

DATE: February 27, 2007

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

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

SUBJECT: Issues and Decision Memorandum for the Final Results of the
Administrative Review of the Antidumping Duty Order on Oil
Country Tubular Goods ("OCTG"), Other Than Drill Pipe, from
Korea

Summary

We have analyzed the comments in the case and rebuttal briefs submitted by interested parties in this administrative review of oil country tubular goods (OCTG), other than drill pipe, from Korea. As a result of our analysis, we have made changes to the margin calculation. We recommend that you approve the positions described in the "Discussion of the Issues" section of this memorandum. Below is a complete list of the issues in this review for which we received comments from the parties:

- Comment 1: Adjustments to Husteel's G&A Expense Ratio
- Comment 2: Husteel's Profit and Selling Expense Ratios for Constructed Value
- Comment 3: Husteel's CEP Profit
- Comment 4: Treatment of Inventory Carrying Costs Incurred in Korea for U.S. Sales
- Comment 5: CEP Offset to SeAH
- Comment 6: Interest Expenses Associated with U.S. Selling Operations
- Comment 7: G&A Expense for Further Manufacturing
- Comment 8: Interest Expense for Further Manufacturing
- Comment 9: Further Manufacturing Freight Expenses
- Comment 10: Calculation Issues

Background

On August 31, 2006, we published in the Federal Register the preliminary results of the administrative review. See Oil Country Tubular Goods, Other Than Drill Pipe, from Korea: Preliminary Results of Antidumping Duty Administrative Review, 71 FR 51797 (August 31, 2006) (Preliminary Results). This review covers two manufacturers/exporters of OCTG, SeAH Steel Corporation (SeAH) and Husteel Co., Ltd. (Husteel), collectively Respondents. We invited parties to comment on our Preliminary Results. On October 2, 2006, we received case briefs from Husteel, SeAH, the petitioners in this case, U.S. Steel Corporation (U.S. Steel) and domestic interested parties, IPSCO Tubulars, Lone Star Steel Company, and Maverick Tube Corporation (collectively, IPSCO Tubulars). On October 10, 2006, we received rebuttal briefs from all the parties. On October 24, 2006, the Department sent a letter to the parties informing them that U.S. Steel and IPSCO Tubular were being provided an opportunity to submit a rebuttal brief addressing a new issue raised by Respondents. The Department received these rebuttal briefs from IPSCO Tubulars on October 30, 2006, and U.S. Steel Corporation on November 1, 2006.

Discussion of the Issues

Comment 1: Adjustments to Husteel's G&A Expense Ratio

U.S. Steel argues that the Department improperly calculated Husteel's general and administrative (G&A) expense ratio for the Preliminary Results by including the reversal of allowance for bad debt expense, the gain on disposal of marketable securities, the gain on valuation of equity, and the loss on the disposition of trade receivables.¹ U.S. Steel posits that these items relate to Husteel's selling, financing, or investing activities rather than its G&A expense, and therefore should not be included in the G&A expense ratio for the final results.

U.S. Steel argues that Husteel incorrectly included reversal of allowance for bad debt expense as an offset to its G&A expense. See Husteel's May 1, 2006 supplemental response. According to U.S. Steel, Husteel reported the reversal of allowance for bad debt expense as a prior period item. See Husteel's January 9, 2006 Section A Questionnaire Response at Exhibit A-14. U.S. Steel argues that it is the Department's well-established practice to exclude prior period items, such as reversal of allowance for bad debt expense, from both the G&A expense and indirect selling expense calculations. See Notice of Final Results of Antidumping Duty Administrative Review: Small Diameter Circular Seamless Carbon and Alloy Steel Standard, Line and Pressure Pipe From Brazil, 70 FR 7243 (February 11, 2005) (Line Pipe from Brazil) and accompanying Issues and Decision Memorandum at Comment 6.

Second, U.S. Steel argues that when calculating its G&A expense ratio, the Department improperly included Husteel's gain on marketable securities as an offset to G&A expense.

¹ See Husteel's January 9, 2006 Questionnaire Response at Exhibit A-14 (public version).

According to U.S. Steel, the Department's determination in Notice of Final Determination of Sale at Less than Fair Value: Stainless Steel Bar from Korea, 67 FR 3149, 3151 (January 23, 2002) establishes that it is the Department's practice to disallow gains on marketable securities as claimed offsets to reported G&A expenses.

Third, U.S. Steel argues that the Department erroneously included Husteel's reported gain on valuation of equity as an offset to G&A expenses. U.S. Steel points to the Department's Notice of Preliminary Determination of Sales at Less than Fair Value and Postponement of Final Determination: Steel Concrete Reinforcing Bars from the Republic of Korea, 66 FR 8348, 8354 (January 30, 2001) (results unchanged in the final results), and Notice of Final Results of Sales at Less than Fair Value: Stainless Steel Wire Rod from the Republic of Korea, 69 FR 19153 (April 5, 2004) and accompanying Issues and Decision Memorandum at Comment 8, to demonstrate that it is the Department's practice to exclude gains on valuation of equity as an offset to its G&A expense.

Finally, U.S. Steel argues that the Department improperly included Husteel's reported loss on disposition of trade receivables in Husteel's G&A expense ratio. U.S. Steel cites to Stainless Steel Wire Rod From the Republic of Korea: Preliminary Results of Antidumping Duty Administrative Review, 66 FR 51385, 51389 (October 9, 2001) (Stainless Steel Wire Rod from Korea) (results unchanged in the final results) to illustrate that it is the Department's practice to exclude gains and losses from the disposition of trade receivables from G&A expenses because these gains or losses do not relate to the general manufacturing activities of the company. Therefore, U.S. Steel argues that the Department should revise its G&A expense calculation by excluding the reversal of allowance for bad debt expense, the gain on disposal of marketable securities, the gain on valuation of equity, and the loss on the disposition of trade receivables for the final results.

Husteel did not rebut U.S. Steel's comment on this issue.

Department's Position

We agree with U.S. Steel that the reversal of allowance for bad debt, the gain on disposal of marketable securities, the gain on valuation of equity, and the loss on the disposition of trade receivables were improperly included in Husteel's G&A expense. Bad debt expense is a selling expense, not a G&A expense. Thus, a reversal of allowance for bad debt expense should likewise be excluded from G&A. It is the Department's practice to exclude the reversal of allowance for bad debt expenses from selling expenses when the underlying bad debt expense is not related to sales made during the POR. See Line Pipe from Brazil and accompanying Issues and Decision Memorandum at Comment 6; see also Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Wire Rod from Korea, 63 FR 40404, 40412-40413 (July 29, 1998) (Stainless Steel Wire Rod from Korea). Furthermore, Husteel's financial statements demonstrate that Husteel did not actually accrue bad debt during the POR. See Husteel's January 9, 2006 Section A Questionnaire Response at Exhibit A-14. Because the reversal of allowance for bad debt expense relates to a prior period and Husteel did not accrue bad debt

expenses during the POR, reversal of allowance for bad debt expenses cannot be included in the selling expense calculation. Therefore, the Department is excluding the reversal of allowance for bad debt expense from the G&A and selling expense calculations for these final results.

In addition, the Department finds that Husteel's reported gain on the disposal of marketable securities and its gain on the valuation of equity are related directly to investment activities. It is the Department's practice to exclude investment-related gains, losses, and expenses in the calculation of G&A expenses, as these transactions are related to a company's investment activities and not to the general operations of the company. See, e.g., Final Determination of Sales at Less than Fair Value: Live Cattle from Canada, 64 FR 56739, 56758 (October 21, 1999), and Notice of Final Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products From Taiwan, 67 FR 62104 (October 3, 2002) and accompanying Issues and Decision Memorandum at Comment 6. Because it is the Department's practice to exclude gains and losses relating to investing activity from the G&A expense calculation, and we find that the gain on the disposal of marketable securities and the gain on the valuation of equity are investment activities, the Department is excluding these items from the G&A expense calculation in the final results.

Furthermore, it is the Department's practice to exclude expenses from the G&A expense calculation when they are not related to the general manufacturing activities of a company. See Stainless Steel Wire Rod from Korea. Because Husteel's losses on disposition of trade receivables is not related to its general manufacturing activities, we find that this expense should be excluded from the G&A expense calculation. Accordingly, we will revise the G&A ratio calculation to exclude Husteel's reversal of allowance for bad debt expense, gain on disposal of marketable securities, gain on valuation of equity, and loss on the disposition of trade receivables for the final results. For a complete discussion of the margin calculation, see the Memorandum from Dara Iserson, Case Analyst, to the File: Analysis of Husteel Corporation ("Husteel") for the Final Results of the Administrative Review of Oil Country Tubular Goods, Other Than Drill Pipe from Korea (Husteel Final Analysis Memo).

Comment 2: Husteel's Profit and Selling Expense Ratios for Constructed Value

U.S. Steel agrees with the Department's use of SeAH's 2004 public audited financial statements in calculating Husteel's constructed value (CV) profit ratio and CV selling expense ratio.²

² Pursuant to 773(e)(2)(A), constructed value will include the actual amounts incurred and realized by the specific exporter or producer being examined in the review for selling, general, and administrative expenses, and for profits, in connection with the production and sale of a foreign like product, in the ordinary course of trade, for consumption in the foreign country. Since HuSteel did not have sales of OCTG in its domestic market, section 773(e)(2)(A)(ii) of the Act directs us to use the weighted average of the actual amounts incurred and realized by exporters or producers that are subject to the investigation or review (other than the exporter or producer described in clause (i)) for selling, general, and administrative expenses, and for profits, in connection with the production and sale of a foreign like product, in the ordinary course of trade, for consumption in the foreign country. As such, we are using SeAH's SG&A expenses and profit in the calculation of Husteel's CV.

However, U.S. Steel argues that the Department should revise these ratios by properly classifying certain expenses taken from SeAH's 2004 public audited financial statements. Specifically, U.S. Steel argues that SeAH's freight expenses and export overhead expenses should be reclassified as excluded expenses in both the CV selling expense and the CV profit ratios. In addition, U.S. Steel contends Husteel's bad debt expense should be reclassified as a selling expense, and a portion of salary expenses, retirement benefit expenses, and employee benefit expenses should be attributed to selling expenses, instead of allocating them solely to G&A expenses. Furthermore, because there is no information on the public record that identifies how SeAH's SG&A expenses are allocated, U.S. Steel recommends an alternate allocation method for the Department to implement in the final results.

U.S. Steel argues that the Department improperly classified freight expenses as selling expenses in the Preliminary Results. U.S. Steel states that it is the Department's general practice to calculate CV on an ex-factory basis, excluding freight expenses. U.S. Steel points to the Department's determination in Television Receivers, Monochrome and Color, from Japan; Final Results of Antidumping Duty Administrative Review, 56 FR 5392, 5396 (February 11, 1991) (Television Receivers from Japan), where the Department determined that pursuant to section 772(c)(1)(A) of the Tariff Act of 1930, as amended ("the Act"), "CV will include those expenses incidental to placing the merchandise in condition, packed ready for shipment to the United States. Since the statute requires {us} to calculate an ex-factory CV, we have not included freight expenses in our calculation."

U.S. Steel also argues that the Department incorrectly classified SeAH's bad debt expenses as G&A and interest expenses. U.S. Steel contends that bad debt expenses are selling expenses that should be included in the numerator of Husteel's CV selling expense ratio. U.S. Steel cites Notice of Final Results of Antidumping Duty Administrative Review: Small Diameter Circular Seamless Carbon and Alloy Steel Standard, Line and Pressure Pipe From Brazil, 70 FR 7243 (February 11, 2005) and accompanying Issues and Decision Memorandum at Comment 6, to illustrate the Department's practice to include bad debt expense as a selling expense.

Next, U.S. Steel argues that the Department should allocate a portion of SeAH's salary, retirement benefit expense, and employee benefit expenses, which were designated as G&A expenses in the Preliminary Results, to selling expenses for the final results. U.S. Steel contends that SeAH devotes a company department specifically to sales activities. See SeAH's January 9, 2006 Section A Response, at Exhibit A-2 (public version). U.S. Steel cites Stainless Steel Sheet and Strip From the Republic of Korea; Final Results and Partial Rescission of Antidumping Duty Administrative Review, 66 FR 64950 (December 17, 2001) and accompanying Issues and Decision Memorandum at Comment 15 to establish that, because selling activities require employees, certain expenses associated with them should be considered selling expenses.

Finally, because there is no information on the public record that identifies how SeAH allocates its SG&A expenses, U.S. Steel suggests an allocation method which it argues is reasonable under

section 773(e)(2)(B)(iii) of the Act. This method involves first calculating SeAH's core selling expenses, taken from SeAH's 2004 public financial statements, then subtracting SeAH's freight and export overhead expenses and adding in bad debt expenses. Then, U.S. Steel suggests that the Department calculate a new G&A expense for SeAH, by deducting salary expenses, retirement expenses, employee benefit expenses, bad debt expenses, miscellaneous expenses, and miscellaneous income and non-operating expenses from SeAH's reported G&A and interest expense. U.S. Steel recommends that this new total G&A should then be added to the revised core selling expense. U.S. Steel argues that the Department should then calculate the ratio of the revised total selling expenses to SG&A expenses, and apply this ratio to SeAH's salary expenses, retirement expenses, and employee benefit expenses, to determine the amount of each expense to be allocated to Husteel's CV selling expense.

IPSCO Tubulars also argues that the Department should continue to include movement expenses in its calculation of Husteel's CV selling expenses for the final results. IPSCO Tubulars notes that Husteel argues that the Department excludes movement expenses from the CV calculation because CV is calculated on an ex-factory basis. See section 773(e)(3) of the Act. However, IPSCO Tubulars contends that these movement expenses contribute to the merchandise value, as they are deducted as direct selling expenses from the value of subject merchandise that Husteel sold in the home market. IPSCO Tubulars also argues that because movement expenses contribute to the value of the merchandise, the Department should include them in the CV calculation.

Husteel agrees with U.S. Steel that the Department should exclude SeAH's freight and export overhead expenses from the CV selling expense ratio for the final results. Husteel argues that because freight is a direct selling expense relating to the inland freight expenses for domestic sales it should not be included in the calculation of CV selling expenses. Further, Husteel argues that SeAH's export overhead expenses are related to 1) international freight, 2) domestic inland freight to the port of exportation, and 3) brokerage and handling in the country of manufacture. See SeAH's March 16, 2007 Supplemental Response, at page D-12 (Public Version). Husteel argues that because these expenses are all also direct expenses (e.g., movement expenses), they too should be excluded from the CV selling expense calculation in the final results.

Husteel disagrees with U.S. Steel's revised profit calculation. According to Husteel, excluding a movement expense from the CV selling expense calculation does not turn that expense into income and profit, and it therefore should not be included in the CV profit calculation. Thus, Husteel argues that the Department should not revise the CV profit ratio in the final results.

Husteel agrees with Petitioners that the Department should attribute a portion of SeAH's employee-related expenses to indirect selling expenses in the calculation of the CV selling expense ratio in the final results. However, Husteel contends that U.S. Steel's suggested methodology is not reasonable according to section 773(e)(2)(B)(iii) of the Act, because it is based on aggregate figures, which Husteel argues do not reflect the most appropriate method for calculating a CV selling expense ratio. Further, Husteel argues that U.S. Steel, in its allocation

proposal, has added freight expenses to the CV selling expense ratio calculation without providing any explanation. Consequently, Husteel argues that the Department should instead use Husteel's allocation method, which Husteel utilized to allocate its DINDIRSU between selling and G&A expenses. Husteel contends that the Department should calculate the period of review (POR) ratio between the sum of employee-related expenses incurred in each market and the total employee-related expenses incurred by Husteel, and use this ratio to allocate SeAH's selling expenses accordingly. In sum, Husteel argues that the Department should exclude freight and export overhead expenses, and add bad debt expense and employee-related expenses attributable to selling expenses when calculating Husteel's CV selling expense ratio in the final results.

Department's Position

With no viable home market or third country market, the Department has no Husteel sales and profit data upon which to base CV selling expenses and profit under the preferred method outlined in section 773(e)(2)(A) of the Act, which requires comparison market sales by the respondent to be used as the basis for CV selling expense and profit. In situations where selling expenses and profit cannot be calculated under the preferred method, section 773(e)(2)(B) of the Act sets forth three alternatives: (i) respondent's sales of merchandise in the same general category of products as the subject merchandise; (ii) sales of subject merchandise by other respondents in the instant review and; (iii) any other reasonable method. In the instant case, the Department had no data to use alternative (B)(i) under section 773(e)(2)(B) of the Act, nor did the other respondent have a viable home market to use alternative B(ii). Therefore, the Department had to resort to alternative (B)(iii) to determine Husteel's selling expenses and profit for purposes of calculating CV. In this case, the public financial statement used was the only information available for calculating CV selling expense and profit for OCTG.

In accordance with section 773(e)(3) of the Act, the CV calculation shall include expenses incidental to placing the subject merchandise in condition packed ready for shipment to the United States, and exclude any expenses incurred after it leaves the factory, *e.g.*, freight expenses. See Television Receivers from Japan, at 56 FR 5396. As such, because freight expenses are incurred after merchandise leaves the factory, they should not be included in the CV selling expense calculation. Therefore, the Department is excluding SeAH's freight expense from Husteel's CV selling expense ratio for the final results.

The Department has also considered whether SeAH's export overhead expenses should continue to be included in Husteel's CV selling expense ratio for the final results. In the Preliminary Results, the Department included export overhead in the selling expense ratio, because export overhead, on its face, appears to be an ordinary selling expense. However, SeAH's export overhead is in fact related to 1) international freight, 2) domestic inland freight to the port of exportation, and 3) brokerage and handling in the country of manufacture. See SeAH's March 16, 2007 Supplemental Response, at page D-12 (Public Version). The Department therefore finds that SeAH's export overhead is in fact comprised of various types of movement expenses which should not be included in the CV selling expense ratio pursuant to section 773(e) of the Act.

The Department finds IPSCO Tubulars's contention, that the Department should include freight expenses in the Husteel's CV selling expense calculation because they contribute to the value of the merchandise, unpersuasive. Section 773(e) of Act makes clear that movement expenses are not included in the CV calculation. As freight expenses and the export overhead expenses in SeAH's financial statement are movement expenses, it is the Department's practice to exclude them from the CV selling expense ratio. Therefore, the Department has excluded SeAH's freight and export overhead expenses from Husteel's CV selling expense calculation in the final results. However, the Department finds that freight and export overhead expenses should not be excluded from Husteel's CV profit ratio, because that profit ratio is based on all selling activities, not merely indirect selling expenses. Because SeAH's freight and export overhead constitute selling activities, they should be included in Husteel's CV selling expense ratio. See section 351.402(d)(1) of the Department's regulations in regard to profit. Therefore the Department will continue to include freight and export overhead expenses in Husteel's CV profit ratio.

With regard to U.S. Steel's comment on the treatment of bad debts written off during the POR, it is the Department's normal practice to include bad debts written off during the POR in the indirect selling expense calculation because they are usually related to sales pertaining to all markets. See, e.g., Stainless Steel Bar From India; Final Results of Antidumping Duty Administrative Review, 68 FR 47543 (August 11, 2003) and accompanying Issues and Decision Memorandum at Comment 7; see also Stainless Steel Sheet and Strip in Coils From the Republic of Korea; Final Results and Partial Rescission of Antidumping Duty Administrative Review, 68 FR 6713 (February 10, 2003) and accompanying Issues and Decision Memorandum at Comment 7. Therefore, the Department finds it is appropriate to include SeAH's bad debt expenses as part of Husteel's CV selling expenses for the final results.

The parties also challenged the manner in which the Department allocated SeAH's SG&A expenses to Husteel's CV. In the Preliminary Results, the Department treated certain of SeAH's SG&A expenses (salary expenses, retirement expenses, and employee benefit expenses) exclusively as G&A, without allocating a portion of these expenses to selling expenses. Although both parties offered viable recommendations for how the Department might properly attribute these expenses, the Department found Husteel's allocation method more compelling because it best reflected Husteel's experience in allocating between these various expenses. See Husteel's January 27, 2006 Questionnaire Response, at C-13. As such, the Department will allocate SeAH's salary expenses, retirement expenses, and employee benefit expenses to Husteel's CV using a ratio based on Husteel's reported selling expenses incurred during the POR. For a complete discussion of the allocation methodology for salary expenses, retirement expenses, and employee benefit expenses based on Husteel reported selling expenses between indirect selling expenses and G&A expenses, see the Husteel Final Analysis Memo.

Comment 3: Husteel's CEP Profit

Husteel argues that the Department double-counted Husteel's indirect selling expenses when it calculated Husteel's CEP PROFIT, and mistakenly included gains from the sale of land from the

CEPPRATIO in the Preliminary Results. First, Husteel argues that the Department calculated indirect selling expenses as CEP non-imputed indirect selling expenses and INDCOMMU (the sum of imputed U.S. inventory carrying costs incurred in the home market and indirect selling expenses incurred in the home market on U.S. sales excluding CEP indirect selling expenses). Husteel points out that the Department calculates INDCOMMU when there is a commissions offset in one market and not in the other. Husteel argues that since it did not report commissions on U.S. sales during the POR, INDCOMMU should be removed from the CEPROFIT calculation to remove the double counting.

Husteel also argues that the Department mistakenly included gains from the sale of land in Husteel's profit calculation. Husteel contends that excluding gains from the sale of land from the CEP profit ratio when calculating CEP profit is consistent with the Department's policy, and that policy should be followed in the case. See Final Determination of Sales at Less than Fair Value: Certain Welded Stainless Steel Pipe from the Republic of Korea, 57 FR 53693, 53704 (November 12, 1992) (Stainless Steel Pipe from Korea) and Notice of Final Determination of Sales at Less than Fair Value: Certain Cut-to-Length Carbon-Quality Steel Plate Products from Korea, 64 FR 73196, 73209-10 (December 29, 1999). In addition, Husteel cites Notice of Final Determination of Sales at Less than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products from Korea, 67 FR 62124 (October 3, 2002) (Flat Products from Korea), and accompanying Issues and Decision Memorandum at Comment 15. These cases make clear that "the Department normally includes in G&A expense, routine gains and losses on the disposition of fixed assets incurred in the ordinary course of trade." However, the gain in question in Flat Products from Korea, the sale of a significant manufacturing plant and adjacent land area, is not included in the G&A expense because it is not considered to be in the routine course of business. Therefore, Husteel argues that the Department should deduct the gain from the sale of land from the CEP profit calculation in the margin program for the final results.

With regard to the double counting argument, IPSCO Tubular argues that even if the Department agrees with Husteel regarding the double counting of CEP indirect selling expenses, removing INDCOMMU from the CEPROFIT calculation will not best resolve this issue. IPSCO Tubulars contends that eliminating INDIRSU from indirect selling expenses that qualify for commissions offset will more effectively resolve the double-counting issue. IPSCO Tubular argues that removing the variable INDIRSU from the expenses that qualify for commissions offset will remove the purported double counting of CEP indirect selling expenses in the CEPROFIT calculation. Therefore, IPSCO Tubular argues that the Department should remove INDIRSU from the indirect selling expenses that qualify for commissions offset, not INDCOMMU from the CEPROFIT calculation, to eliminate double-counting from the CEP profit calculation.

IPSCO Tubulars also argues that the Department should continue to include Husteel's gains from the sale of land in the CEP profit ratio for the final results. IPSCO Tubulars contends that although Stainless Steel Pipe from Korea demonstrates that it is the Department's practice to disallow the gain on the sale of land as an offset to COP, it does not state that the gain on the sale of land should not be considered for the purposes of calculating CEP profit. See, e.g., Stainless

Steel Pipe from Korea, 57 FR at 53704. IPSCO Tubulars argues that the gain on the sale of land affects profitability, indicated by the inclusion of Husteel's gain in its financial statements. In addition, IPSCO Tubulars contends that unlike the Final Determinations of Sales at Less Than Fair Value: Certain Hot-Rolled Carbon Steel Flat Products, Certain Cold-Rolled Carbon Steel Flat Products, and Certain Corrosion-Resistant Carbon Steel Flat Products From Japan, 58 FR 37154, 37166 (July 9, 1993), where the gains on the sale of land were excluded from the calculation because they were not related to the product under investigation, the subject merchandise in the present case was produced on the land that was sold during the POR. Therefore, IPSCO Tubulars argues that the Department properly included the gain on the sale of land in its CEP profit ratio calculation for the final results.

Department's Position

We agree with Husteel regarding the inclusion of gains of the sale of land in the CEP profit ratio. It is the Department's practice to include gains or losses on the routine sale of fixed assets in reported G&A. However, in this case, the gain relates to a non-routine sale of land. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Steel Concrete Reinforcing Bars From the Republic of Korea, 66 FR 33526 (June 22, 2001) and accompanying Issues and Decision Memorandum at Comment 7; see also Silicomanganese from India: Notice of Final Determination of Sales at Less Than Fair Value and Final Negative Critical Circumstances Determination, 67 FR 13551 (April 2, 2002) and accompanying Issues and Decision Memorandum, at Comment 14. As the gain on the sale of land in this case is not related to the Husteel's general operations (i.e., manufacturing and selling merchandise), we have not included it in the CEP profit calculation for the final results.

With regard to the potential double counting, we agree with Husteel that removing INDCOMMU from the CEP profit calculation is necessary. We agree with Husteel that indirect selling expenses were already factored into the CEP profit calculation in the U.S. indirect selling expense variable CEPISELU.

In addition, INDCOMMU contains expenses that should not have been included in CEP profit, regardless. Section 351.402(b) of the Department's regulations states that the Department "will make adjustments for expenses associated with commercial activities in the United States that relate to the sale to an unaffiliated purchaser." As INDCOMMU is based on selling expenses incurred in the country of manufacture, not the United States, it is not appropriate to calculate CEP profit by multiplying the CEP profit ratio by a pool of expenses including INDCOMMU. Therefore, in accordance with section 351.402(b) of the Department's regulations, we have removed INDCOMMU from the CEP profit calculation for the final results.

Likewise, we find that the Department inadvertently included DINVCARU and USDINDIRSU in the CEP profit calculation. These expenses incurred in the domestic market were included in the CEP profit calculation through variables CEPICCU and CEPISELU, respectively. As explained above, only expenses incurred in the U.S. should be included in the CEP profit calculation.

Therefore, we have excluded DINVCARU and USDINDIRSU from the CEP profit calculation for the final results.

Comment 4: Treatment of Inventory Carrying Costs Incurred in Korea for U.S. Sales

Husteel argues that the Department incorrectly deducted U.S. inventory carrying costs that were incurred in Korea (DINVCARU) from CEP by equating inventory carrying costs incurred in Korea for U.S. sales with inventory carrying costs incurred in the United States in the margin program. Husteel contends that the Department's regulations only allow inventory carrying costs to be deducted from CEP if they were incurred after importation into the United States. See section 351.402(b) of the Department's regulations and AD Manual, Chapter 7, Section III, D at 23. Moreover, Husteel cites to Dynamic Random Access Memory Semiconductors of One Megabit or Above from the Republic of Korea; Final Results of Antidumping Duty Administrative Review, 62 FR 965, 967-968 (January 7, 1997) (DRAMS from Korea) to establish that DINVCARU is not deducted from U.S. CEP price because it does not result from or bear a relationship to selling activities in the United States. Husteel contends that since it did not incur inventory carrying costs in the United States during the POR (see Husteel section C Response (January 27, 2006) at 35), the Department should not deduct Husteel's inventory carrying costs from CEP. Therefore, Husteel argues the Department should not deduct DINVCARU from CEP in the final results.

U.S. Steel contends that the Department correctly deducted DINVCARU from CEP. U.S. Steel argues that section 772(d)(1) of the Act states that the price used to establish CEP shall be reduced by expenses generally incurred by the producer or exporter in selling the subject merchandise. In addition, U.S. Steel cites to Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Stainless Steel Bar from France, 66 FR 40201, 40204 (August 2, 2001) (French SSB Prelim); and Notice of Final Determination of Sales at Less than Fair Value: Stainless Steel Bar from France, 67 FR 3143, 3145 (January 23, 2002) (French SSB Final) (results unchanged in the final results), to establish that it is the Department's practice to deduct selling expenses related to economic activity occurring in the United States, including DINVCARU. U.S. Steel argues that DINVCARU is associated with Husteel's U.S. economic activity (e.g., sales to the United States). Therefore, the Department should reject Husteel's argument regarding DINVCARU and continue deducting Husteel's DINVCARU from CEP for the final results.

IPSCO Tubulars argues that the Department's practice does not reflect the deduction of inventory carrying costs incurred solely after importation into the United States. IPSCO Tubulars cites to several cases to establish that the Department's general practice is to deduct inventory carrying costs incurred in the home market from CEP when such expenses are associated with economic activities occurring in the United States. See e.g., Certain Corrosion-Resistant Carbon Steel Flat Products from Canada: Preliminary Results of Antidumping Duty Review, 71 FR 53363, 53366 (September 11, 2006), and Stainless Steel Wire Rod from Sweden: Preliminary Results of Antidumping Duty Administrative Review, 71 FR 59082, 59085 (October 6, 2006) (results

unchanged in the final results). IPSCO Tubulars argues that since DINVCARU is associated with economic activities in the United States, it should be deducted from CEP for the final results.

Additionally, IPSCO Tubulars disagrees with Husteel's statement that inventory carrying costs incurred in the domestic market are not deducted when calculating NV. IPSCO Tubulars cites to the Preliminary Results at 71 FR 58100, and section 773(a)(7)(B) of the Act, to argue that when the Department calculates an indirect selling expenses for a CEP offset, "normal value shall be reduced by the amount of indirect selling expenses incurred in the country in which normal value is determined." Therefore, IPSCO Tubulars contends that because these inventory carrying costs incurred in the domestic market are associated with sales to the United States, they should be deducted when calculating NV. IPSCO Tubulars, therefore, argues that the Department should continue deducting DINVCARU from CEP for the final results.

Department's Position

We find that DINVCARU should not be deducted when calculating CEP. Section 351.402(b) of the Department's regulations states, "the Secretary will not make an adjustment for any expense that is related solely to the sale to an affiliated importer in the United States." Moreover, our consistent practice has been not to deduct inventory carrying costs on U.S. sales incurred in the comparison market from CEP. See, e.g., DRAMS from Korea, 62 FR at 967-968 (where inventory carrying costs incurred in the comparison market on U.S. sales are normally not deducted when calculating CEP). Furthermore, section 351.402(b) of the Department's regulations directs us to "make adjustments to CEP for expenses associated with commercial activities in the United States that relate to the sale to an unaffiliated purchaser, no matter where or when paid." Therefore, as this expense was not associated with the sale to an unaffiliated customer, we will not deduct it from U.S. price. See, e.g., Electrolytic Manganese Dioxide From Greece: Final Results of Antidumping Duty Administrative Review, 64 FR 62169, 62174 (November 16, 1999).

Comment 5: CEP Offset for SeAH

U.S. Steel contends that section 773(a)(1)(B) of the Act requires that, to the extent practicable, the Department determines normal value (NV) based on sales made in the comparison market that are at the same level of trade ("LOT") as CEP sales and that the NV LOT is based on the starting price of the sales in the comparison market. U.S. Steel maintains that SeAH has not established that its sales to the U.S. and Canadian markets were made at different LOT(s). As such, U.S. Steel argues that SeAH has not established that an LOT adjustment or a CEP offset is warranted, and that therefore, the Department should not grant a CEP offset in the final results.³

³ In the Preliminary Results, we found that SeAH's Canadian sales were made at a more advanced LOT than its U.S. sales. However, since SeAH sold only through one channel of distribution to Canada, there was not sufficient data to quantify an LOT adjustment. In CEP situations where an LOT adjustment is warranted but that adjustment cannot be quantified, the Department makes a CEP offset adjustment in accordance with section

U.S. Steel holds that the record of this review shows that SeAH made its sales to both the U.S. and Canadian markets utilizing its affiliate, Pusan Pipe of America (PPA). Moreover, U.S. Steel argues that SeAH and PPA follow the same sales process and conduct the same selling activities in both the U.S. and Canadian markets. As such, U.S. Steel argues that there is no basis for the Department to find that SeAH's sales to the U.S. and Canadian markets are made at different LOT(s) or that SeAH's sales to the Canadian market were made at a more advanced level than its sales to the U.S. market.

U.S. Steel contends that the Department's determination that SeAH's Canadian sales were made at a more advanced LOT than its U.S. sales improperly put SeAH's sales into the two export markets on unequal footing. U.S. Steel contends that the Department erred when it removed PPA's selling functions from the U.S. LOT but did not remove PPA's selling functions from the Canadian LOT prior to performing its LOT analysis. U.S. Steel argues that by stripping out PPA's selling functions from the U.S. LOT only, the Department deliberately caused the Canadian market sales to be made at a more advanced LOT than the U.S. sales, thereby making a CEP offset automatic.

U.S. Steel also argues that the Department's reliance on the decisions by the Court of Appeals for the Federal Circuit (Federal Circuit) in Micron Technology, Inc. v. United States, 243 F.3d 1301, 1315-16 (Fed Cir. 2001) (Micron), and Borden, Inc. v. United States, 2001 Lexis 4170 at *3 (Fed. Cir. 2001) (Borden) to support its decision to strip out PPA's selling functions from the U.S. LOT prior to performing the LOT is misplaced. U.S. Steel maintains that these cases held that the Department is required to deduct the expenses associated with sales activities in the United States from the respondent's CEP sales before making an LOT comparison between such sales and a respondent's home market sales. See Micron 243 F.3d at 1315-16 and Borden, 2001 Lexis 4170 at *3. However, U.S. Steel argues, these Federal Circuit decisions are inapposite because SeAH's CEP sales are being compared to third country sales to Canada. Based on the above, U.S. Steel argues that there is no basis to: 1) find that SeAH's sales to the Canadian market were made at a more advanced LOT than its sales to the U.S. market; or 2) grant SeAH a CEP offset pursuant to section 351.412(f) of the Department's regulations in the final results.

SeAH argues that the Department correctly found that its sales to Canada were made at a more advanced LOT than its U.S. sales and therefore correctly granted SeAH a CEP offset. SeAH contends that in Micron, the CAFC held that the statute unambiguously requires the Department to remove the selling activities set forth in section 772(d) of the Act from the U.S. LOT prior to

773(a)(7)(B) of the Act and section 351.412(f) of the Department's regulations. The CEP offset is equal to the amount of indirect selling expenses and inventory carrying costs incurred in the comparison market up to, but not exceeding the sum of indirect selling expenses and inventory carrying costs from the U.S. price in accordance with section 772(d)(1)(D) of the Act.

performing its LOT analysis.⁴ SeAH maintains that once the selling activities set forth in section 772(d) of the Act are removed from the U.S. LOT, its Canadian sales are clearly made at a more advanced LOT and that an LOT adjustment is warranted pursuant to section 773(a)(1)(B) of the Act. Moreover, SeAH contends that the Department has granted it a CEP offset based on its LOT analysis in two prior administrative review in which it reported Canada as its third country comparison market. See Oil Country Tubular Goods from Korea: Preliminary Results of Antidumping Duty Administrative Review, 66 FR 46999 (September 10, 2001), and Oil Country Tubular Goods, Other Than Drill Pipe, from Korea: Preliminary Results of Antidumping Duty Administrative Review, 70 FR 53340 (September 8, 2005) (unchanged in the final results). Therefore, SeAH argues, the Department has a well-established practice in this case regarding CEP offsets.

More generally, SeAH contends that sections 772 and 773 of the Act require the approach taken by the Department in the Preliminary Results. SeAH argues that section 772(d)(1)(D) of the Act makes it clear that expenses incurred in selling to the United States are deducted from U.S. price. For CEP sales, this is the price against which activities in the comparison market are compared. However, section 773(a)(6) of the Act, which provides for deductions to the comparison market, does not include indirect selling expenses as a deduction. Therefore, SeAH holds that any differences in the expenses related to different selling functions in the United States and the comparison market must be accounted for in the LOT adjustment. SeAH argues that, since an LOT adjustment cannot be quantified in this review, a CEP offset is warranted.

Department's Position

Section 773(a)(1)(B) of the Act requires that, to the extent practicable, the Department determines NV based on sales made in the comparison market at the same LOT as the CEP sales. In Micron, the CAFC held that the statute unambiguously requires the Department to remove the selling activities, set forth in section 772(d) of the Act, from the U.S. LOT prior to performing its LOT analysis. As such, for CEP sales, the U.S. LOT is based on the starting price of the sales, as adjusted under section 772(d) of the Act. Therefore, for these final results, we will continue to remove the selling activities set forth in section 772(d) of the Act from the SeAH's U.S. LOT prior to performing our LOT analysis.

Based on our LOT analysis, we find that SeAH's Canadian sales were made at a more advanced LOT than the sales to the United States. See Memorandum from Nicholas Czajkowski, Case Analyst, to the File: Analysis of SeaH Steel Corporation ("SeAH") for the Preliminary Results of the Administrative Review of Oil Country Tubular Goods, Other Than Drill Pipe from Korea, dated August 24, 2006. Section 773(a)(7)(A) of the Act states that if the comparison market

⁴ SeAH maintains that, contrary to U.S. Steel's argument, Micron and Borden do not distinguish between third market prices and home market prices when calculating normal value. Respondent argues that section 773 of the Act does not provide different rules for calculating normal value depending on whether normal value is based on home market or third country sales. Respondent explains that, when third country sales are used as the comparison market, the adjustments with respect to selling expenses do not differ from when home market sales are used.

sales are at different LOTs, and the difference in LOTs affects price comparability, as manifested in a pattern of consistent price differences, we make an LOT adjustment. However, as SeAH sold only through one channel of distribution to Canada, there is no basis for determining whether the difference in the NV LOT and U.S. LOT affects price comparability. For CEP sales, if the NV LOT is more advanced than the U.S. LOT and there is no basis for determining whether the difference in the levels between NV and CEP affects price comparability, we adjust NV under section 773(a)(7)(B) of the Act (the CEP offset provision). See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon Steel Plate from South Africa, 62 FR 61731, 61732 (November 19, 1997). As such, we will continue to grant SeAH a CEP offset adjustment in accordance with section 773(a)(7)(B) of the Act and section 351.412(f) of the Department's regulations.

Comment 6: Interest Expenses Associated with U.S. Selling Operations

IPSCO Tubulars argues that SeAH improperly failed to report interest expenses related to the U.S. selling operations of PPA which are U.S. indirect selling expenses under section 772(d)(1) of the Act. IPSCO Tubulars argues that the Department should include these interest expenses as part of SeAH's U.S. indirect selling expenses.

IPSCO Tubulars argues that nearly every seller in the market negotiates its prices with the time value of money in mind, ensuring that any credit expenses are built into the price charged for the sale. For support, IPSCO Tubulars points to the Department's Policy Bulletin 98.2 "Imputed Credit and Interest Expenses," which states "credit expenses are usually built into the price paid for the sale." IPSCO Tubulars explains that the Department has noted that credit expenses also "represent the opportunity cost incurred by the seller in awaiting payment." See Polyethylene Terephthalate Film, Sheet, and Strip from the Republic of Korea, Final Results of Antidumping Duty Administrative Review, 63 FR 37334, 37337 (July 10, 1998). IPSCO Tubulars argues that credit sales do not result in actual interest expenses, because credit sellers charge additional revenue, equal to the time value of money between shipment and payment on credit sales, which they do not receive from cash sales. IPSCO Tubular contends the credit seller's receipt of additional revenues to cover the period it extends credit (*i.e.*, date of shipment through date of payment) negates the opportunity cost incurred by the seller in awaiting payment.

IPSCO Tubulars argues that the Department has a practice of distinguishing between "imputed" credit expenses and actual interest expenses incurred by a U.S. seller. See Certain Fresh Cut Flowers From Colombia: Final Results of Antidumping Duty Administrative Review, 63 FR 31724, 31727 (June 10, 1998) (where the Department found that there is no double-counting of interest expenses incurred by the U.S. seller when the Department deducts both the interest expense component of U.S. indirect selling expenses and the imputed opportunity cost on credit sales from the gross price in determining CEP); see also Certain Stainless Steel Butt-Weld Pipe Fittings From Taiwan: Final Results of Antidumping Duty Administrative Review, 66 FR 65899 (December 21, 2001) and accompanying Issues and Decision Memorandum at Comment 3, (where the Department denied Ta Chen's claim for an adjustment because of double-counting

interest expenses). As such, IPSCO Tubulars argues the Department should either require respondents to report interest expenses associated with their U.S. selling operations or calculate the interest expenses related to respondent's U.S. selling operations, as facts available, for the final results of this review.

SeAH argues that including both imputed credit expenses on U.S. sales and interest expenses of the U.S. affiliate in the indirect selling expense calculation would result in double-counting. Therefore, SeAH contends that the Department should continue to exclude interest expenses from the indirect selling expense calculation for the final result. SeAH argues that, although the Department distinguishes between imputed credit expenses and actual interest expenses incurred by a U.S. seller, it has ruled that double-counting is possible because these two types of expenses are directly related. See Final Results of Antidumping Duty Administrative Review: Certain Cold-Rolled and Corrosion-Resistant Carbon Steel Flat Products From Korea, 66 FR 3540 (January 16, 2001) (Korean Steel 2001), and accompanying Issues and Decision Memorandum at Comment 1. In addition, SeAH argues that the Department's consistent practice is to not include both imputed credit expenses and real interest expenses in the indirect selling expense calculation. See Circular Welded Non-Alloy Steel Pipe From the Republic of Korea: Final Results of Antidumping Duty Administrative Review, (Korean Circular Pipe) 69 FR 32492 (June 10, 2004), and accompanying Issues and Decision Memorandum at Comment 3; and Final Results of Antidumping Duty Administrative Review: Certain Cold-Rolled and Corrosion-Resistant Carbon Steel Flat Products From Korea, 67 FR 11976 (March 18, 2002) (Korean Steel 2002), and accompanying Issues and Decision Memorandum at Comment 1. Therefore, SeAH argues that the Department should continue excluding interest expense from the indirect selling expense calculation in the final results.

Department's Position

We find that including both imputed credit expenses and interest expenses in the indirect selling expense calculation would result in the double-counting of credit expenses. These two expenses are directly related because the imputed credit expense for the period between shipment date and payment date is reflected in the amount of capital borrowed by the company while awaiting payment. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Plate in Coils From Belgium, 64 FR 15476, 15488-15489 (March 31, 1999); see also Final Determination of Sales at Less Than Fair Value: New Minivans From Japan, 57 FR 21937, 21956-21957 (May 26, 1992). Although the Department has in the past found that including imputed and actual interest expenses is necessary to fully account for these expenses, more recent decisions show that the Department has consistently determined that including both imputed and actual interest expenses in the indirect selling expense calculation will result in the double-counting of interest expenses. See, e.g., Korean Circular Pipe, and accompanying Issues and Decision Memorandum at Comment 3; see also Korean Steel 2002, and accompanying Issues and Decision Memorandum at Comment 1, where the Department has not included both imputed and actual interest expenses in indirect selling expense calculations to prevent double-counting. Therefore, in order to prevent double-counting of interest expenses, the Department will continue

to exclude actual interest expenses from the indirect selling expense calculation for the final result.

Comment 7: G&A Expense for Further Manufacturing

U.S. Steel argues that SeAH included all of PPA's G&A expenses in its calculation of U.S. indirect selling expenses. U.S. Steel posits that the Department should revise SeAH's reported U.S. further manufacturing cost ("FURMANU") to include the G&A expenses as part of the cost of production rather than include the G&A expenses as indirect selling expenses. U.S. Steel claims that it is the Department's long-standing practice to include all G&A expenses related to further manufacturing in the calculation of FURMANU. See Notice of Final Results of Antidumping Duty Administrative Review: Carbon and Certain Alloy Steel Wire Rod from Canada, 69 FR 68309 (November 24, 2004), and accompanying Issues and Decision Memorandum at Comment 6.

U.S. Steel argues that since PPA actively managed the further manufacturing process in the United States, its G&A expenses should be allocated to the further manufacturing expenses. According to U.S. Steel, pursuant to section 772(d)(2) of the Act, the Department is required to deduct the cost of any further manufacture or assembly from the price used to establish CEP. Thus, U.S. Steel argues that including PPA's G&A expenses associated with the further manufacturing processes in U.S. indirect selling expenses, rather than FURMANU, increases the size of the CEP offset, thus potentially lowering the dumping margin. According to U.S. Steel, in past reviews SeAH relied on the Final Determination of Sales at Less Than Fair Value: Oil Country Tubular Goods From Argentina, 60 FR 33539, 33550 (June 28, 1995) ("OCTG from Argentina") to justify reclassifying its G&A as indirect selling expenses based on the "primary function of the affiliate." U.S. Steel argues that this is contrary to the statute, which distinguishes selling expenses from the cost of any further manufacture or assembly (see section 772(d)(2) of the Act), and the Section E questionnaire which states that "further manufacture or assembly ("further manufacturing") costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expenses, interest expenses, additional U.S. packing expenses, and all costs involved in moving the product from the U.S. port of entry to the further manufacturer." Therefore, U.S. Steel argues that the Department should reject SeAH's approach, and instead recalculate FURMANU to include all G&A expenses incurred by PPA.

SeAH argues that it is unnecessary for the Department to recalculate further manufacturing expenses to include PPA's G&A expenses associated with further manufacturing of subject merchandise. SeAH claims that this is consistent with all past reviews in which it has participated. According to SeAH, sales of further manufactured OCTG represent a small amount of PPA's overall sales and the main cost of OCTG is the input product, plain-end OCTG purchased from SeAH rather than the further manufacturing fees it pays to unaffiliated processors. According to SeAH, PPA has always been a selling agent that does not own any manufacturing facilities, but instead subcontracts threading, coupling, and heat treatment of its

plain end OCTG to outside processors as part of its sales operations. Therefore, SeAH argues that it is appropriate to include all G&A expenses as part of indirect selling expenses.

Department's Position

Pursuant to section 772(d)(2) of the Act, the Department is required to deduct the cost of any further manufacture or assembly from the price used to establish CEP. It is the Department's long-standing practice to include all G&A expenses related to further manufacturing in the calculation of FURMANU. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Large Newspaper Printing Presses and Components Thereof, Whether Assembled or Unassembled, From Germany 61 FR 38166 (July 23, 1996) where the Department stated "for the final determination, we computed MRD's further manufacturing G&A expense rate based on the ratio of the reported G&A expenses to cost of sales"; see also Notice of the Preliminary Results of Antidumping Duty Administrative Review: Stainless Steel Bar from France, 70 FR 17411 (April 6, 2005) (SS Bar from France) (unchanged in the final results) where the Department stated that "to calculate the cost of further manufacturing, we relied on UGITECH's reported cost of further manufacturing materials, labor, and overhead, plus amounts for further manufacturing general and administrative expenses (G&A) and financial expenses." In both cases, the Department's practice has been to include G&A expense in calculating the respondent's further manufacturing costs. In addition, section E of the questionnaire states that "further manufacture or assembly ("further manufacturing") costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expenses, interest expenses, additional U.S. packing expenses, and all costs involved in moving the product from the U.S. port of entry to the further manufacturer."

While we acknowledge that PPA's primary function is as a selling agent and that it does not perform any further processing in house, it is required to coordinate the further processing performed by its outside contractors, including providing couplings and arranging transportation. The record of this review shows that PPA records selling and G&A expenses separately in its normal books and records. PPA's G&A activities typically support the general production activities of the company as a whole (i.e., in its income statement).

According to section 773(f)(1)(A) of the Act, the Department must rely on a company's normal books and records if such records are in accordance with home country GAAP and they reasonably reflect the costs associated with production of the merchandise. PPA records G&A expense in the normal course of business as a separate line item in its income statement. As such, the Department normally allocates G&A expenses over the merchandise produced and sold by the company. For the final results, we have calculated PPA's G&A expense ratio based on its unconsolidated financial statements consistent with the Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Carbon and Certain Alloy Steel Wire Rod from Canada, 67 FR 17389 (April 10, 2002) (determination unchanged in final), in which we stated that "we calculated Stelco's further manufacturing G&A expense rate based on the Stelco USA unconsolidated financial statements." Thus, in accordance with section

772(d)(2) of the Act, we have deducted the cost of further manufacturing (including G&A) from the price used to establish CEP.

Comment 8: Interest Expenses for Further Manufacturing

According to IPSCO Tubulars, SeAH did not report any interest expenses related to its U.S. further manufacturing. Therefore, IPSCO Tubulars argues that the Department should revise SeAH's reported FURMANU to include interest expense for the final results (i.e., divide PPA's net financial expense by the cost of goods sold related to U.S. further-manufacturing).

SeAH disagrees with IPSCO Tubulars, that PPA's interest expense should be allocated to further manufacturing for the same reasons it argued that G&A expenses should not be allocated to further manufacturing. SeAH argues that it has excluded interest expense in all past reviews and that its further manufacturing activities are limited. According to SeAH, PPA's primary role is as the U.S. selling arm of SeAH, and therefore, it is appropriate to include the interest expense as a selling expense. Finally, SeAH argues that the interest expenses related to further manufacturing have been accounted for in the imputed inventory carrying costs in the United States that were deducted when calculating CEP.

Department's Position

We agree with IPSCO Tubulars that the Department should include all interest expenses related to further manufacturing in the FURMANU calculation. Although PPA may not have included interest expense in past reviews, that alone is not sufficient reason to exclude the interest expense in the instant review. Pursuant to section 772(d)(2) of the Act, the Department is required to deduct the cost of any further manufacture or assembly from the price used to establish CEP. Further, it is the Department's long-standing practice to include all interest expenses related to further manufacturing in the calculation of FURMANU. See, e.g., SS Bar from France and Preliminary Determination of Sales at Less than Fair Value: Certain Cut-To-Length Carbon-Quality Steel Plate Products from France, 64 FR 41198, 41200 (July 29, 1999) (determination unchanged in final). In addition, section E of the questionnaire clearly states that "further manufacture or assembly (further manufacturing) costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expenses, interest expenses, additional U.S. packing expenses, and all costs involved in moving the product from the U.S. port of entry to the further manufacturer." See the Department's October 26, 2005 Section E Questionnaire at Exhibit E-1, Question 1-A.

The Department's practice with regard to interest expenses is to base net interest expenses on the full-year net interest expense and cost of sales from the audited fiscal-year financial statements at the highest level of consolidation which correspond most closely to the POI. This method is consistent with our normal practice. See, e.g., Final Determination of Sales at Less Than Fair Value: Stainless Steel Round Wire From Canada, 64 FR 17324-17336 (April 9, 1999) (the Department relied on the amounts reported in the consolidated financial statements of the highest level available to calculate the financial expense ratio); Final Determination of Sales at Less

Than Fair Value: Stainless Steel Sheet and Strip in Coils from France, 64 FR 30820, 30842-43 (June 8, 1999) (where the Department agreed with Usinor that it was appropriate to use the highest consolidation level available to calculate the interest expense ratio). PPA's financial statements are consolidated within those of SeAH (*i.e.*, the parent company). Thus, while we agree that SeAH's reported U.S. further manufacturing expenses should include interest expense, it is the Department's practice to calculate interest expense at the highest consolidated level, *i.e.*, the consolidated group of companies to which the respondent belongs. *See, e.g., Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon-Quality Steel Plate Products from France* 64 FR 73143, 73152 (December 29, 1999). In general, this practice recognizes the fungible nature of invested capital resources (*i.e.*, debt and equity) within a consolidated group of companies. As stated above, because SeAH is the highest consolidated entity, we have applied the interest expense ratio based on SeAH's June 31, 2005 consolidated financial statements to the further manufacturing cost incurred by PPA.

Comment 9: Further Manufacturing Freight Expenses

IPSCO Tubulars argues that SeAH should have included the freight expenses from the U.S. port to the further manufacturing subcontractor's premises as part of further manufacturing costs rather than including the expenses as U.S. inland freight ("INLFPWU") in the sales listing. According to IPSCO Tubulars, the section E questionnaire states that further manufacture or assembly ("further manufacturing") costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expenses, interest expenses, additional U.S. packing expenses, and all costs involved in moving the product from the U.S. port of entry to the further manufacturer. IPSCO Tubulars claims that it is the Department's practice to include such movement charges in the calculation of further manufacturing. *See Notice of Final Results of Antidumping Duty Administrative Review: Carbon and Certain Alloy Steel Wire Rod from Canada* 71 FR 3822 (January 17, 2006) (*Canadian Wire Rod*), and accompanying *Issues and Decision Memorandum* at Comment 1. Therefore, IPSCO Tubulars argues that the freight expenses from the U.S. port to the further manufacturing subcontractor's premises should be included in further manufacturing expense for the final results. SeAH did not comment on this issue.

Department's Position

We agree with IPSCO Tubulars. While PPA does not process merchandise in house, it does arrange for merchandise to be further processed by unaffiliated processors before it sells the merchandise in the U.S. market. The freight is an additional cost incurred by PPA in order to get the merchandise processed, and thus it is appropriate to include those freight costs as part of the cost of further manufacturing. Pursuant to section 772(d)(2) of the Act, the Department is required to deduct the cost of any further manufacture or assembly from the price used to establish CEP. It is the Department's practice to include the freight from the U.S. port to the further processors in the United States as further manufacturing costs. *See, e.g., Canadian Wire Rod* and accompanying *Issues and Decision Memorandum* at Comment 1; *see also Final Results*

of Antidumping Administrative Review: Stainless Steel Sheet and Strip in Coils From France 70 FR 7240 (February 11, 2005), and accompanying Issues and Decision Memorandum at Comment 7. Thus, we find these movement expenses are a component of further manufacturing, not transportation expenses and in accordance with section 772(d)(2) of the Act, we have included the freight cost incurred by PPA in the cost of further manufacturing, and deducted freight cost of further manufacturing from CEP.

Comment 10: Calculation Issues

The parties raised several calculation issues in their briefs. U.S. Steel argues that the Department inadvertently understated SeAH's foreign unit price in dollars (FUPDOL) by incorrectly deducting packing expenses from the FUPDOL calculation. Therefore, U.S. Steel argues the Department should add packing expenses in the FUPDOL calculation for the final results. In addition, U.S. Steel contends that the Department mistakenly calculated SeAH's comparison market indirect selling expenses in Korean Won when calculating its total comparison market indirect selling expenses in U.S. dollars (INDDOL). As a result, U.S. Steel argues that the Department should treat SeAH's comparison market indirect selling expenses as denominated in U.S. dollars when calculating its INDDOL total comparison market indirect selling expenses. SeAH did not comment on these issues.

Husteel contends that the Department inadvertently used Husteel's actual weight-based costs to calculate CV for comparison to its theoretical weight-based U.S. sales. As such, Husteel argues that the Department should use Husteel's theoretical weight-based costs when calculating CV for the final results. Neither IPSCO Tubulars nor U.S. Steel commented on this issue.

Department's Position

We agree with U.S. Steel's comments regarding the calculation in the Preliminary Results. As a result, we have added packing expense to SeAH's FUPDOL calculation for the final results. Also, we are using INDDOL denominated in U.S. dollars to calculate SeAH's total comparison market indirect selling expenses in the margin program.

With regard to Husteel's comment, we have revised Husteel's margin program by calculating CV using costs based on Husteel's theoretical weight rather than actual weight, as is our practice. See Final Results of Antidumping Duty Administrative Review and Partial Termination of Administrative Review: Circular Welded Non-Alloy Steel Pipe From the Republic of Korea 62 FR 55574, 55575-55576 (October 27, 1997). For a complete discussion of the margin calculations for each company, see Memorandum from Nicholas Czajkowski, Case Analyst, to the File: Analysis of SeaH Steel Corporation ("SeAH") for the Final Results of the Administrative Review of Oil Country Tubular Goods, Other Than Drill Pipe from Korea, dated February 27, 2007 and Husteel Analysis Memo, respectively.

Recommendation

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

Agree

Disagree

David M. Spooner
Assistant Secretary
for Import Administration

Date