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December 3, 2012

MEMORANDUM TO: Ronald K. Lorentzen
Acting Assistant Secretary
for Import Administration

FROM: Gary Taverman
Senior Advisor
for Antidumping and Countervailing Duty Operations

SUBJECT: Preliminary Decision Memorandum for the Administrative Review of the Antidumping Duty Order on Circular Welded Non-Alloy Steel Pipe from the Republic of Korea

SUMMARY

The Department of Commerce (the Department) is conducting an administrative review of the antidumping duty order on circular welded non-alloy steel pipe (CWP) from the Republic of Korea (Korea). The review covers two producers/exporters of the subject merchandise, Husteel Co., Ltd. (Husteel) and Hyundai HYSCO (HYSCO). The period of review (POR) is November 1, 2010, through October 31, 2011. We are rescinding the review with respect to seven other companies. We preliminarily determine that Husteel made sales of the subject merchandise at prices below normal value (NV) during this POR and that HYSCO did not make sales at prices below NV during this POR.

<u>Background</u>

On November 2, 1992, the Department published an antidumping duty order on CWP from Korea. *See Notice of Antidumping Duty Orders: Certain Circular Welded Non-Alloy Steel Pipe from Brazil, the Republic of Korea (Korea), Mexico, and Venezuela, and Amendment to Final Determination of Sales at Less Than Fair Value: Certain Circular Welded Non-Alloy Steel Pipe from Korea*, 57 FR 49453 (November 2, 1992) (*CWP Order*).

On November 30, 2011, we received review requests from United States Steel Corporation (U.S. Steel), Wheatland Tube Company (Wheatland), and HYSCO. U.S. Steel and Wheatland requested an administrative review of Dongbu Steel Co., Ltd., Husteel, HYSCO, and SeAH Steel Corporation. U.S. Steel also requested an administrative review of A-Ju Besteel Co., Ltd., Kumkang Industrial Co., Ltd., and Nexteel Co., Ltd. Wheatland additionally requested a review of Korea Iron & Steel Co., Ltd., and Union Steel Co., Ltd. HYSCO requested that the Department review its sales of subject merchandise to the United States.

On December 30, 2011, we initiated this administrative review. *See Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part*, 76 FR 82268 (December 30, 2011) (*Initiation Notice*). In our *Initiation Notice*, we indicated that we would select respondents for individual examination based upon U.S. Customs and Border Protection (CBP) data, and that we would limit the respondents selected for individual review in accordance with section 777A(c)(2) of the Tariff Act of 1930, as amended (the Act). *See Initiation Notice*. On January 5, 2012, we released CBP data for comment by interested parties regarding our selection of respondents for individual examination. On January 11, 2012, we received comments on the issue of respondent selection from HYSCO.

After considering the resources available to us and determining that it was not practicable to examine all producers/exporters of subject merchandise for which a review was requested, we selected the two largest producers/exporters of CWP from Korea during the POR for individual examination in this review pursuant to section 777A(c)(2)(B) of the Act. These mandatory respondents are Husteel and HYSCO. *See* the January 31, 2012, memorandum to Susan H. Kuhbach entitled "Respondent Selection."

On January 30, 2012, Wheatland submitted a request for a duty absorption determination for all companies for which review was requested in this administrative review. The Department does not have authority to conduct two- and four-year duty absorption inquiries for transitional orders (orders in effect before January 1, 1995). *See FAG Italia S.p.A. v. United States*, 291 F.3d 806, 819 (Fed. Cir. 2002). Because the *CWP Order* was published in 1992, we have not conducted a duty absorption inquiry in this proceeding.

On March 29, 2012, U.S. Steel and Wheatland timely withdrew their requests for review of all companies that they requested for review except for Husteel and HYSCO.

On July 16, 2012, the Department extended the due date for the preliminary results of this review to November 29, 2012. *See* the memorandum entitled "Circular Welded Non-Alloy Steel Pipe from the Republic of Korea: Extension of Deadline for Preliminary Results of Antidumping Duty Administrative Review" dated July 16, 2012. As explained in the memorandum from the Assistant Secretary for Import Administration, the Department has exercised its discretion to toll deadlines for the duration of the closure of the Federal Government from October 29 through October 30, 2012. Thus, all deadlines in this segment of the proceeding have been extended by two days. The revised deadline for the preliminary results of this review is now December 1, 2012. *See* Memorandum to the Record from Paul Piquado, Assistant Secretary for Import Administration, regarding "Tolling of Administrative Deadlines as a Result of the Government Closure During Hurricane Sandy" dated October 31, 2012. However, December 1, 2012, falls on a Saturday, and it is the Department's long-standing practice to issue a determination the next business day when the statutory deadline falls on a weekend, federal holiday, or any other day when the Department is closed. *See Notice of Clarification: Application of "Next Business Day" Rule for Administrative Determination Deadlines Pursuant to the Tariff Act of 1930, As Amended*, 70 FR 24533 (May 10, 2005). Accordingly, the revised deadline for the preliminary results of this review is December 3, 2012.

Scope of the Order

The merchandise subject to the order is circular welded non-alloy steel pipe and tube, of circular cross-section, not more than 406.4mm (16 inches) in outside diameter, regardless of wall thickness, surface finish (black, galvanized, or painted), or end finish (plain end, beveled end, threaded, or threaded and coupled). These pipes and tubes are generally known as standard pipes and tubes and are intended for the low-pressure conveyance of water, steam, natural gas, air, and other liquids and gases in plumbing and heating systems, air-conditioning units, automatic sprinkler systems, and other related uses. Standard pipe may also be used for light load-bearing applications, such as for fence tubing, and as structural pipe tubing used for framing and as support members for reconstruction or load-bearing purposes in the construction, shipbuilding, trucking, farm equipment, and other related industries. Unfinished conduit pipe is also included in the order.

All carbon-steel pipes and tubes within the physical description outlined above are included within the scope of the order except line pipe, oil-country tubular goods, boiler tubing, mechanical tubing, pipe and tube hollows for redraws, finished scaffolding, and finished conduit.[1]

Imports of these products are currently classifiable under the following Harmonized Tariff Schedule ("HTS") subheadings: 7306.30.10.00, 7306.30.50.25, 7306.30.50.32, 7306.30.50.40, 7306.30.50.55, 7306.30.50.85, and 7306.30.50.90. Although the HTS subheadings are provided for convenience and customs purposes, our written description of the scope of the order is dispositive.

Targeted Dumping Allegations

On June 6, 2012, Wheatland requested that the Department use an alternative comparison method, making average-to-transaction comparisons of NV to constructed export price (CEP) (average-to-transaction method) with respect to HYSCO and Husteel. *See* Wheatland's Targeted Dumping Allegation dated June 6, 2012. Pursuant to 19 CFR 351.414(c)(1),[2] the Department may determine that in particular circumstances it may be appropriate to calculate individual dumping margins using a method other than comparing weighted-average NVs to weighted-average export prices or CEPs (average-to-average method). Wheatland's request that the Department apply the average-to-transaction method for HYSCO and Husteel in this administrative review was based on Wheatland's allegation of targeted dumping by these two respondents. Husteel argued that the Department should not apply the targeted dumping analysis and continue to use the average-to-average method to calculate the weighted-average dumping

[1] *See Final Negative Determination of Scope Inquiry on Certain Circular Welded Non-Alloy Steel Pipe and Tube From Brazil, the Republic of Korea, Mexico, and Venezuela*, 61 FR 11608 (March 21, 1996). In accordance with this determination, pipe certified to the API 5L line-pipe specification and pipe certified to both the API 5L line-pipe specifications and the less-stringent ASTM A-53 standard-pipe specifications, which falls within the physical parameters as outlined above, and entered as line pipe of a kind used for oil and gas pipelines is outside of the scope of the antidumping duty order.
[2] *See Antidumping Proceedings: Calculation of the Weighted-Average Dumping Margin and Assessment Rate in Certain Antidumping Duty Proceedings; Final Modification*, 77 FR 8101, 8114 (February 14, 2012) (*Final Modification for Reviews*).

margin for Husteel. *See* Husteel's October 9, 2012, letter opposing Wheatland's targeted dumping allegation.

Application of the Average-to-Transaction Methodology

In antidumping investigations, the Department examines whether to use the average-to-transaction method by using a targeted dumping analysis consistent with section 777A(d)(1)(B) of the Act. Although section 777A(d)(1)(B) of the Act does not strictly govern the Department's examination of this question in the context of administrative reviews, the Department nevertheless finds that the issue arising under 19 CFR 351.414(c)(1) in administrative reviews is, in fact, analogous to the issue in antidumping investigations. Accordingly, the Department finds the analysis that has been used in antidumping investigations may be instructive for purposes of examining whether to apply the average-to-transaction method in this administrative review.

In recent antidumping investigations and administrative reviews where the Department has addressed targeted dumping allegations, the Department has employed the *Nails* test[3] for each respondent subject to an allegation.[4] The Department has applied the *Nails* test, a two-step process as described below, in order to consider whether to use the average-to-transaction method.

In the first stage of the test, the "standard deviation test," the Department determined the share of alleged targeted group's sales of subject merchandise (by sales volume) that are at prices more than one standard deviation below the weighted-average price of all sales under review, targeted and non-targeted. The Department calculated the standard deviation on a product-specific basis (*i.e.*, by control number (CONNUM)) using the weighted-average prices for the alleged targeted groups and the groups not alleged to have been targeted. If that share did not exceed 33 percent, then the Department did not conduct the second stage of the *Nails* test. If that share exceeded 33 percent, on the other hand, then we proceeded to the second stage of the *Nails* test.

In the second stage, the "gap test," the Department examined all sales of identical merchandise (*i.e.*, by CONNUM) sold to the alleged targeted group which passed the standard deviation test. From those sales, the Department determined the total volume of sales for which the difference between the weighted-average price of sales to the alleged targeted group and the next higher weighted-average price of sales to a non-targeted group exceeds the average price gap (weighted by sales volume) between the non-targeted groups. The Department weighted each of the price

[3] *See 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 *Certain Steel Nails from the United Arab Emirates: Notice of Final Determination of Sales at Not Less Than Fair Value*, 73 FR 33985 (June 16, 2008) (collectively, "*Nails*"), as modified in more recent investigations, *e.g.*, *Multilayered Wood Flooring From the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 76 FR 64318 (October 18, 2011); *see also Mid Continent Nail Corp. v. United States*, Slip. Op. 2010-47 (Ct. Int'l Trade May 4, 2010) and *Mid Continent Nail Corp. v. United States*, Slip. Op. 2010-48 (Ct. Int'l Trade May 4, 2010).

[4] *See, e.g., Polyethylene Retail Carrier Bags from Taiwan: Final Determination of Sales at Less Than Fair Value*, 75 FR 14569 (March 26, 2010); *Certain Oil Country Tubular Goods from the People's Republic of China: Final Determination of Sales at Less Than Fair Value, Affirmative Final Determination of Critical Circumstances and Final Determination of Targeted Dumping*, 75 FR 20335 (April 19, 2010); *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses From the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 75 FR 59217 (September 27, 2010).

gaps between the non-targeted groups by the combined sales volume associated with the pair of prices for the non-targeted groups that defined the price gap. If the share of the sales that met this test met or exceeded five percent of the total sales volume of subject merchandise to the alleged targeted group, then the Department considered these sales to have been targeted**.**

If the Department's two-step analysis confirmed the allegation of targeting and sufficient sales were found to have been targeted (*i.e.*, to have passed the two-step *Nails* test), then the Department considered whether the average-to-average method could account for the observed price differences. To do this, the Department evaluated the difference between the weighted-average dumping margin calculated using the average-to-average method and the weighted-average dumping margin calculated using the average-to-transaction method. Where there was a meaningful difference between the results of the average-to-average method and the average-to-transaction method, then the Department considered that the average-to-average method could not take the indentified price differences into account, and the average-to-transaction method was used to calculate the weighted-average margin of dumping for the respondent in question.

Results of the Targeted Dumping Analysis

The Department preliminarily finds that the pattern of CEPs for comparable merchandise that differ significantly among purchasers, regions, or time periods does not exist for both HYSCO and Husteel and, therefore, the Department has not considered whether the average-to-average method can account for the observed price differences.[5] Accordingly, the Department preliminarily determines, pursuant to 19 CFR 351.404(c)(1), to calculate the weighted-average dumping margin for each respondent using the average-to-average method.

Comparisons to Normal Value

Pursuant to section 773(a)(1)(B)(ii) of the Act and 19 CFR 351.414(c)(1) and (d), to determine whether Husteel's and HYSCO's sales of CWP from Korea were made in the United States at less than NV, we compared the CEP to NV as described in the "Constructed Export Price" and "Normal Value" sections of this notice.[6]

Product Comparisons

In accordance with section 771(16) of the Act, we considered all products sold in the home market as described in the "Scope of the Order" section above, that were in the ordinary course of trade, for purposes of determining appropriate product comparisons to U.S. sales.

In accordance with section 771(16) of the Act, we compared products produced by Husteel and HYSCO and sold in the U.S. and home markets on the basis of the comparison product which was either identical or most similar in terms of the physical characteristics to the product sold in

[5] *See* the preliminary calculation memoranda for HYSCO and Husteel dated concurrently with this memorandum.

[6] In these preliminary results, the Department applied the weighted-average dumping margin calculation method adopted in the *Final Modification for Reviews*. In particular, the Department compared monthly weighted-average export prices (or CEPs) with monthly weighted-average NVs and granted offsets for non-dumped comparisons in the calculation of the weighted average dumping margin.

the United States. In the order of importance, these physical characteristics are: 1) grade; 2) nominal pipe size; 3) wall thickness; 4) surface finish; and 5) end-finish.

<u>Date of Sale</u>

The Department normally will use the date of invoice, as recorded in the producer's or exporter's records kept in the ordinary course of business, as the date of sale, but may use a date other than the invoice date if the Department is satisfied that a different date better reflects the date on which the material terms of sale are established. *See* 19 CFR 351.401(i).

Husteel

For its home market sales, Husteel has reported the date of shipment on its shipping invoice as the date of sale. Husteel explained that it issues the shipment invoice at the time of shipment and considers the shipment date as the date of sale. For its U.S. sales, Husteel reported the earlier of the date of shipment from Korea or the date of its U.S. affiliate Husteel USA's invoice to the unaffiliated U.S. customer as the date of sale. Husteel explained that the price and quantity are subject to change until invoicing and shipment of the merchandise. We are relying on the sale dates reported by Husteel for both home market and U.S. sales.

HYSCO

For its home market sales, HYSCO reported the date of sale as the earlier of the date of shipment from HYSCO's factory or the date on which HYSCO issued its tax and commercial invoice. HYSCO noted that quantity can change up until shipment from HYSCO's factory and the negotiations may continue until HYSCO's issuance of its tax and commercial invoice.

For its U.S. sales, HYSCO reported the date of shipment from Korea as the date of sale because the quantity and price for its U.S. sales can change up until the date of shipment from its factory in Korea. (Invoicing to the unaffiliated customer always occurs after shipment from Korea.) In support of its claimed date of sale for the U.S. market, HYSCO provided sales documentation regarding changes to the material terms of sale after the order date and its quantity allowances. We intend to seek further information regarding HYSCO's U.S. date of sale for the final results, but are relying on the sale dates reported by HYSCO for these preliminary results.

<u>Level of Trade/CEP Offset</u>

To the extent practicable, we determine NV for sales at the same level of trade as the U.S. sales. *See* section 773(a)(1)(B)(i) of the Act and 19 CFR 351.412. When there are no sales at the same level of trade, we compare U.S. sales to comparison market sales at a different level of trade. The NV level of trade is that of the starting price sales in the comparison market. For CEP, the level of trade is that of the constructed sale from the exporter to the affiliated importer. To determine whether comparison market sales are at a different level of trade than U.S. sales for each of the selected respondents in this review, we examined stages in the marketing process and selling functions along the chain of distribution between the producer and the unaffiliated customer.

Husteel

Husteel reported two types of customers in the home market: distributors and end-users. The selling activities associated with the two types of customers did not differ. Therefore, we consider the two reported channels of distribution to constitute one level of trade. In the U.S. market, Husteel reported CEP sales to distributors only; therefore, we considered the CEP to constitute only one level of trade. We compared the selling activities at the CEP level of trade with the selling activities at the home market level of trade. We found that sales at the CEP level involved no price negotiations or meetings with customers and less invoicing and personnel management compared to the sales in the home market. Therefore, we considered the home market sales to be at a different level of trade and at a more advanced stage of distribution than the CEP level of trade.

Because the home market level of trade was different from the CEP level of trade, we could not match to sales at the same level of trade in the home market. Moreover, because the CEP level of trade did not exist in the home market, there is no basis for a level of trade adjustment. Therefore, for Husteel's CEP sales, we made a CEP offset adjustment in accordance with section 773(a)(7)(B) of the Act. The CEP offset adjustment to NV is subject to the so-called offset cap, which is calculated as the sum of home market indirect selling expenses up to the amount of U.S. indirect selling expenses deducted from CEP.

HYSCO

HYSCO reported two types of customers in the home market: distributors and end-users. The selling activities associated with the two types of customers did not differ. Therefore, we consider the two reported channels of distribution to constitute one level of trade. In the U.S. market, HYSCO reported CEP sales through two channels of distribution: (1) sales to affiliate Hyundai HYSCO USA, Inc., which in turn sold the merchandise to unaffiliated customers in the United States; and (2) sales through another party to unaffiliated U.S. customers. The selling activities associated with these two channels did not differ. Therefore, we considered the CEP to constitute one level of trade. We compared the selling activities at the CEP level of trade with the selling activities at the home market level of trade and found, after deducting selling functions corresponding to economic activities in the United States, that sales at the CEP level involved no sales forecasting, strategic/economic planning, personnel training/exchange, advertising, sales promotion, sales/marketing support, market research, or technical assistance. Therefore, we considered the home market sales to be at a different level of trade and at a more advanced stage of distribution than the CEP level of trade.

Because the home market level of trade was different from the CEP level of trade, we could not match to sales at the same level of trade in the home market. Moreover, because the CEP level of trade did not exist in the home market, there is no basis for a level of trade adjustment. Therefore, for HYSCO's CEP sales, we made a CEP offset adjustment in accordance with section 773(a)(7)(B) of the Act. The CEP offset adjustment to NV is subject to the so-called offset cap, which is calculated as the sum of home market indirect selling expenses up to the amount of U.S. indirect selling expenses deducted from CEP.

Constructed Export Price

In accordance with section 772(b) of the Act, CEP is the price at which the subject merchandise is first sold (or agreed to be sold) in the United States before or after the date of importation by or for the account of the producer or exporter of such merchandise, or by a seller affiliated with the producer or exporter, to a purchaser not affiliated with the producer or exporter.

Husteel

For purposes of this review, Husteel classified all of its sales of CWP to the United States as CEP sales. During the POR, Husteel made sales in the United States through its U.S. affiliate, Husteel USA Inc., which then resold the merchandise to unaffiliated customers in the United States. We calculated CEP based on the packed, delivered prices to unaffiliated purchasers in the United States, adjusted for duty drawback. We adjusted these prices for movement expenses, including foreign and U.S. inland freight, international freight, marine insurance, foreign and U.S. brokerage and handling, and U.S. customs duties, in accordance with section 772(c)(2)(A) of the Act.

In accordance with section 772(d)(1) of the Act, we deducted from the starting price those selling expenses that were incurred in selling the subject merchandise in the United States, including imputed credit expenses, warranty expenses, and indirect selling expenses. We also made an adjustment for profit in accordance with section 772(d)(3) of the Act. *See* the Husteel preliminary calculation memorandum, dated concurrently with this memorandum.

HYSCO

For purposes of this review, HYSCO classified all of its sales of CWP to the United States as CEP sales. During the POR, HYSCO made sales in the United States through its U.S. subsidiary Hyundai HYSCO USA Inc. and a second affiliated party, which then resold the merchandise to unaffiliated U.S. customers. We calculated CEP based on the packed, delivered price to unaffiliated purchasers in the United States. We adjusted these prices for movement expenses, including foreign and U.S. inland freight, international freight, marine insurance, foreign and U.S. brokerage and handling, and U.S. customs duties, in accordance with section 772(c)(2)(A) of the Act.

In accordance with section 772(d)(1) of the Act, we deducted from the starting price those selling expenses that were incurred in selling the subject merchandise in the United States, including U.S. commissions, imputed credit expenses, and indirect selling expenses. We also made an adjustment for profit in accordance with section 772(d)(3) of the Act. *See* the HYSCO preliminary analysis memorandum, dated concurrently with this memorandum.

Normal Value

A. Selection of Comparison Market

To determine whether there was a sufficient volume of sales in Korea to serve as a viable basis for calculating NV, we compared Husteel's and HYSCO's volume of home market sales of the foreign like product to each respondent's respective U.S. sales volumes, in accordance with section 773(a)(1)(B) of the Act. Because the volume of home market sales of the foreign like product exceeded five percent of each respondent's aggregate U.S. sales volumes of the subject merchandise, we preliminarily determine that the home market was viable for comparison purposes for each of these respondents.

B. Affiliated Party Transactions and Arm's Length Test

HYSCO reported sales of the foreign like product to affiliated and unaffiliated customers in the comparison market. The Department calculates NV based on a sale to an affiliated party only if it is satisfied that the price to the affiliated party is comparable to the price at which sales are made to parties not affiliated with the producer or exporter, *i.e.*, sales at "arm's length." *See* 19 CFR 351.403(c). To test whether the sales to affiliates were made at arm's length prices, we compared on a model-specific basis, the starting prices of sales to affiliated and unaffiliated customers net of all movement charges, direct selling expenses, and packing. In accordance with the Department's current practice, if the prices charged to an affiliated party were, on average, between 98 and 102 percent of the prices charged to unaffiliated parties for merchandise identical or most similar to that sold to the affiliated party, we considered the sales to be at arm's length and included such sales in the calculation of NV. *See* 19 CFR 351.403(c). Conversely, where sales to the affiliated party did not pass the arm's length test, all sales to that affiliated party were excluded from the NV calculation. *See Antidumping Proceedings: Affiliated Party Sales in the Ordinary Course of Trade*, 67 FR 69186, 69194 (November 15, 2002).

C. Cost of Production

The Department disregarded sales below the cost of production (COP) in the last completed reviews in which we examined Husteel and HYSCO individually. *See Circular Welded Non-Alloy Steel Pipe From the Republic of Korea: Final Results of the Antidumping Duty Administrative Review*, 76 FR 36089, 36090 (June 21, 2011), and *Circular Welded Non-Alloy Steel Pipe from Korea: Final Results of Antidumping Duty Administrative Review*, 69 FR 32492 (June 10, 2004), respectively. Thus, in accordance with section 773(b)(2)(A)(ii) of the Act, there are reasonable grounds to believe or suspect that Husteel and HYSCO both made sales of the subject merchandise in their comparison market at prices below the COP in the current review period. Pursuant to section 773(b)(1) of the Act, we initiated a COP investigation of sales by Husteel and HYSCO.

1. Calculation of Cost of Production

We calculated the COP based on the sum of the cost of materials and fabrication for the foreign like product, plus amounts for selling, general and administrative (SG&A) expenses, in accordance with section 773(b)(3) of the Act.

Except as noted below, we relied on the COP data submitted by Husteel and HYSCO in their questionnaire responses for the COP calculation.

During the POR, HYSCO purchased hot-rolled coil from its affiliates. We analyzed HYSCO's affiliated transactions in accordance with section 773(f)(3) of the Act, and adjusted HYSCO's cost of manufacturing to reflect the higher of market or transfer price, or the affiliate's COP. *See* the memorandum from LaVonne Clark to Neal M. Halper entitled "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Hyundai HYSCO," dated concurrently with this memorandum.

Husteel's cost allocation methodology results in cost variations between similar products that are unrelated to the products' physical characteristics. To mitigate these cost fluctuations, we have weight-averaged direct material costs by grade and size of pipe and weight-averaged conversion costs by thickness, surface finish, and end finish. *See* the memorandum from Heidi Schriefer to Neal M. Halper entitled "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Husteel Co., Ltd.," dated concurrently with this memorandum.

Based on our review of the record evidence, neither HYSCO nor Husteel appeared to experience significant changes in the cost of manufacturing during the POR. Therefore, we followed our normal methodology of calculating an annual weighted-average cost.

2. Test of Comparison Market Sales Prices

As required under section 773(b)(2) of the Act, we compared the weighted average of the COP for the POR to the per-unit price of the comparison market sales of the foreign like product to determine whether these sales had been made at prices below the COP within an extended period of time in substantial quantities, and whether such prices were sufficient to permit the recovery of all costs within a reasonable period of time. We determined the net comparison market prices for the below cost test by subtracting from the gross unit price any applicable movement charges, discounts, rebates, billing adjustments, direct and indirect selling expenses, and packing expenses.

3. Results of the COP Test

Pursuant to section 773(b)(2)(C)(i) of the Act, where less than 20 percent of sales of a given product were at prices less than the COP, we disregarded no below-cost sales of that product because we determined that the below-cost sales were not made in substantial quantities. Where 20 percent or more of a respondent's home market sales of a given model were at prices less than the COP, we disregarded the below-cost sales because (1) they were made within an extended period of time in substantial quantities in accordance with sections 773(b)(2)(B) and (C) of the

Act and (2) based on our comparison of prices to the weighted average of the COPs, they were at prices which would not permit the recovery of all costs within a reasonable period of time in accordance with section 773(b)(2)(D) of the Act.

Our cost test for Husteel and HYSCO indicated that for home market sales of certain products, more than 20 percent were sold at prices below the COP within an extended period of time and were at prices which would not permit the recovery of all costs within a reasonable period of time. Thus, in accordance with section 773(b)(1) of the Act, we excluded these below-cost sales from our analysis and used the remaining above-cost sales to determine NV.

D. Constructed Value

In accordance with section 773(e) of the Act, we calculated CV based on the sum of Husteel's and HYSCO's material and fabrication costs, SG&A expenses, profit, and U.S. packing costs. We calculated the COP component of CV as described above in the "Cost of Production" section. In accordance with section 773(e)(2)(A) of the Act, we based SG&A expenses and profit on the amounts incurred and realized by the respondents in connection with the production and sale of the foreign like product in the ordinary course of trade, for consumption in the comparison market.

E. Calculation of Normal Value Based on Comparison Market Prices

For those comparison products for which there were sales at prices above the COP for Husteel and HYSCO, we based NV on home market prices. We calculated NV based on packed prices to unaffiliated customers in Korea and prices to affiliated customers which were determined to be at arm's length. *See* the "Affiliated Party Transactions and Arm's Length Test" section above. We adjusted the starting price for billing adjustments (HYSCO only), interest revenue (HYSCO only), discounts (Husteel only), foreign inland freight, and warehousing (HYSCO only), pursuant to section 773(a)(6)(B)(ii) of the Act. We made adjustments for differences in packing, in accordance with sections 773(a)(6)(A) and 773(a)(6)(B)(i) of the Act, and in circumstances of sale (for imputed credit expenses and warranty expenses (HYSCO only)), in accordance with section 773(a)(6)(c)(iii) of the Act and 19 CFR 351.410.

When comparing U.S. sales with comparison market sales of similar, but not identical, merchandise, we also made adjustments for physical differences in the merchandise in accordance with section 773(a)(6)(C)(ii) of the Act and 19 CFR 351.411. We based this adjustment on the difference in the variable cost of manufacturing for the foreign like products and the subject merchandise. *See* 19 CFR 351.411(b).

Currency Conversion

We made currency conversions into U.S. dollars in accordance with section 773A of the Act and 19 CFR 351.415, based on the exchange rates in effect on the dates of the U.S. sales as certified by the Federal Reserve Bank.

RECOMMENDATION

We recommend applying the above methodology for these preliminary results.

________ ________
Agree Disagree

____
Ronald K. Lorentzen
Acting Assistant Secretary
for Import Administration

____
(Date)