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MEMORANDUM TO: Paul Piquado
Assistant Secretary
for Import Administration

FROM: Christian Marsh 
Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations

RE: Antidumping Duty Administrative Review: Carbon and Certain
Alloy Steel Wire Rod from Mexico

SUBJECT: Decision Memorandum for Preliminary Results

SUMMARY

The Department of Commerce (the Department) is conducting an administrative review of the antidumping duty order on carbon and certain alloy steel wire rod from Mexico (wire rod). The review covers one producer/exporter of the subject merchandise, Deacero S.A. de C.V. and Deacero USA, Inc. (collectively, Deacero). The period of review (POR) is October 1, 2010, through September 30, 2011. We preliminarily find that sales of the subject merchandise have been made at prices below normal value.

BACKGROUND

Pursuant to section 751(a)(1) of the Tariff Act of 1930, as amended (the Act), and 19 CFR 351.213(b), ArcelorMittal USA LLC, Gerdau Ameristeel US Inc., Nucor Corporation (collectively, the petitioners) and Deacero requested an administrative review of the antidumping duty (AD) order on wire rod from Mexico with respect to Deacero on August 1, 2011.¹ On August 26, 2011, in accordance with 19 CFR 351.221(c)(1)(i), we published a notice of initiation of administrative review of the AD order on wire rod from Mexico.² On June 12, 2012, we extended the deadline for the preliminary results by 125 days, to October 30, 2012.³

¹ See the petitioners' letters to the Department, dated October 31, 2011, at 1, and Deacero's letter to the Department, dated October 31, 2011, at 1.

² See *Initiation of Antidumping and Countervailing Duty Administrative Reviews and Requests for Revocation in Part*, 76 FR 74041 (November 30, 2011).

³ See Memorandum to Christian Marsh, "Carbon and Certain Alloy Steel Wire Rod from Mexico: Extension of Time Limit for Preliminary Results of Antidumping Duty Administrative Review," dated June 12, 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 November 1, 2012. See Memorandum to the



SCOPE OF THE ORDER

The merchandise subject to the order is certain hot-rolled products of carbon steel and alloy steel, in coils, of approximately round cross section, 5.00 mm or more, but less than 19.00 mm, in solid cross-sectional diameter.

Specifically excluded are steel products possessing the above-noted physical characteristics and meeting the Harmonized Tariff Schedule of the United States (HTSUS) definitions for (a) stainless steel; (b) tool steel; (c) high nickel steel; (d) ball bearing steel; and (e) concrete reinforcing bars and rods. Also excluded are (f) free machining steel products (*i.e.*, products that contain by weight one or more of the following elements: 0.03 percent or more of lead, 0.05 percent or more of bismuth, 0.08 percent or more of sulfur, more than 0.04 percent of phosphorus, more than 0.05 percent of selenium, or more than 0.01 percent of tellurium).

Also excluded from the scope are 1080 grade tire cord quality wire rod and 1080 grade tire bead quality wire rod. This grade 1080 tire cord quality rod is defined as: (i) grade 1080 tire cord quality wire rod measuring 5.0 mm or more but not more than 6.0 mm in cross-sectional diameter; (ii) with an average partial decarburization of no more than 70 microns in depth (maximum individual 200 microns); (iii) having no non-deformable inclusions greater than 20 microns and no deformable inclusions greater than 35 microns; (iv) having a carbon segregation per heat average of 3.0 or better using European Method NFA 04-114; (v) having a surface quality with no surface defects of a length greater than 0.15 mm; (vi) capable of being drawn to a diameter of 0.30 mm or less with 3 or fewer breaks per ton, and (vii) containing by weight the following elements in the proportions shown: (1) 0.78 percent or more of carbon, (2) less than 0.01 percent of aluminum, (3) 0.040 percent or less, in the aggregate, of phosphorus and sulfur, (4) 0.006 percent or less of nitrogen, and (5) not more than 0.15 percent, in the aggregate, of copper, nickel and chromium.

This grade 1080 tire bead quality rod is defined as: (i) grade 1080 tire bead quality wire rod measuring 5.5 mm or more but not more than 7.0 mm in cross-sectional diameter; (ii) with an average partial decarburization of no more than 70 microns in depth (maximum individual 200 microns); (iii) having no non-deformable inclusions greater than 20 microns and no deformable inclusions greater than 35 microns; (iv) having a carbon segregation per heat average of 3.0 or better using European Method NFA 04-114; (v) having a surface quality with no surface defects of a length greater than 0.2 mm; (vi) capable of being drawn to a diameter of 0.78 mm or larger with 0.5 or fewer breaks per ton; and (vii) containing by weight the following elements in the proportions shown: (1) 0.78 percent or more of carbon, (2) less than 0.01 percent of soluble aluminum, (3) 0.040 percent or less, in the aggregate, of phosphorus and sulfur, (4) 0.008 percent or less of nitrogen, and (5) either not more than 0.15 percent, in the aggregate, of copper, nickel and chromium (if chromium is not specified), or not more than 0.10 percent in the aggregate of copper and nickel and a chromium content of 0.24 to 0.30 percent (if chromium is specified).

For purposes of the grade 1080 tire cord quality wire rod and the grade 1080 tire bead quality wire rod, an inclusion will be considered to be deformable if its ratio of length (measured along

Record from Paul Piquado, AS for Import Administration, regarding "Tolling of Administrative Deadlines as a Result of the Government Closure During the Recent Hurricane," dated October 31, 2012.

the axis - that is, the direction of rolling - of the rod) over thickness (measured on the same inclusion in a direction perpendicular to the axis of the rod) is equal to or greater than three. The size of an inclusion for purposes of the 20 microns and 35 microns limitations is the measurement of the largest dimension observed on a longitudinal section measured in a direction perpendicular to the axis of the rod. This measurement methodology applies only to inclusions on certain grade 1080 tire cord quality wire rod and certain grade 1080 tire bead quality wire rod that are entered, or withdrawn from warehouse, for consumption on or after July 24, 2003. The designation of the products as "tire cord quality" or "tire bead quality" indicates the acceptability of the product for use in the production of tire cord, tire bead, or wire for use in other rubber reinforcement applications such as hose wire. These quality designations are presumed to indicate that these products are being used in tire cord, tire bead, and other rubber reinforcement applications, and such merchandise intended for the tire cord, tire bead, or other rubber reinforcement applications is not included in the scope. However, should the petitioners or other interested parties provide a reasonable basis to believe or suspect that there exists a pattern of importation of such products for other than those applications, end-use certification for the importation of such products may be required. Under such circumstances, only the importers of record would normally be required to certify the end use of the imported merchandise.

All products meeting the physical description of subject merchandise that are not specifically excluded are included in this scope.

The products subject to the order are currently classifiable under subheadings 7213.91.3000, 7213.91.3010, 7213.91.3011, 7213.91.3015, 7213.91.3020, 7213.91.3090, 7213.91.3091, 7213.91.3092, 7213.91.3093, 7213.91.4500, 7213.91.4510, 7213.91.4590, 7213.91.6000, 7213.91.6010, 7213.91.6090, 7213.99.0030, 7213.99.0031, 7213.99.0038, 7213.99.0090, 7227.20.0000, 7227.20.0010, 7227.20.0020, 7227.20.0030, 7227.20.0080, 7227.20.0090, 7227.20.0095, 7227.90.6010, 7227.90.6020, 7227.90.6050, 7227.90.6051, 7227.90.6053, 7227.90.6058, 7227.90.6059, 7227.90.6080, and 7227.90.6085 of the HTSUS.

Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of this proceeding is dispositive.

On October 1, 2012, the Department found that wire rod with an actual diameter of 4.75 mm to 5.00 mm produced in Mexico and exported to the United States by Deacero was circumventing the AD duty order on wire rod from Mexico. The Department found that it is appropriate to consider that shipments of wire rod with an actual diameter of 4.75 mm to 5.00 mm produced in Mexico and exported to the United States by Deacero constitute merchandise altered in form or appearance in such minor respects that it should be included within the scope of the order on wire rod from Mexico. The affirmative finding applies solely to Deacero.⁴

⁴ See *Carbon and Certain Alloy Steel Wire Rod From Mexico: Affirmative Final Determination of Circumvention of the Antidumping Order*, 77 FR 59892 (October 1, 2012).

DISCUSSION OF THE METHODOLOGY

Universe of U.S. Sales

As stated above, on October 1, 2012, the Department found wire rod with an actual diameter of 4.75 mm to 5.00 mm produced in Mexico and exported to the United States by Deacero to be within the scope of the order on wire rod from Mexico. As a result, we ordered suspension of liquidation effective June 8, 2011, the date the circumvention inquiry was initiated.

Deacero reported two types of CEP sales made during the POR. Specifically, direct shipments from Mexico that were invoiced by Deacero USA (Channel 1) and Deacero USA shipments from inventory maintained in the United States (Channel 2). For Channel 2, Deacero was unable to link the sale back to the entry. Section 351.213(e)(1)(i) of the regulations allows us to use sales, exports, or entries to define the universe of sales. It is our practice to use entry date to establish the universe of sales when sales can be linked to entries.⁵

For the universe of sales used for the calculation of Deacero's assessment rate and cash deposit rate, the Department has included Channel 1 sales of merchandise entered on June 8, 2011, through September 30, 2011, and Channel 2 sales with dates of sale from June 8, 2011, through September 30, 2011.

Application of An Alternative Method

ArcelorMittal USA LLC and Gerdau Ameristeel US Inc. note that they conducted their own targeted dumping analysis of Deacero's U.S. sales using the Department's targeted dumping methodology as applied in *Steel Nails* and modified in *Wood Flooring*.⁶ Based on their analysis, ArcelorMittal USA LLC and Gerdau Ameristeel US Inc. argue that the Department should conduct a targeted dumping analysis and employ average-to-transaction comparisons without offsets should the Department find that the record supports its allegation of targeted dumping.⁷

In AD 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 Tariff Act of 1930, as amended ("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 an administrative review, the Department nevertheless finds that the issue arising under 19 CFR 351.414(c)(1) (2012) in an administrative review is, in fact, analogous to the issue in AD investigations. Accordingly, the Department finds the analysis that has been used in AD investigations may be instructive for

⁵ See *Certain Welded Carbon Steel Standard Pipes and Tubes Final Results of Antidumping Duty Administrative Review*, 75 FR 69626 (November 15, 2010), and accompanying Issues and Decision Memorandum at Comment 2.

⁶ See ArcelorMittal USA LLC and Gerdau Ameristeel US Inc.'s Allegation of Targeted Dumping with respect to Deacero, dated May 18, 2012, at 4-8, (citing *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 33,977 (June 16, 2008), and accompanying Issues and Decision Memorandum at Comment 8 (*Steel Nails from the PRC*); *Multilayered Wood Flooring from the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 76 FR 64318 (Oct. 18, 2011), and accompanying Issues and Decision Memorandum at Comment 4 (*Wood Flooring*)).

⁷ See *id.* at 8-9.

purposes of examining whether to apply the average-to-transaction method in this administrative review.

In recent AD investigations where the Department has addressed targeted dumping allegations, the Department has employed the *Nails* test⁸ for each respondent subject to an allegation to determine whether a pattern of net prices which differ significantly existed within the U.S. market.⁹ The Department has applied the *Nails* test, a two-step process as described below, in this administrative review in order to consider whether to use the average-to-transaction method.

First, the standard deviation test was used to identify whether the product-specific, weighted-average price to the alleged targeted group was more than one standard deviation below the product-specific, weighted-average price for all transactions. The alleged targeted group was found to have passed the standard deviation test when more than 33 percent of the sales to the alleged targeted group passed this test.

Second, those sales passing the standard deviation test were then evaluated to determine whether they passed the “gap” test, which determines whether the prices of the identified sales to the alleged targeted group were not typical. Where the gap (or difference) in the prices between the identified sales to the alleged targeted group and the next closest price to a non-targeted group exceeded the average gap among the prices of sales within the non-targeted group, these identified sales passed the “gap” test. The sales which passed the “gap” test then were evaluated to determine whether they exceeded five percent (by value/volume) of the alleged targeted group’s total purchases of all products subject to the administrative review. Where at least five percent of sales passed the gap test, 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 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, the average-to-transaction method was applied to determine the appropriate weighted-average margin of dumping for the respondent in question.

Recognizing that the Department has not previously applied this particular analysis in the context of the final results of an administrative review, the Department will continue to reflect on

⁸ See *Steel Nails from the PRC 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.*, *Wood Flooring*; 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).

⁹ 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).

whether application of the analysis in administrative reviews warrants any particular refinements to the analysis, particularly in light of the differences between AD investigations and administrative reviews. The Department invites comments on the application of this analysis in this administrative review, and whether any refinements to the analysis are warranted.

Results of the Targeted Dumping Analysis

The Department preliminarily finds, for Deacero, that the pattern of constructed export prices for comparable merchandise that differ significantly among regions is sufficient to consider whether the average-to-average method can account for the alleged targeted dumping. We find, however, that the pattern of price differences can be taken into account using the average-to-average methodology because the average-to-average methodology does not mask differences in the patterns of prices between the targeted and non-targeted groups. More specifically, we found that the average-to-average methodology takes into account the price differences because the average-to-transaction methodology yields a difference in the margins that is not meaningful between the results of the average-to-average method and the average-to-transaction method. Accordingly, the Department preliminarily determines, pursuant to 19 CFR 351.414(c)(1) (2012), to continue to base the weighted-average dumping margin for Deacero on the average-to-average method for these preliminary results.

Fair Value Comparisons

Pursuant to section 773(a)(1)(B)(ii) of the Act and 19 CFR 351.414(c)(1) and (d), to determine whether Deacero's sales of wire rod from Mexico were made in the United States at less than normal value, we compared the constructed export price (CEP) to the normal value as described in the "Constructed Export Price" and "Normal Value" sections of this memorandum. In these preliminary results, the Department applied the average-to-average comparison methodology adopted in the *Final Modification for Reviews*.¹⁰ In particular, the Department compared monthly, weighted-average CEPs with monthly, weighted-average normal values, and granted offsets for non-dumped comparisons in the calculation of the weighted-average dumping margin. When making this comparison 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 an appropriate product comparison to the U.S. sale. If contemporaneous sales of identical home-market merchandise, as described below, were reported, then we made comparisons to the monthly weighted-average home-market prices that were based on all such sales. If there were no contemporaneous sales of an identical merchandise, then we identified sales of the most similar merchandise that were contemporaneous with the U.S. sales in accordance with 19 CFR 351.414(e).

¹⁰ See *Antidumping Proceedings: Calculation of the Weighted-Average Dumping Margin and Assessment Rate in Certain Antidumping Proceedings: Final Modification*, 77 FR 8101 (February 14, 2012) ("*Final Modification for Reviews*").

Product Comparisons

In accordance with section 771(16) of the Act, all products produced by the respondent covered by the description in the Scope of the Order section, above, and sold in Mexico during the POR are considered to be foreign like products for purposes of determining appropriate product comparisons to U.S. sales. We have relied on eight criteria to match U.S. sales of subject merchandise to comparison market sales of the foreign like product: grade range, carbon content range, surface quality, deoxidization, maximum total residual content, heat treatment, diameter range, and coating. These characteristics have been weighted by the Department where appropriate. Where there were no sales of identical merchandise in the home market made in the ordinary course of trade to compare to U.S. sales, we compared U.S. sales to the next most similar foreign like product on the basis of the characteristics listed above. Where there were no sales of similar merchandise in the home market made in the ordinary course of trade to compare to U.S. sales, we compared U.S. sales to constructed value (CV).

Date of Sale

Section 351.401(i) of the Department's regulations states that, normally, the Department 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. The regulation provides further that the Department may use a date other than the date of the invoice if the Secretary is satisfied that a different date better reflects the date on which the material terms of sale are established.

Deacero reported either commercial invoice date or the shipment date, whichever is earlier, for date of sale for both the comparison market and the U.S. market sales.¹¹ We find that the material terms of sale were established and did not change after the dates reported in the database. Accordingly, we have relied on the reported date as the sale date for both the U.S. market and Deacero's home market, Mexico.

Constructed Export Price

In accordance with section 772(b) of the Act, we used CEP for Deacero because the subject merchandise was sold in the United States by a U.S. seller affiliated with the producer and export price was not otherwise indicated. We calculated CEP for those sales where a person in the United States, affiliated with the foreign exporter or acting for the account of the exporter, made the sale to the first unaffiliated purchaser in the United States of the subject merchandise. We based CEP on the packed prices charged to the first unaffiliated customer in the United States and the applicable terms of sale.

In accordance with section 772(c)(2) of the Act, we made deductions, where appropriate, for movement expenses including inland freight from plant or warehouse to port of exportation, warehousing expense incurred in the country of manufacture, international freight, marine insurance, U.S. and foreign brokerage and handling charges, and other transportation expenses.

¹¹ See Deacero's February 7, 2012, initial section B and C questionnaire response (IBCQR) at B-17 and C- 15.

For CEP, in accordance with section 772(d)(1) of the Act, when appropriate, we deducted from the starting price those selling expenses that were incurred in selling the subject merchandise in the United States, including direct selling expenses (cost of credit). In addition, we deducted indirect selling expenses that related to economic activity in the United States. These expenses include inventory carrying costs incurred by affiliated U.S. distributors. We also deducted from CEP an amount for profit in accordance with sections 772(d)(3) and (f) of the Act.

Normal Value

A. *Home Market Viability as Comparison Market*

In order to determine whether there is a sufficient volume of sales in the home market to serve as a viable basis for calculating normal value (*i.e.*, the aggregate volume of home market sales of the foreign like product is five percent or more of the aggregate volume of U.S. sales), we compared the volume of Deacero's home market sales of the foreign like product to the volume of its U.S. sales of subject merchandise, in accordance with section 773(a)(1)(C) of the Act. Based on this comparison, we determined that Deacero had a viable home market during the POR. Consequently, we based normal value on home market sales to unaffiliated purchasers made in the usual quantities in the ordinary course of trade and sales made to affiliated purchasers where we find prices were made at arm's length, described in detail below.

B. *Level of Trade*

To the extent practicable, we determined normal value for sales at the same level of trade as the U.S. sales. When there were no sales at the same level of trade, we compared U.S. sales to home market sales at a different level of trade. The normal value level of trade is that of the starting price sales in the home market. For CEP, the level of trade is that of the constructed sale from the exporter to the affiliated importer. To determine whether home market sales are at a different level of trade than U.S. sales, we examined stages in the marketing process and selling functions along the chain of distribution between the producer and the unaffiliated customer.

In the home market, Deacero reported two channels of distribution. Within these channels of distribution, Deacero reported a single level of trade for all four customer types (*i.e.*, retailers, distributors, traders, and end-users). After analyzing the data on the record with respect to the selling functions performed for each customer type, we find that Deacero made all home market sales at a single marketing stage (*i.e.*, one level of trade) in the home market.¹²

In the U.S. market, Deacero had only CEP sales through its affiliated reseller¹³ and, thus, a single level of trade.¹⁴

We found that there were significant differences between the selling activities associated with the

¹² See Deacero's initial section A questionnaire response (IAQR) dated January 19, 2012, at A-15, A-16, A-21; and 2nd supplemental questionnaire response (2SQR) at Exhibit 8.

¹³ See IBCQR at C-1.

¹⁴ See section 772(b) of the Act.

CEP level of trade and those associated with the home market level of trade. For example, the CEP level of trade involved little or no strategic and economic planning, personnel training, distributor/dealer training, procurement/sourcing service, packing, order input/processing and freight/delivery services.¹⁵ Therefore, we have concluded that CEP sales constitute a different level of trade from the level of trade in the home market and that the home market level of trade is at a more advanced stage of distribution than the CEP level of trade.

We were unable to match CEP sales at the same level of trade in the home market or to make a level-of-trade adjustment because the differences in price between the CEP level of trade and the home market level of trade cannot be quantified due to the lack of an equivalent CEP level of trade in the home market. Also, there are no other data on the record which would allow us to make a level-of-trade adjustment. Because the data available does not provide an appropriate basis on which to determine a level-of-trade adjustment and the home market level of trade is at a more advanced stage of distribution than the CEP, we made a CEP-offset adjustment to normal value in accordance with section 773(a)(7)(B) of the Act and 19 CFR 351.412(f). The CEP offset was the sum of indirect selling expenses incurred on home market sales up to the amount of indirect selling expenses incurred on the U.S. sales. *See* Preliminary Analysis Memorandum.¹⁶

C. *Calculation of Normal Value Based on Comparison Market Prices*

We based normal value on the starting prices to home market customers. Pursuant to section 773(a)(6)(B)(ii) of the Act, we deducted inland freight expenses Deacero incurred on its home market sales. We made adjustments for differences in domestic and export packing expenses in accordance with sections 773(a)(6)(A) and 773(a)(6)(B)(i) of the Act. We made deductions for direct selling expenses, as appropriate. *See* Preliminary Analysis Memorandum.

Affiliated Respondents

Under section 771(33)(E) of the Act, if one party owns, directly or indirectly, five percent or more of another party, such parties are considered to be affiliated for purposes of the AD law. Furthermore, pursuant to 19 CFR 351.403, the Department may require a respondent to report the downstream sales of its affiliated customer to the first unaffiliated customer if: (1) The respondent's sales to all affiliated customers account for five percent or more of the respondent's total sales of foreign-like product in the comparison market, and (2) those sales to the affiliated customer are determined to have not been made at arm's-length.

During the POR, Deacero sold the foreign like product to an affiliated company in Mexico, Aceros Nacionales, S.A. d C.V. (ANSA). In its IBCQR at B-2, Deacero stated that since its sales to ANSA surpassed five percent of domestic market sales during the POR and the affiliate did not consume the foreign like product, it was reporting sales by the affiliated company to unaffiliated customers in Mexico. For the preliminary results of review, we have calculated NV based on downstream sales by ANSA.

¹⁵ *See* IAQR at A-16 and A-17; 2SQR at Exhibit 8.

¹⁶ *See* Memorandum to the File through Eric Greynolds from Patricia M. Tran, "Analysis Memorandum: Antidumping Duty Administrative Review; Carbon and Certain Alloy Steel Wire Rod from Mexico," (Preliminary Analysis Memorandum) dated concurrently with these preliminary results.

Cost of Production Analysis

With respect to Deacero, the Department initiated a sales-below-cost-of-production investigation based on petitioner's sales-below-cost-of-production allegation.¹⁷ Therefore, we requested Deacero provide cost information in response to section D of the Department's AD questionnaire.

A. *Calculation of COP*

In accordance with section 773(b)(3) of the Act, we calculated a weighted-average COP by model based on the sum of the cost of materials and fabrication for the foreign like product, plus amounts for general and administrative expenses (G&A). We relied on the COP information provided by Deacero in its most recently submitted cost database except in the following instances: 1) we made an adjustment to the reported scrap cost based on our analysis of the scrap transactions between Deacero and its affiliate under section 773(f)(2) of the Act. Thus, we based our adjustment to scrap costs on an analysis of the transfer price from the affiliate compared to the market price; and, 2) we disallowed a claimed offset to the financial expense rate for a certain type of interest income. For further details regarding these adjustments for Deacero, *see* Preliminary Cost Memorandum.¹⁸ Based on the review of record evidence, Deacero did not appear to experience significant changes in cost of materials (COM) during the POR. Therefore, we followed our normal methodology of calculating a weighted-average cost for the POR.

B. *Test of Comparison Market Prices and COP*

As required under section 773(b)(2) of the Act, we compared the weighted-average COP for the respondents to their comparison market sales prices of the foreign like product, as required under section 773(b) of the Act, to determine whether these sales had been made at prices below the COP within an extended period of time (*i.e.*, normally a period of one year) in substantial quantities and whether such prices were sufficient to permit the recovery of all costs within a reasonable period of time. On a model-specific basis, we compared the COP to the comparison market prices, less any applicable movement charges, discounts, rebates, and direct and indirect selling expenses.

C. *Results of COP Test*

The Act directs us to disregard below-cost sales where: (1) 20 percent or more of the respondent's sales of a given product during the POR were made at prices below the COP in accordance with sections 773(b)(2)(B) and (C) of the Act; and (2) based on comparisons of prices to weighted-average COPs for the POR, below-cost sales of the product were at prices that would not permit recovery of all costs within a reasonable time period, in accordance with section 773(b)(2)(D) of the Act.

¹⁷ See Memorandum to Melissa Skinner, "Petitioner's Allegation of Sales Below the Cost of Production for Deacero S.A. de C.V. and Deacero USA, Inc." dated May 8, 2012 (Cost Initiation Memo).

¹⁸ See Memorandum to Neal Halper, Director, Office of Accounting from Gina Lee, Case Accountant, Antidumping Duty Administrative Review of Carbon and Certain Alloy Steel Wire Rod from Mexico, Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Deacero S.A. de C.V. and Deacero USA, Inc. (Preliminary Cost Memorandum) dated concurrently with these preliminary results.

As discussed in further detail in the preliminary calculation memoranda, we found that Deacero made sales below cost and we disregarded such sales where appropriate. See Preliminary Analysis Memorandum.

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.

Conclusion

We recommend applying the above methodology for these preliminary results.

✓
Agree

Disagree

Paul Piquado
Paul Piquado
Assistant Secretary
for Import Administration

1 NOVEMBER 2012
(Date)