commerce's practice, for the final determination, Commerce should use the CV profit rate as a surrogate for CEP profit.[194]
- In the *OCTG Korea Prelim*, Commerce calculated Hyundai Steel's CEP profit rate as the CV profit rate calculated using the simple-averaged CV profit rate from Tenaris S.A. and TMK IPSCO 2018 audited financial statements because Hyundai Steel had no comparison market sales, and it was not able to calculate CEP profit in the margin calculation program.[195]
- Because Lucchini had no comparison or third market sales, the Lucchini CEP profit rate should be based on the CV profit rate used to develop CV-based normal values.[196]

<u>Lucchini's Rebuttal Arguments</u>:

- Record evidence clearly indicates that LNA generates the largest part of its sales related to subject merchandise rather than in railway products.[197]
- The record also contradicts the petitioners' statement that the CEP profit rate used in the *Preliminary Determination* is not representative of fluid end blocks, which are a made-to-drawing custom product. According to Lucchini, a comparison between the net prices of U.S. sales and the average COP shows several instances in which the profit is comparable to the CEP profit and therefore in line with the CEP profit rate calculated by Commerce.[198]

Commerce's Position: In its section C questionnaire response, Lucchini provided a sales reconciliation worksheet for its U.S. affiliate, LNA.[199] The data provided in the worksheets indicate that LNA generates its sales revenue from sales of fluid end blocks for calendar years 2018 and 2019.[200] Specifically, in Lucchini's section C questionnaire response, at Exhibit C-4 – Part 2, tabs identified as "Sales2018" and "Sales2019," indicates that LNA had sales of fluid end blocks during 2018 and 2019.[201] Thus, the information on the record does not support the petitioners' contention that LNA is not part of the Forging and Casting Division.[202]

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[193] *Id*. at 64.
[194] *Id*. at 65.
[195] *Id.*; *see also Certain Oil Country Tubular Goods from the Republic of Korea: Preliminary Results of Antidumping Duty Administrative Review; 2017-2018,* 84 FR 63615 (November 18, 2019) (*OCTG Korea Prelim*), and accompanying Decision Memorandum, and adopted in *Certain Oil Country Tubular Goods from the Republic of Korea: Final Results of Antidumping Duty Administrative Review; 2017-2018,* 85 FR 41949 (July 13, 2020) (*OCTG Korea Final*), and accompanying IDM.
[196] *Id*.
[197] *See* Lucchini's Rebuttal Brief at 30.
[198] *Id*.
[199] *See* Lucchini's Letter, "Antidumping/Countervailing Duty Investigations of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A Section C Questionnaire Response," dated March 16, 2020 at Exhibit C-4-Part 2 (Lucchini's March 16, 2020 CSQR).
[200] *Id.*
[201] *Id*.
[202] *Id*.

With regard to the petitioners' reliance on the *OCTG Korea Final*[203] to support its argument that we should use the calculated CV profit rate as a surrogate for CEP profit for Lucchini, we find that in *OCTG from Korea Final,* the circumstances that led Commerce to use CV profit as a surrogate for CEP profit are not present in this case. In the *OCTG Korea Final*, Commerce explained that it found Hyundai Steel's and its U.S. affiliate's financial statements to be unsuitable for purposes of calculating CEP profit for various reasons.[204] For example, in the *OCTG Korea Final*, Commerce found that Hyundai Steel's financial statements and that of its' U.S. affiliate's consisted of non-prime products that were not subject merchandise or in the same general category of products, and therefore not suitable for purposes of calculating CEP profit.[205] In this case, we have not found LNA's financial statement to be unsuitable for purposes of calculating CEP profit because LNA's financial statements consist of sales of subject merchandise of fluid end blocks, and best represents the company's actual profit margin on sales of subject merchandise.[206] Therefore, for the final determination we continue to rely on Lucchini's financial information to derive a CEP profit rate.

Comment 7: Commission Rate for Lucchini

Petitioners' Arguments:

- Commerce should include commissions on sales to one of its U.S. sales customers.
  - Although record evidence shows that Lucchini incurred commission expenses on sales to one of its U.S. sales customers, these commission expenses were not included in the *Preliminary Determination*, likely because Lucchini omitted the reported commissions in the sales database.[207]
  - Commerce obtained additional information for these commissions in the response to Commerce's questionnaire in lieu of verification wherein Lucchini provided a table of commission rates at Exhibit VERSALES-3b. That exhibit demonstrates that commissions were paid in relation to this particular U.S. customer.
  - Accordingly, for the final determination, Commerce should apply the corresponding commission rate for all sales to the U.S. customer in question.

Lucchini did not provide rebuttal comments.

Commerce's Position: On September 2, 2020, we issued a questionnaire in lieu of verification requesting clarification from Lucchini on whether it paid commissions regarding sales to one of its U.S. customers during the POI.[208] In that questionnaire, we also requested Lucchini to report the total commissions paid in relation to subject merchandise, by customer for the POI and that it

[203] *See OCTG Korea Final* at Comment 13.
[204] *Id*.
[205] *Id*.
[206] *See* Lucchini's June 4, 2020 ACSQR at Exhibit S2AC-2.a (Lucchini Mame Forge S.p.A. Audited Financial Statement FY 2019); *see also* Lucchini's Letter, "Antidumping/Countervailing Duty Investigations of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A Section C Second Supplemental Questionnaire Response," dated June 11, 2020 at Exhibit S3AC-5 (Lucchini North America Internal Financial Statement FY 2019); and Lucchini's March 16, 2020 CSQR at Exhibit C-4-Part 2.
[207] *See* Petitioners' Case Brief at 65.
[208] *See* Commerce's Letter to Lucchini dated September 2, 2020 at 1.

reconcile this information to its general ledger, pursuant, in part, to the petitioners' request.[209] On September 11, 2020, Lucchini responded to our questionnaire clarifying that it indeed paid commissions in relation to the U.S. customer in question during the POI.[210] Further, per our request, Lucchini provided a report of total commissions paid with respect to subject merchandise, by customer for the POI, and reconciled the data to its general ledger.[211] As such, the record now contains the information needed to apply the applicable commission rate to the corresponding U.S. sales for the final determination.

Comment 8: Inventory Carrying Costs for Lucchini

Petitioners' Arguments**:**

- Inventory carrying costs (ICC) should be calculated for CEP Sales.
  - Lucchini omitted inventory carrying costs when it reported its CEP sales. The original questionnaire instructs respondents to report the unit opportunity costs incurred from the time of arrival in the United States until the time of shipment from the warehouse or other intermediate location in the United States to the first unaffiliated customer for CEP sales.[212]
  - Respondents are to compute the adjustment at the actual cost of U.S. dollar denominated short-term debt incurred or a published U.S. commercial bank prime short-term lending rate.
  - Information on the record allows Commerce to calculate the inventory carrying costs for the final determination, in accordance with section 776(a) of the Act. Commerce should use the interest rate provided by Lucchini in its U.S. CEP credit expense calculation to calculate the expense adjustment.[213]
  - Accordingly, for the final determination, Commerce should calculate inventory carrying cost for Lucchini using the information on the record.

Lucchini's Rebuttal Arguments:

- In its case brief, the petitioners suggest that Commerce should calculate the ICCs for CEP sales *(i.e.*, the unit opportunity cost incurred from the time of arrival in the United States until the time of shipment from the warehouse or other intermediate location in the United States to the first unaffiliated customer). The petitioners' proffered adjustment is incorrect.[214]
- Lucchini, in its section E questionnaire response, made clear that it ships unfinished fluid end blocks directly to an unaffiliated supplier, which performs all the further manufacturing operations at its facility before shipping the finished fluid end blocks directly to LNA's unaffiliated U.S. customer.[215]

[209] *Id.*; *see also* Petitioners' Letter, "Forged Steel Fluid End Blocks from Italy: Petitioner's Post-Preliminary Comments," dated August 4, 2020 at 38.
[210] *See* Lucchini's September 11, 2020 Post-Prelim Qre Response at 3.
[211] *Id.* at 3-5.
[212] *See* Petitioners' Case Brief at 66.
[213] *Id*.
[214] *See* Lucchini's Rebuttal Brief. at 31.
[215] *Id*.

- Further, Lucchini explained that, "there are no other such expenses incurred by Lucchini or LNA in undertaking these further manufacturing operations."[216]
- Therefore, against this background, there are no ICCs incurred directly by LNA in the United States.
- In addition, the sell-in date to which the petitioners refer is the date of the invoice from Lucchini to LNA, not the date of arrival in the United States.
- Accordingly, the petitioners' argument should be rejected.

Commerce's Position: In response to section C of the Initial AD Questionnaire, Lucchini explained that LNA does not incur any ICCs in the United States.[217] Lucchini further explained that the subject merchandise is not inventoried in the United States, but delivered directly to an unaffiliated contractor, which further manufactures the products and then delivers them directly to the unaffiliated U.S. customer.[218] Lucchini also reiterates this in response to questions related to "U.S. Inland Freight from Port to Warehouse," and "U.S. Warehousing Expense," where it indicates that it does not incur such expenses because the merchandise is delivered directly to an unaffiliated processor, which performs the processing and delivers the further manufactured merchandise directly to the unaffiliated U.S. customer.[219] In its section E questionnaire response, Lucchini explained that it ships un-finished fluid end blocks directly to an unaffiliated contractor, which performs all the further manufacturing operations at its facility before it ships the finished fluid end blocks directly to LNA's unaffiliated customer.[220] Lucchini indicates further that as a result, there are no other such expenses incurred by Lucchini/LNA in undertaking these further manufacturing operations.[221] Therefore, we are satisfied that Lucchini did not incur ICCs during the POI and have not calculated inventory carrying cost for Lucchini for the final determination.

V. 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 determination of the investigation and the final dumping margins in the *Federal Register* and will notify the International Trade Commission of our determination.

☒	☐
____________	_____________
Agree	Disagree

216 *Id*.
217 *See* Lucchini's March 16, 2020, CSQR at 54.
218 *Id*.
219 *Id*. at 39 and 40.
220 *See* Lucchini's Letter, "Antidumping and Countervailing Duty Investigation of Forged Steel Fluid End Blocks from Italy: Lucchini Mame Forge S.p.A. Section E Questionnaire Response," dated March 13, 2020 at 3.
221 *Id*.

12/7/2020

X

Signed by: JEFFREY KESSLER

Jeffrey I. Kessler
Assistant Secretary
for Enforcement and Compliance