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August 30, 2013

MEMORANDUM TO: Paul Piquado
Assistant Secretary
for Import Administration

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

RE: Decision Memorandum for the Preliminary Results of Antidumping Duty Administrative Review: Light-Walled Rectangular Pipe and Tube from Mexico, 2011-2012

SUMMARY

In response to requests from interested parties, the Department of Commerce (Department) is conducting an administrative review of the antidumping duty order on light-walled rectangular pipe and tube (LWR pipe and tube) from Mexico for the period of review of August 1, 2011, through July 31, 2012. We preliminarily determine that Regiomontana de Perfiles y Tubos S.A. de C.V. (Regiopytsa) made U.S. sales at prices below normal value. We also determine that Maquilacero S.A. de C.V. (Maquilacero) did not make sales at prices below normal value. For Nacional de Acero S.A. de C.V. (NASA), we are rescinding this administrative review.

If these preliminary results are adopted in our final results of review, we will instruct U.S. Customs and Border Protection (CBP) to assess antidumping duties on all appropriate entries of subject merchandise during the period of review. Interested parties are invited to comment on these preliminary results. We will issue final results no later than 120 days from the date of publication of this notice, pursuant to section 751(a)(3)(A) of the Tariff Act of 1930, as amended (the Act).

BACKGROUND

On August 1, 2012, we issued a notice of opportunity to request an administrative review of this order for the period of review.[1] On August 31, 2012, we received timely requests for an

[1] *See Antidumping or Countervailing Duty Order, Finding, or Suspended Investigation; Opportunity To Request Administrative Review*, 77 FR 45580 (August 1, 2012).

administrative review of this antidumping duty order from Regiopytsa, Maquilacero, and NASA. On September 26, 2012, we published in the *Federal Register* a notice of initiation of the administrative review of the antidumping duty order on LWR pipe and tube from Mexico covering three respondents: Regiopytsa, Maquilacero, and NASA.[2]

On October 31, 2012, the Department exercised its discretion to toll deadlines for the duration of the closure of the Federal Government from October 29 through October 30, 2012.[3] Further, on April 25, 2013, in accordance with section 751(a)(3)(A) of the Act, we extended the time period for issuing these preliminary results of the administrative review by 120 days (*i.e.*, until September 3, 2013).[4]

SCOPE OF THE ORDER

The merchandise subject to the order is certain welded carbon-quality light-walled steel pipe and tube, of rectangular (including square) cross section, having a wall thickness of less than 4 mm.

The term carbon-quality steel includes both carbon steel and alloy steel which contains only small amounts of alloying elements. Specifically, the term carbon-quality includes products in which none of the elements listed below exceeds the quantity by weight respectively indicated: 1.80 percent of manganese, or 2.25 percent of silicon, or 1.00 percent of copper, or 0.50 percent of aluminum, or 1.25 percent of chromium, or 0.30 percent of cobalt, or 0.40 percent of lead, or 1.25 percent of nickel, or 0.30 percent of tungsten, or 0.10 percent of molybdenum, or 0.10 percent of niobium, or 0.15 percent vanadium, or 0.15 percent of zirconium. The description of carbon-quality is intended to identify carbon-quality products within the scope. The welded carbon-quality rectangular pipe and tube subject to the order is currently classified under the Harmonized Tariff Schedule of the United States (HTSUS) subheadings 7306.61.50.00 and 7306.61.70.60.

While HTSUS subheadings are provided for convenience and CBP purposes, the written description of the scope of the order is dispositive.

[2] *See Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part*, 77 FR 59168 (September 26, 2012).
[3] *See* Memorandum to the Record from Paul Piquado, Assistant Secretary for Import Administration, regarding "Tolling of Administrative Deadlines As a Result of the Government Closure During Hurricane Sandy," dated October 31, 2012.
[4] *See* Memorandum to Christian Marsh, Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations, dated April 25, 2013, entitled "Light-Walled Rectangular Pipe and Tube from Mexico: Extension of Deadline for Preliminary Results of 2011/2012 Antidumping Duty Administrative Review."

DISCUSSION OF METHODOLOGY

Partial Rescission of Administrative Review

On November 1, 2012, NASA timely filed a withdrawal of its request for a review of its sales. Consequently, in accordance with 19 CFR 351.213(d)(l), as NASA was the only party to request a review of its entries, we are rescinding the review with respect to NASA in conjunction with these preliminary results.

Comparisons to Normal Value

Pursuant to section 773(a)(1)(B) of the Act and 19 CFR 351.414(c)(1) and (d), we compared exported price (EP) to normal value, as described in the "Export Price" and "Normal Value" sections of this decision memorandum, to determine whether sales of subject merchandise to the United States were made at less than normal value.

Product Comparisons

In accordance with section 771(16) of the Act, we considered all products produced by respondents that are covered by the description contained in the "Scope of the Order" section above, and were sold in the home market during the period of review, to be the foreign like product for purposes of determining appropriate product comparisons to U.S. sales. Where there were no sales of identical merchandise in the home market to compare to U.S. sales, we compared the prices of U.S. sales to the prices of the most similar foreign like product on the basis of the following physical characteristics: (1) steel type, (2) metallic coating, (3) whether painted, (4) perimeter, (5) wall thickness, and (6) shape.[5]

A. Determination of Comparison Method

Pursuant to 19 CFR 351.414(c)(1), we calculate dumping margins by comparing weighted-average normal values to weighted-average EPs or constructed export prices (CEPs) (the average-to-average (A-to-A) method) unless we determine that another method is appropriate in a particular situation. In antidumping investigations, we examine whether to use the average-to-transaction (A-to-T) method as an alternative comparison method using an analysis consistent with section 777A(d)(l)(B) of the Act. Although section 777A(d)(1)(B) of the Act does not strictly govern our examination of this question in the context of administrative reviews, we nevertheless find that the issue arising under 19 CFR 351.414(c)(1) in administrative reviews is, in fact, analogous to the issue in antidumping investigations.[6] In recent investigations, we applied a "differential pricing" (DP) analysis for determining whether application of A-to-T comparisons is appropriate pursuant to 19 CFR 351.414(c)(1) and consistent with section

[5] *See* Department letters to Regiopytsa and Maquilacero regarding the antidumping duty questionnaire, dated October 11, 2012.
[6] *See Ball Bearings and Parts Thereof From France, Germany, and Italy: Final Results of Antidumping Duty Administrative Reviews; 2010-2011,* 77 FR 73415 (December 10, 2012), and accompanying Issues and Decision Memorandum at Comment 1.

777A(d)(1)(B) of the Act.[7] The Department finds the DP analysis used in these and other recent proceedings may be instructive for purposes of examining whether to apply an alternative comparison method in this administrative review.[8] We intend to continue to develop our approach in this area based on comments received in this and other proceedings, and on our additional experience with addressing the potential masking of dumping that can occur when we use the A-to-A method in calculating weighted-average dumping margins.

The DP analysis used in these preliminary results requires a finding of a pattern of EPs (or CEPs) for comparable merchandise that differs significantly among purchasers, regions, or time periods. If such a pattern is found, then the DP analysis evaluates whether such differences can be taken into account when using the A-to-A method to calculate the weighted-average dumping margin. The DP analysis used here evaluates all purchasers, regions, and time periods to determine whether a pattern of prices that differ significantly exists. The analysis incorporates default group definitions for purchasers, regions, time periods, and comparable merchandise. Purchasers are based on the reported consolidated customer codes for Maquilacero and the reported customer code for Regiopysta. Regions are defined using the reported destination code (*i.e.*, zip codes) and are grouped into regions based upon standard definitions published by the U.S. Census Bureau. Time periods are defined by the quarter within the period of review being examined based upon the reported date of sale. For purposes of analyzing sales transactions by purchaser, region, and time period, comparable merchandise is considered using the product control number and any characteristics of the sales, other than purchaser, region and time period, that the Department uses in making comparisons between EP (or CEP) and normal value for the individual dumping margins.

In the first stage of the DP analysis used here, the "Cohen's *d* test" is applied. The Cohen's *d* test is a generally recognized statistical measure of the extent of the difference between the mean of a test group and the mean of a comparison group. First, for comparable merchandise, the Cohen's *d* test is applied when the test and comparison groups of data each have at least two observations, and when the sales quantity for the comparison group accounts for at least five percent of the total sales quantity of the comparable merchandise. Then, the Cohen's *d* coefficient is calculated to evaluate the extent to which the net prices to a particular purchaser, region or time period differ significantly from the net prices of all other sales of comparable

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[7] *See* Memoranda to Paul Piquado, Assistant Secretary for Import Administration, from Abdelali Elouaradia, Director of AD/CVD Operations Office 4, entitled "Less Than Fair Value Investigation of Xanthan Gum from Austria: Post-Preliminary Analysis and Calculation Memorandum," "Less than Fair Value Investigation of Xanthan Gum from the People's Republic of China: Post-Preliminary Analysis and Calculation Memorandum for Neimenggu Fufeng Biotechnologies Co., Ltd, (aka Inner Mongolia Fufeng Biotechnologies Co., Ltd) and Shandong Fufeng Fermentation Co., Ltd, " and "Less than Fair Value Investigation of Xanthan Gum from the People's Republic of China: Post-Preliminary Analysis and Calculation Memorandum for Deosen Biochemical Ltd," all dated March 4, 2013.

[8] As noted above, the DP analysis has been utilized in recent investigations and several recent antidumping duty administrative reviews to determine the appropriate comparison methodology. *See, e.g., Certain Steel Threaded Rod From the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 21101 (April 9, 2013); *Circular Welded Carbon Steel Pipes and Tubes From Thailand: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 21105 (April 9, 2013); *Polyvinyl Alcohol From Taiwan: Preliminary Results of Antidumping Duty Administrative Review; 2010-2012*, 78 FR 20890 (April 8, 2013); and *Polyester Staple Fiber from Taiwan: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 17637 (March 22, 2013).

merchandise. The extent of these differences can be quantified by one of three fixed thresholds defined by the Cohen's *d* test: small, medium or large. Of these thresholds, the large threshold (*i.e.*, 0.8) provides the strongest indication that there is a significant difference between the means of the test and comparison groups, while the small threshold provides the weakest indication that such a difference exists. For this analysis, the difference was considered significant if the calculated Cohen's *d* coefficient is equal to or exceeds the large threshold.

Next, the "ratio test" assesses the extent of the significant price differences for all sales as measured by the Cohen's *d* test. If the value of sales to purchasers, regions, and time periods that passes the Cohen's d test accounts for 66 percent or more of the value of total sales, then the identified pattern of EPs or CEPs that differ significantly supports the consideration of the application of the A-to-T method to all sales as an alternative to the A-to-A method. If the value of sales to purchasers, regions, and time periods that pass the Cohen's *d* test accounts for more than 33 percent and less than 66 percent of the value of total sales, then the results support consideration of the application of an A-to-T method to those sales identified as passing the Cohen's *d* test as an alternative to the A-to-A method, and application of the A-to-A method to those sales identified as not passing the Cohen's *d* test. If 33 percent or less of the value of total sales passes the Cohen's *d* test, then the results of the Cohen's *d* test do not support consideration of an alternative to the A-to-A method.

If both tests in the first stage (*i.e.*, the Cohen's *d* test and the ratio test) demonstrate the existence of a pattern of EPs or CEPs that differ significantly such that an alternative comparison method should be considered, then in the second stage of the DP analysis, we examine whether using only the A-to-A method can appropriately account for such differences. In considering this question, we test whether using an alternative method, based on the results of the Cohen's *d* and ratio tests, described above, yields a meaningful difference in the weighted-average dumping margin as compared to that resulting from the use of the A-to-A method only. If the difference between the two calculations is meaningful, then this demonstrates that the A-to-A method cannot account for differences such as those observed in this analysis and, therefore, an alternative method would be appropriate. A difference in the weighted-average dumping margins is considered meaningful if: (1) there is a 25 percent relative change in the weighted-average dumping margin between the A-to-A method and the appropriate alternative method where both rates are above the *de minimis* threshold, or (2) the resulting weighted-average dumping margin moves across the *de minimis* threshold.

Interested parties may present arguments in relation to the above-described DP approach used in these preliminary results, including arguments for modifying the group definitions used in this proceeding.

B. Results of the DP Analysis

For Regiopytsa, based on the results of the DP analysis, the Department finds that 69.03 percent of Regiopysta's EPs pass the Cohen's *d* test, and confirms the existence of a pattern of EPs or CEPs for comparable merchandise that differ significantly among purchasers, regions, or time periods. Further, the Department determines that the A-to-A method cannot appropriately account for such differences because the resulting weighted-average dumping margins move across the *de minimis* threshold when calculated using the A-to-A method and an alternative method based on the A-to-T method applied to all U.S. sales. Accordingly, the Department has determined to use the A-to-T method for all U.S. sales to calculate the weighted-average dumping margin for Regiopytsa.

For Maquilacero, we find that 41.17 percent of its EP sales pass the Cohen's *d* test, and confirm the existence of a pattern of EPs or CEPs for comparable merchandise that differ significantly among purchasers, regions, or time periods. Further, the Department determines that the A-to-A method can appropriately account for such differences because there is not a meaningful difference in the weighted-average dumping margins when calculated using the A-to-A method and an alternative method based on the A-to-T method applied to the U.S. sales which pass the Cohen's *d* test. Accordingly, the Department has determined to use the A-to-A method for all U.S. sales to calculate the weighted-average dumping margin for Maquilacero.

Export Price

Section 772(a) of the Act defines EP as "the price at which the subject merchandise is first sold (or agreed to be sold) before the date of importation by the producer or exporter of subject merchandise outside of the United States to an unaffiliated purchaser in the United States or to an unaffiliated purchaser for exportation to the United States, as adjusted under subsection (c)."

For purposes of these preliminary results, we calculated the U.S. price as the EP price for Regiopytsa and Maquilacero in accordance with section 772(a) of the Act, because the merchandise was sold, prior to importation by the producer, outside of the United States to the first unaffiliated purchaser in the United States. For each company, we calculated EP based on the packed price that was charged to the first unaffiliated U.S. customer. We applied billing adjustments as reported. We made deductions for movement expenses, where appropriate, in accordance with section 772(c)(2)(A) of the Act, including deductions for foreign inland freight (plant/warehouse to the border), U.S. inland freight (border to the unaffiliated customer), country of manufacture inland insurance, and brokerage and handling. As discussed in the "Normal Value" section, below, we also made circumstances-of-sale adjustments, where appropriate, for imputed credit, and certain direct selling expenses (including commissions).

As stated at 19 CFR 351.401(i), we will use the respondent's invoice date, as recorded in the exporter's or producer's records kept in the ordinary course of business, as the date of sale unless another date better reflects the date upon which the exporter or producer established the material terms of sale. For Regiopytsa and Maquilacero, we found that the invoice date best reflected the date on which material terms of sale were established with certain exceptions. Regiopytsa reported that it had some home-market sales for which the invoice and shipment dates did not coincide. Based on our analysis of the factual circumstances of these sales, we found that the material terms of sale were, in fact, subject to change up until the time the merchandise was released for shipment. Thus, for these preliminary results, we determined that the most appropriate date of sale for these sales was the date of shipment, as discussed in the "Date of Sale" section of Regiopytsa's Preliminary Analysis Memorandum.[9]

Normal Value

A. Home Market Viability

To determine if there was a sufficient volume of sales of LWR pipe and tube in the home market during the period of review to serve as a viable basis for calculating normal value, we compared Regiopytsa and Maquilacero's quantity of home-market sales of the foreign like product to the quantity of each company's respective U.S. sales of the subject merchandise, in accordance with section 773(a) of the Act. Because both Regiopytsa and Maquilacero's aggregate quantity of home market sales of the foreign like product was greater than five percent of their aggregate quantity of U.S. sales for subject merchandise, we determined that the home market was viable for comparison purposes for both companies, pursuant to section 773(a)(1)(B) of the Act. Moreover, there is no evidence on the record supporting a particular market situation in the exporting companies' country that would not permit a proper comparison of home market and U.S. prices.

B. Level of Trade

Section 773(a)(1)(B)(i) of the Act states that, to the extent practicable, the Department will calculate normal value based on sales at the same level of trade (LOT) as the EP or CEP. Sales are made at different LOTs if they are made at different marketing stages (or their equivalent).[10] Substantial differences in selling activities are a necessary, but not sufficient, condition for determining that there is a difference in the stages of marketing.[11] In order to determine whether the comparison sales were at different stages in the marketing process than the U.S. sales, we reviewed the distribution system in each market (*i.e.*, the chain of distribution), including selling functions, class of customer (customer category), and the level of selling expenses for each type of sale.

Pursuant to 19 CFR 351.412(c)(1), in identifying LOTs for EP and comparison-market sales (*i.e.*, normal value based on either home market or third-country prices), we consider the starting prices before any adjustments. For CEP sales, we consider only the selling activities reflected in the price after the deduction of expenses and CEP profit under section 772(d) of the Act.[12] Where normal value is based on CV, we determine the normal value LOT based on the LOT of

[9] For a more detailed discussion of this analysis, *see* the "Date of Sale" section in the Memorandum to the File, "Regiomontana de Perfiles y Tubos S.A. de C.V. – Analysis Memorandum for the Preliminary Results of the 2011/2012 Administrative Review of the Antidumping Duty Order on Light-Walled Rectangular Pipe and Tube from Mexico," dated concurrently with this memorandum (Regiopytsa's Preliminary Analysis Memorandum).
[10] *See* 19 CFR 351.412(c)(2).
[11] *See 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) (*Plate from South Africa*).
[12] *See Micron Technology Inc. v. United States*, 243 F.3d 1301, 1314-1315 (Fed. Cir. 2001).

the sales from which we derive selling, general, and administrative (SG&A) expenses, and profit for CV, where possible.

When the Department is unable to match U.S. sales of the foreign like product in the comparison market at the same LOT as the EP or CEP, the Department may compare the U.S. sales to sales at a different LOT in the comparison-market. In comparing EP or CEP sales at a different LOT in the comparison-market, where available data make it practicable, we make a LOT adjustment under section 773(a)(7)(A) of the Act. Finally, for CEP sales only, if the normal value LOT is at a more advanced stage of distribution than the LOT of the CEP and there is no basis for determining whether the difference in LOTs between normal value and CEP affects price comparability (*i.e.*, no LOT adjustment was practicable), the Department shall grant a CEP offset, as provided in section 773(a)(7)(B) of the Act.[13] In this review, both Maquilacero and Regiopytsa reported only EP sales to the United States.

With regard to Regiopytsa, in its questionnaire responses, Regiopytsa reported one channel of distribution for its home-market sales made to two types of customers: (1) distributors and (2) end-users. For all sales made through its affiliated reseller in the home market, Regiopytsa reported that the merchandise was resold to unaffiliated customers. Regiopytsa reported a single LOT in its home market sales database. Based on our analysis of Regiopytsa's home market selling functions, we preliminary found that the selling functions for the reported channel of distribution constituted one LOT in the home market, or the normal value LOT.[14]

In the U.S. market, Regiopytsa reported one LOT for which there was one channel of distribution to two types of customers (*i.e.*, distributors and steel service centers). Based on our analysis of Regiopytsa's U.S. market selling functions, we preliminary found that the selling functions for the reported channel of distribution constituted one LOT in the U.S. market, or the EP LOT.[15]

Next, we compared the selling functions associated with the sales at the normal value LOT to those associated with the EP LOT and, based on our analysis of record evidence, we found that the degree and number of selling functions provided by Regiopytsa for its customers in the home market was greater than the degree to which it provided some of those selling functions to U.S. customers. However, we were unable to calculate a LOT adjustment because we found only one LOT in Regiopytsa's home market and there is no other record evidence on which to base an adjustment. Therefore, for these preliminary results, we matched the EP sales to home market sales without making a LOT adjustment to the normal value.[16]

With regard to Maquilacero, in its questionnaire responses, Maquilacero describes that it sold subject merchandise in the home market via two channels of distribution: (1) direct sales made by Maquilacero and (2) indirect sales made by its affiliated reseller to the first unaffiliated customer. Based on our review of evidence on the record, we find that the home market sales to all customer categories through the two channels of distribution were similar with respect to

[13] *See Plate from South Africa*, 62 FR at 61732-33.
[14] For a more detailed discussion of this analysis, *see* the "Level of Trade" section in the Regiopytsa's Preliminary Analysis Memorandum.
[15] *Id*.
[16] *Id*.

selling functions and stages of marketing. We recognize that small differences in the degree of selling functions exist between the two channels; however, we find that these differences are not so significant that they would constitute a distinction in the performance of selling activities or have an effect on price comparability. Therefore, we preliminarily conclude that the selling functions for the reported channels of distribution constitute one LOT in the home market.[17]

Maquilacero made EP sales to unaffiliated customers in the United States and reported that all of its U.S. sales were made through one channel of distribution. These sales are either made directly or with the assistance of a commissioned agent. For EP sales, we examined the selling activities related to each of the selling functions between Maquilacero and its U.S. customers. Based on our analysis of these selling activities, we preliminary determine that Maquilacero's U.S. sales constitute a single LOT.[18]

We then compared the selling functions performed for the sales at the normal value LOT to those performed for sales at the EP LOT. Based on this analysis, we preliminarily determine that the starting price of Maquilacero's home market sales and its EP sales represented different stages in the marketing process and were thus at different LOTs. However, because Maquilacero sold at only one LOT in the home market, there is no basis on which to determine if there was a pattern of consistent price differences between two LOTs in that market. Furthermore, there is no other record evidence on which to base a LOT adjustment. Therefore, although the normal value LOT differed from the export-price LOT, we are unable to make a LOT adjustment to the normal value for Maquilacero.[19]

C. Sales to Affiliated Customers

We exclude home market sales to affiliated customers that are not made at arm's-length prices from our margin analysis because we consider them to be outside the ordinary course of trade.[20] Consistent with 19 CFR 351.403(c) and (d) and our practice, "the Department may calculate normal value based on sales to affiliates if satisfied that the transactions were made at arm's length."[21] To test if sales to affiliates were made at arm's-length prices, we compare, on a model-specific basis, the starting prices of sales to affiliated and unaffiliated customers, net of all direct selling expenses, billing adjustments, discounts, rebates, movement charges, and packing. Where prices to the affiliated party are, on average, within a range of 98-to-102 percent of the price of identical or comparable merchandise to the unaffiliated parties, we determine that the sales made to the affiliated party are at arm's length.[22]

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[17] For a more detailed discussion of this analysis, *see* the "Level of Trade" section in the Memorandum to the File, "Analysis of Data Submitted by Maquilacero S.A. de C.V. for the Preliminary Results of the Antidumping Duty Administrative Review of Light-Walled Rectangular Pipe and Tube from Mexico," dated concurrently with this memorandum (Maquilacero Preliminary Analysis Memorandum).
[18] *Id*.
[19] *Id*.
[20] *See* 19 CFR 351.403(c).
[21] *See China Steel Corp. v. United States*, 264 F. Supp. 2d 1339, 1365 (CIT 2003).
[22] *See Antidumping Proceedings: Affiliated Party Sales in the Ordinary Course of Trade*, 67 FR 69186, 69194 (November 15, 2002).

With regard to Regiopytsa, we preliminarily find that the sales Regiopytsa made to its affiliated customers during the period of review passed the arm's-length test. Accordingly, we have included them in our preliminary margin analysis.

With regard to Maquilacero, we preliminarily find that certain of the sales Maquilacero made to its affiliated customers during the period of review failed the arm's-length test. Accordingly, we have excluded these certain sales from our preliminary margin analysis.[23]

D. Cost of Production

Both respondents have had home market sales disregarded in prior reviews on the basis that they had sales priced below the cost of production (COP), which were made within an extended period of time, in substantial quantities, and at prices which did not permit the recovery of all costs within a reasonable period of time. Thus, pursuant to section 773(b)(2)(A)(ii) of the Act, there were reasonable grounds in the current review to believe or suspect that Regiopytsa and Maquilacero had made sales of the foreign like product at prices below the COP.

Based on a review of the cost information provided, neither company appeared to experience significant changes in its cost of manufacturing (COM) throughout the period of review. Thus, we followed our normal methodology of calculating a review-period, weighted average cost for each product. We relied on the COP information provided by Regiopytsa and Maquilacero except in certain instances.[24]

On a product-specific basis, we compared the adjusted, weighted-average COP figures to the prices of home market sales of the foreign like product in order to determine if these sales were made at prices below the COP. The prices were exclusive of any applicable movement charges, packing expenses, warranty expenses, or indirect selling expenses. In determining whether to disregard home market sales made at prices below their COP, we examined if such sales were made within an extended period of time, in substantial quantities, and at prices which permitted the recovery of all costs within a reasonable period of time.

We found that, for certain products for Maquilacero and Regiopytsa, more than 20 percent of the home market sales were made at prices below the COP and that these below-cost sales were made within an extended period of time and in substantial quantities. In addition, the sales were made at prices that did not permit the recovery of costs within a reasonable period of time. Thus, for both Regiopytsa and Maquilacero, in accordance with section 773(b)(1) of the Act, we disregarded these below-cost sales, and used only the remaining sales of the same product as the basis for determining normal value.

[23] For a more detailed discussion of this analysis, *see* the "Arm's-Length Test" section of the Maquilacero Preliminary Analysis Memorandum.

[24] *See* Memorandum to Neal M. Halper from Sheikh M. Hannan titled "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Maquilacero S.A. de C.V.," dated concurrently with this memorandum (Maquilacero Preliminary Cost Calculation Memorandum), for information regarding changes to Maquilacero's reported COP data. We note that for purposes of these preliminary results, we made no changes to Regiopytsa's reported COP data.

E. Calculation of Normal Value Based on Comparison Market Prices

We calculated the weighted-average normal value based on prices to unaffiliated customers and those to affiliated customers that passed the arm's-length test.[25] We also based normal value on home market sales that passed the cost test. In our calculation of normal value, we accounted for billing adjustments, discounts, and rebates, where appropriate. We also made deductions, where applicable, for inland freight, insurance, and handling, pursuant to section 773(a)(6)(B) of the Act. We also made adjustments for differences in circumstances of sale, in accordance with section 773(a)(6)(C)(iii) of the Act. In particular, we made circumstances-of-sale adjustments for home-market direct selling expenses, such as imputed credit expenses and warranty expenses, and certain U.S. direct selling expenses, including commissions and warranty expenses. For Maquilacero, we calculated home-market and U.S. warranty expenses based on a three-year history of such expenses.[26] For Regiopytsa, we calculated U.S. warranty expenses based on a three-year history of such expenses but, because the company does not track warranty expenses in its normal course of business, it was unable to provide a history of these expenses for its home market. Regiopytsa did include refunds granted for merchandise in its reported home market billing adjustments. Finally, we deducted home market packing costs and added U.S. packing costs in accordance with sections 773(a)(6)(A) and (B) of the Act.[27]

Currency Conversion

We made currency conversions into U.S. dollars in accordance with section 773A(a) 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. The exchange rates are available on the Import Administration website at http://ia.ita.doc.gov/exchange/index.html.

[25] We excluded home market sales of non-prime merchandise, for which neither Maquilacero nor Regiopytsa could provide complete product characteristic information and which both companies reported to be heavily discounted lot sales (*i.e.*, sales of assorted merchandise), from our margin calculation analysis. For a more detailed discussion of these sales, *see* the "Normal Value" section of Maquilacero's Preliminary Analysis Memorandum and Regiopytsa's Preliminary Analysis Memorandum.

[26] *See* the "General Issues" section of Maquilacero's Preliminary Analysis Memorandum.

[27] For more detailed information on the calculation of normal value, *see* the "Normal Value" section of Maquilacero's Preliminary Analysis Memo and Regiopytsa's Preliminary Analysis Memoorandum.

RECOMMENDATION

We recommend applying the above methodology for these preliminary results.

Agree ✓ Disagree ______

Paul Piquado
Assistant Secretary
for Import Administration

30 AUGUST 2013
Date