



March 1, 2021

MEMORANDUM TO: Christian Marsh
Acting Assistant Secretary
for Enforcement and Compliance

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

SUBJECT: Issues and Decision Memorandum for the Final Affirmative
Determination in the Less-Than-Fair-Value Investigation of
Common Alloy Aluminum Sheet from South Africa

I. SUMMARY

The Department of Commerce (Commerce) finds that common alloy aluminum sheet (aluminum sheet) from South Africa is being, or is likely to be, sold in the United States at less than fair value (LTFV), as provided in section 735 of the Tariff Act of 1930, as amended (the Act). The period of investigation (POI) is January 1, 2019, through December 31, 2019.

After analyzing the comments submitted by interested parties, we have made changes to the *Preliminary Determination*. 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 for which we have received comments from the interested parties:

Comment 1: U.S. and Home Market Packing Expenses
Comment 2: Hulamin Operations’ Base Metal Costs

II. BACKGROUND

On October 15, 2020, Commerce published in the *Federal Register* its preliminary affirmative determination in the LTFV investigation of aluminum sheet from South Africa.¹

On November 9, 2020, Commerce issued a supplemental questionnaire to Hulamin Operations (Pty) Ltd. (Hulamin Operations), the sole respondent in this investigation, in lieu of performing an on-site verification under section 782(i) of the Act.² Hulamin Operations timely responded on

¹ See *Common Alloy Aluminum Sheet from South Africa: Preliminary Affirmative Determination of Sales at Less Than Fair Value, Postponement of Final Determination, and Extension of Provisional Measures*, 85 FR 65351 (October 15, 2020) (*Preliminary Determination*), and accompanying Preliminary Decision Memorandum.

² See Commerce’s Letter, “Common Alloy Aluminum Sheet from South Africa: Hulamin Operations (Pty) Ltd. (Hulamin Operations): Questionnaire in Lieu of Verification,” dated November 9, 2020.



November 18, 2020.³ On November 16, 2020, Hulamin Operations filed a request for a hearing, and the Aluminum Association Common Alloy Aluminum Sheet Trade Enforcement Working Group and its individual members, Aleris Rolled Products, Inc., Arconic, Inc., Constellium Rolled Products Ravenswood, LLC, JW Aluminum Company, Novelis Corporation, and Texarkana Aluminum, Inc. (collectively, the petitioners), filed a notice of their intent to participate in the hearing.⁴

On December 14, 2020, we received case briefs from Hulamin Operations and from the petitioners.⁵ On December 21, 2020, we received rebuttal briefs from Hulamin Operations and the petitioners.⁶ On February 5, 2021, Hulamin Operations withdrew its hearing request.⁷

III. CHANGES SINCE THE PRELIMINARY DETERMINATION

- We have based the margin calculations for the final determination on the cost database with the originally reported material costs.⁸

IV. DISCUSSION OF THE ISSUES

Comment 1: U.S. and Home Market Packing Expenses

*Petitioners' Case Brief:*⁹

- Hulamin Operations' reported per-unit packing costs for control numbers (CONNUMs) sold in the United States are lower than the reported per-unit packing costs for identical CONNUMs sold in the home market.
- Although the petitioners pointed out this fact prior to the *Preliminary Determination*, Hulamin Operations failed to address, resolve, or provide evidentiary support for this apparent anomaly during the course of this investigation.

³ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited – Responses to Questionnaire in Lieu of Verification," dated November 18, 2020 (ILOVQR).

⁴ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Request for Hearing," dated November 16, 2020; *see also* Petitioners' Letter, "Common Alloy Aluminum Sheet from South Africa: Petitioners' Notification of Intent to Participate in Hearing," dated November 16, 2020.

⁵ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited – Case Brief," dated December 14, 2020 (Hulamin Operations' Case Brief); *see also* Petitioners' Letter, "Common Alloy Aluminum Sheet from South Africa: Petitioners' Case Brief," dated December 14, 2020 (Petitioners' Case Brief).

⁶ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited – Rebuttal Brief," dated December 21, 2020 (Hulamin Operations' Rebuttal Brief); *see also* Petitioners' Letter, "Common Alloy Aluminum Sheet from South Africa: Petitioners' Rebuttal Case Brief," dated December 21, 2020 (Petitioners' Rebuttal Brief).

⁷ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa – Withdrawal of Request for Hearing," dated February 5, 2021.

⁸ See Comment 2 of this memorandum; *see also* Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Final Determination – Hulamin Operations Proprietary Limited," dated concurrently with this memorandum (Final Cost Memo); and Memorandum, "Analysis Memorandum for the Final Determination of the Antidumping Duty Investigation of Common Alloy Aluminum Sheet from South Africa: Hulamin Operations (Pty) Ltd.," dated concurrently with this memorandum (Final Analysis Memo).

⁹ See Petitioners' Case Brief at 2-4.

- Commerce should remedy the gap between the reported U.S. and home market packing expenses with an upward adjustment to U.S. packing expenses to offset the difference.

*Hulamin Operations' Rebuttal Brief:*¹⁰

- Commerce should continue to use Hulamin Operations' reported packing expenses from its sections B and C databases for the final determination since Hulamin Operations based its reported packing expenses on actual costs for materials, labor and overhead, reported by case (*i.e.*, physical packing case used for shipment), and its calculations are supported by record evidence.
- Hulamin Operations relied on the bill of materials for each packing type, listing the packing materials and corresponding cost at standard by case (one or more cases comprise an invoice line item). Hulamin Operations adjusted the standard costs to actual based on the actual packing costs incurred during the POI. It then assigned actual packing costs to the cases sold during the POI based on the packing type used. The total actual packing costs were then divided by the total packed weight to calculate the reported packing cost for each packing type. As a consequence, packing costs vary by product, customer, market, and the volume packed in each case. Hulamin Operations does not sell identical products in the U.S. and home market. The petitioners thus erred in assuming that packing costs on a per-unit level should be static at the CONNUM level.
- The U.S. packing costs are lower than the home market packing costs in this case because the sales quantity and volume shipped per case is greater for export markets than for the home market, as a result of customer requirements and market specifications. Thus, the higher U.S. shipment volumes result in lower per-unit packing costs due to allocation of case-specific packing costs over the higher quantity packed and shipped per case.
- Hulamin Operations reconciled the total value of packing material, labor and overhead to its trial balance. Commerce did not request a reconciliation of the total company-wide packing costs to the total packing costs reported on the U.S. and home market sales databases. Hulamin Operations did not provide such information because it would require additional information, such as the packing costs applicable to third-country sales not pertinent to the record of this investigation.
- The petitioners requested upward adjustment to the reported U.S. packing expenses would unlawfully distort the margin calculations because Hulamin Operations reported its actual packing costs.

Commerce's Position: We agree that we should continue to value Hulamin Operations' packing costs as reported in its Sections B and C databases. Hulamin Operations explained that it reported packing costs on an actual, case-specific basis, based on the weight and packing type used for each product.¹¹ It provided an explanation of how it calculated its packing costs at standard, and then converted them to actual based on total expenses incurred during the POI based on the packing type used, and packing weight.¹² Further, Hulamin Operations reported

¹⁰ See Hulamin Operations' Rebuttal Brief at 1-4.

¹¹ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited: Section B through D Response," dated June 30, 2020 (Hulamin Operations' BQR, CQR and DQR), BQR at 43-44, and CQR at 51.

¹² *Id.*

that packing volumes by case can vary within the same product.¹³ In addition, Hulamin Operations reported that its U.S. packing costs were generally lower than its home market packing costs because the quantity shipped in each case was generally higher for export sales.¹⁴ As support, Hulamin Operations provided a comprehensive chart showing the packing expense by product type, alloy, and size,¹⁵ which ties to its original U.S. and home market database (and the revised U.S. and home market databases, after taking into account the adjustment made to its packing costs for labor and overhead).¹⁶ Hulamin Operations reconciled its packing expenses to its audited financial statements, as requested by Commerce.¹⁷ As a result, Hulamin Operations used an appropriate methodology to report its U.S. and home market packing costs based on the information in its books and records during the POI.

The petitioners argue that an adjustment is necessary on the basis that Hulamin Operations' U.S. packing costs were generally lower than its home market packing costs. However, the petitioners provided no information or argument that demonstrates that any of the information that Hulamin Operations provided was either untrue, inaccurate, or distortive. Hulamin Operations provided a reasonable explanation for the difference in packing costs between markets, and there is no information on the record which contradicts this explanation. Therefore, because there is no record evidence to demonstrate that Hulamin Operations inaccurately reported its U.S. and home market packing expenses, we will make no changes to our packing calculations for the final determination.

Comment 2: Whether to Rely on Hulamin Operations' Actual Base Metal Costs

*Hulamin Operations' Case Brief:*¹⁸

- Commerce should rely on the base metal costs as originally reported by Hulamin Operations in its cost database, rather than the alternative cost database requested by Commerce where the base metal costs are smoothed over the POI.
- Consistent with section 773(f)(1)(A) of the Act, Hulamin Operations' reported costs are based on its normal books and records kept in accordance with South African generally accepted accounting principles (GAAP) and reasonably reflect the cost to produce aluminum sheet.

¹³ See, e.g., the packing lists included in Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited: Section A Response," dated May 19, 2020 (Hulamin Operations' AQR) at Exhibit A-16; and ILOVQR at Exhibit SVE-2-1.

¹⁴ See Hulamin Operations' AQR at A-28.

¹⁵ See Hulamin Operations' BQR at Exhibit B-16.

¹⁶ Hulamin Operations revised its packing expenses in its revised U.S. and home market database to include an adjustment for labor and overhead at Commerce's request. See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited: First Supplemental Sections B and C Questionnaire and Second Supplemental Section BCD Questionnaire Responses," dated August 28, 2020 (Hulamin Operations' SBQR, SCQR and SQR (BCD)). See specifically, Hulamin Operations' SBQR at 13 and Exhibit SB-6; see also Hulamin Operations' SCQR at 10.

¹⁷ See Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited: Supplemental Section D Response," dated August 21, 2020 (Hulamin Operations' SDQR Q9-14, 18) at Exhibit SD-38 (tab 1); see also Hulamin Operations' Letter, "Common Alloy Aluminum Sheet from South Africa: Hulamin Operations Proprietary Limited: Responses Second Section D Supplemental Questionnaire," dated September 15, 2020 (Hulamin Operations' 2nd SDQR) at Exhibit SD2-1 (tab 3).

¹⁸ See Hulamin Operations' Case Brief at 2-3.

- The company uses a metal price lag account to record differences in prices between the time of invoicing versus when the metal was purchased.
- The originally reported cost includes both the purchase cost of the metal plus the metal price lag. As such, the timing differences between the date the metal was purchased and when the product was sold are eliminated.

*Petitioners' Rebuttal Brief:*¹⁹

- Commerce should continue to rely on the alternative cost database where the base metal costs are smoothed over the POI.
- It is Commerce's practice to "smooth" a respondent's reported costs where, as with Hulam Operations, there are cost differences that are not attributable to the physical characteristics of the product.
- Hulam Operations has not supported its claim that its normal costs reflect the physical characteristics of the products.
- Hulam Operations' "metal price lag" does not eliminate the cost differences between products caused by the timing of production.

Commerce's Position: We agree with Hulam Operations that its base metal costs as originally reported in its cost database should be used for the final determination. Our analysis of Hulam Operations' CONNUM-specific base metal costs as originally reported in its cost database compared to the smoothed base metal costs reported in the alternative cost database shows that the differences between the originally reported costs and the smoothed costs are insignificant.²⁰ Therefore, for the final determination, we relied on the base metal cost as originally reported by Hulam Operations for purposes of the margin calculations.²¹

When Commerce must evaluate a respondent's reported costs, section 773(f)(1)(A) of the Act advises that costs shall normally be calculated based on the records of the exporter or producer of the merchandise, if such records are kept in accordance with the GAAP of the exporting country (or the producing country, where appropriate) and reasonably reflect the costs associated with the production and sale of the merchandise. Accordingly, Commerce will customarily rely on a company's normal books and records if two conditions are met: (1) the books are kept in accordance with the home country's GAAP; and (2) the books reasonably reflect the cost to produce and sell the merchandise. In cases where the costs reported according to a company's normal books are unreasonable (*e.g.*, if cost differences among products do not represent differences in physical characteristics), Commerce may revise such costs. Here, the record is clear that the reported costs are derived from Hulam Operations' normal books and records and that those books are kept in accordance with South African GAAP.²² Hence, the question facing Commerce is whether the reported base metal costs from Hulam Operations' normal books and records reasonably reflect the cost to produce the subject merchandise based on the physical characteristics identified by Commerce.

¹⁹ See Petitioners' Rebuttal Brief at 2-5.

²⁰ See Final Cost Memo.

²¹ *Id.*

²² See Hulam Operations' SDQR at 4.

In the normal course of business, Hulamin Operations calculates the base metal cost of a production lot number using the London Metal Exchange (LME) aluminum price in effect at the time of invoicing.²³ Hulamin Operations stated that, given the fluctuations in the market value for aluminum, there is a difference in the price of the base metal at the time of invoicing versus at the time at which Hulamin Operations purchases the base metal.²⁴ In accordance with South African GAAP, Hulamin Operations does not revalue the base metal inventory to reflect market fluctuations.²⁵ Instead, the value of the base metal is adjusted by Hulamin Operations using a separate account – the metal price lag account – which assigns a value to the timing difference between the selling price of primary aluminum included in Hulamin Operations’ sales revenues and the purchase price of the aluminum impacting the cost of sales.²⁶ Hulamin Operations’ base metal costs as originally reported in its cost database reflect the base metal costs in its normal books and records for each production lot number included in a particular CONNUM.²⁷

While we agree that for a particular production lot number, the metal price lag account may smooth differences between the LME price when the base metal is purchased and when it is subsequently sold, we disagree with Hulamin Operations that the metal price lag addresses the issue of production timing resulting in cost differences among CONNUMs that are not related to the physical characteristics identified by Commerce. To calculate its reported costs, Hulamin Operations classified each of its production lot numbers within a reported CONNUM based on the product’s physical characteristics.²⁸ In the data field “DIRMAT” of Hulamin Operations’ original cost database, Hulamin Operations reported the resulting weighted-average per-unit cost of base metal (*i.e.* unalloyed primary aluminum) as reflected in its normal books and records.²⁹ The reported unalloyed primary aluminum per-unit cost, the same base metal input for all CONNUMs reported, differed among CONNUMs based on the number of production lots included in the CONNUMs and the base metal price of the production lot (as noted by Hulamin Operations, fluctuations occurred in the LME prices during the POI).³⁰ Commerce identified the issue in its 2nd supplemental section D questionnaire and requested that Hulamin Operations report an alternative cost database that reflects the POI weighted-average base metal cost that was not dependent on the number or timing of the production lots included in each CONNUM.³¹ For the *Preliminary Determination*, Commerce relied on the alternative cost database stating that, “Our review of Hulamin’s reported direct material costs in cost data file HULCOP04 found that the differences in the direct material costs among products were dependent upon when the products were produced rather than the differences in the physical characteristics of the products.”³²

While Commerce preliminarily found that Hulamin Operations’ reported per-unit costs exhibited variations that were unrelated to the physical characteristics of the products under investigation, such findings are not unusual in these proceedings because Commerce is directed to use, as a

²³ See Hulamin Operations’ DQR at 16.

²⁴ See Hulamin Operations’ 2nd SDQR at 3.

²⁵ *Id.*

²⁶ *Id.*

²⁷ See Hulamin Operations’ DQR at 16.

²⁸ *Id.* at 26.

²⁹ See Hulamin Operations’ 2nd SDQR at 2.

³⁰ See cost database “hulcop01” included in Hulamin Operations’ DQR.

³¹ See Commerce’s 2nd SDQ at 3.

³² See Memorandum, “Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Determination – Hulamin,” dated October 6, 2020.

starting point for reporting information, a respondent's normal books and records.³³ For large companies like Hulamin Operations, these books and records are typically generated from computer-based enterprise-wide reporting systems, capable of calculating product costs monthly, or even over certain production runs.³⁴ Costs captured at specific points in time will naturally vary due to timing differences.³⁵ When such costs are assigned to specific CONNUMs, some of which had limited production quantities, differences between CONNUM costs arise that will not be related to the physical characteristics designated for an antidumping duty proceeding.³⁶

In instances where Commerce is faced with the decision of whether to adjust a respondent's reported costs for unusual cost differences between products with similar physical characteristics, Commerce considers "the magnitude of the cost differences and the number of CONNUMs affected."³⁷ Here, we performed an analysis that compares the CONNUM-specific base metal costs originally reported in Hulamin Operations' cost database (*i.e.* Hulamin Operations' normal books and records) to the CONNUM-specific base metal costs reported in Hulamin Operations' alternative cost database (*i.e.* the base metal costs are smoothed over the POI).³⁸ That analysis shows that the differences between the costs reflected in Hulamin Operations' normal books and records and the smoothed costs on a CONNUM-specific basis for almost all products are insignificant.³⁹ Moreover, the production quantity of the CONNUMs where a significant difference exists is minimal in comparison to the total production quantity of all CONNUMs reported.⁴⁰ Therefore, because the differences are insignificant, we find that Hulamin Operations' originally reported metal costs based on its normal books and records reasonably reflect the cost to produce aluminum sheet. As such, we relied on the cost database with the originally reported material costs for the final determination.⁴¹

³³ See section 773(f)(1)(A) of the Act.

³⁴ See, *e.g.*, *Certain Hot-Rolled Steel Flat Products from the Republic of Korea: Final Results of the 2016-2017 Antidumping Duty Administrative Review*, 84 FR 32720 (July 9, 2019) (*HRS from Korea*), and accompanying IDM at Comment 1.

³⁵ *Id.*

³⁶ *Id.*

³⁷ See *HRS from Korea*; see also *Welded Line Pipe from the Republic of Korea: Final Determination of Sales at Less Than Fair Value*, 80 FR 61366 (October 13, 2015), and accompanying IDM at Comment 5.

³⁸ See Final Cost Memo.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ *Id.*; see also Final Analysis Memo.

V. RECOMMENDATION

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



Agree



Disagree

3/1/2021

X



Signed by: CHRISTIAN MARSH

Christian Marsh
Acting Assistant Secretary
for Enforcement and Compliance