



A-201-830

AR: 10/01/2012 – 9/30/2013

PUBLIC DOCUMENT

Office 3: JSC

MEMORANDUM TO: Ronald K. Lorentzen
Acting Assistant Secretary
for Enforcement and Compliance

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

SUBJECT: Decision Memorandum for Preliminary Results of 2012/13
Antidumping Duty Administrative Review: Carbon and Certain
Alloy Steel Wire Rod from Mexico

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 (wire rod) from Mexico. This 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, 2012, through September 30, 2013. We preliminary find that during the POR, Deacero made sales of subject merchandise at less than normal value (NV).

BACKGROUND

Pursuant to section 751(a)(1) of the Tariff Act of 1930, as amended (the Act), and 19 CFR 351.213(b), Deacero requested an administrative review of the antidumping (AD) duty order (Order) on wire rod from Mexico on October 31, 2013.¹ On December 3, 2013, in accordance with 19 CFR 351.221(c)(1)(i), we published a notice of initiation of administrative review of the AD duty order on wire rod from Mexico.² On June 2, 2014, we extended the deadline for the preliminary results by 120 days, to October 31, 2014.³

¹ See Deacero's letter to the Department, dated October 31, 2013, at 1.

² See *Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part*, 78 FR 72630 (December 3, 2013).

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 2, 2014.



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 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 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. This 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 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 to be within the scope of the AD duty order on wire rod from Mexico.

Deacero reported two types of U.S. 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, for further manufactured merchandise, during the POR, Mid Continent Steel & Wire, Inc., (Mid Continent) sold steel nails made with Deacero wire rod. Mid Continent purchased the wire rod from Deacero USA, which imported the wire rod from Deacero. During the POR, Mid Continent also sold steel nails made with domestic wire rod.

For the universe of sales used for the calculation of Deacero's weighted-average dumping margin, the Department included Channel 1 and Channel 2 sales of merchandise entered on July 1, 2012, through November 30, 2013.

Fair Value Comparisons

Pursuant to section 773(a) of the Act and 19 CFR 351.414(c)(1) and (d), we compared constructed export price (CEP) to normal value (NV), as described in the "U.S. 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 NV.

A. Determination of Comparison Method

Pursuant to 19 CFR 351.414(c)(1), the Department calculates dumping margins by comparing weighted-average NVs to weighted-average export prices (EP) or CEPs (the average-to-average or A-to-A method), unless the Secretary determines that another method is appropriate in a particular situation. In AD investigations, the Department examines whether to compare weighted-average NVs to transaction-specific EPs or CEPs (the average-to-transaction or A-to-T method) as an alternative comparison method using an analysis consistent with section 777A(d)(1)(B) of the Act. Although section 777A(d)(1)(B) of the Act does not strictly govern the Department's examination of this question in the context of administrative reviews, the Department nevertheless finds that the issue arising under 19 CFR 351.414(c)(1) in administrative reviews is, in fact, analogous to the issue in AD investigations.⁵ In recent investigations, the Department applied a "differential pricing" (DP) analysis for determining whether application of the A-to-T method is appropriate pursuant to 19 CFR 351.414(c)(1) and

⁵ See *Ball Bearings and Parts Thereof from France, Germany, and Italy: Final Results of Antidumping Duty Administrative Review; 2010-2011*, 77 FR 73415 (December 10, 2012), and accompanying Issues and Decision Memorandum at Comment 1.

consistent with section 777A(d)(1)(B) of the Act.⁶ The Department finds that the DP analysis used in these preliminary results and other recent proceedings may be instructive for purposes of examining whether to apply an alternative comparison method in this administrative review.⁷ The Department intends to continue to develop its approach in this area based on comments received in this and other proceedings, and on the Department's additional experience with addressing the potential masking of dumping that can occur when the Department uses 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. For Deacero, the purchasers are based on the reported consolidated customer codes. Regions are defined using the reported DESTU information (*i.e.*, zip codes), which are grouped into regions based upon standard definitions published by the U.S. Census Bureau. Time periods are defined by the quarter within the POR being examined based upon the reported date of sale. For purposes of analyzing sales transactions by purchaser, region, and time period, comparable merchandise is defined by 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 Eps or CEPs and NV for the calculation of 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* coefficient is calculated 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 used 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 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

⁶ See, e.g., *Xanthan Gum From the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 33351 (June 4, 2013); *Notice of Affirmative Final Determination of Sales at Less Than Fair Value: Diffusion-Annealed, Nickel-Plated Flat-Rolled Steel Products From Japan*, 79 FR 19869 (April 10, 2014).

⁷ See, e.g., *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review and New Shipper Reviews; 2011-2012*, 78 FR 40692 (July 8, 2013); *Certain Activated Carbon From the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 26748 (May 8, 2013); *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) (*Steel Threaded Rod*); *Polyester Staple Fiber From Taiwan: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 17637 (March 22, 2013) (*Polyester Staple Fiber*).

indication that such a difference exists. For this analysis, the difference was considered significant, and the sales within the test group were found to pass the Cohen's *d* test, if the calculated Cohen's *d* coefficient is equal to or exceeds the large (*i.e.*, 0.8) 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 pass the Cohen's *d* test accounts for 66 percent or more of the value of total sales, then the identified pattern of prices 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 prices 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, the Department tests 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 and justifications 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 Deacero, based on the results of the differential pricing analysis, the Department finds that 43.68 percent of Deacero's export sales pass the Cohen's *d* test, and confirms the existence of a pattern of prices for comparable merchandise that differ significantly among purchasers, regions or time periods. Further, the Department determines that the average-to-average method cannot account appropriately account for such differences because the resulting weighted-average dumping margins move across the *de minimis* threshold when calculated using the average-to-average method and an alternative method based on the average-to-transaction method applied to the U.S. sales which pass the Cohen's *d* test. Accordingly, the Department has determined to use

the average-to-transaction method for U.S. sales passing the Cohen's d test and the average-to-average method for U.S. sales not passing the Cohen's d test to calculate the weighted-average dumping margin for Deacero.⁸

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 normal values for comparisons to U.S. sale prices. We 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. 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. The Department has a long-standing practice of finding that, where shipment date precedes invoice date, shipment date better reflects the date on which the material terms of sale are established.⁹

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.¹⁰ We find that the material terms of sale were established and did not change after the dates reported in the database. Accordingly, we relied on the reported date as the sale date for both the U.S. market and Deacero's home market, Mexico.

U.S. Price

Section 772(a) of the Act defines EP as "the price at which the subject merchandise is first sold

⁸ See Memorandum to the File through Eric Greynolds from John Conniff, "Analysis Memorandum: Antidumping Duty Administrative Review; Carbon and Certain Alloy Steel Wire Rod from Mexico," (Preliminary Analysis Memorandum) dated concurrently with these preliminary results, on October 31, 2014.

⁹ See *Notice of Final Determination of Sales at Less Than Fair Value and Negative Final Determination of Critical Circumstances: Certain Frozen and Canned Warmwater Shrimp From Thailand*, 69 FR 76918 (December 23, 2004), and accompanying Issues and Decision Memorandum at Comment 10; see also *Notice of Final Determination of Sales at Less Than Fair Value: Structural Steel Beams From Germany*, 67 FR 35497 (May 20, 2002), and accompanying Issues and Decision Memorandum at Comment 2.

¹⁰ See Deacero's February 28, 2014, section B and C questionnaire response (BCQR) at B-40 and C- 18.

(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).” Section 772(b) of the Act defines CEP as “the price at which the subject merchandise is first sold (or agreed to be sold) in the United States to an unaffiliated purchaser in the United States before or after the date of importation by or for the account of the producer or exporter of such merchandise or by a seller affiliated with the producer or exporter, to a purchaser not affiliated with the producer or exporter, as adjusted under subsections (e) and (d).”

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 EP 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. 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*

Section 773(a)(1)(B) of the Act states that, to the extent practicable, the Department will calculate NV 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).¹¹ Substantial differences in selling activities are a necessary, but not sufficient, condition for determining that there is a difference in the stages of marketing.¹² 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 (*i.e.*, 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.*, NV 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.¹³ Where NV is based on CV, we determine the NV LOT based on the LOT of the sales from which we derive comparison market selling as part of COP, not reported in the home market sales data by LOT, where possible.

When the Department is unable to match U.S. sales with 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 with 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 NV 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 NV and CEP affects price comparability (*i.e.*, no LOT adjustment could be calculated), then the Department shall grant a CEP offset, as provided in section 773(a)(7)(B) of the Act.¹⁴

In this review, 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

¹¹ See 19 CFR 351.412(c)(2).

¹² 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*).

¹³ See *Micron Technology, Inc. v. United States*, 243 F.3d 1301, 1314-1315 (Fed. Cir. 2001).

¹⁴ See *Plate from South Africa*, 62 FR at 61732-33.

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.¹⁵

In the U.S. market, Deacero had only CEP sales through its affiliated reseller and, thus, a single level of trade.¹⁶

We found that there were significant differences between the selling activities associated with the CEP level of trade provided by both Deacero and Mid Continent 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.¹⁷ Therefore, we 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.¹⁸

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.¹⁹

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

¹⁵ See Deacero's initial section A questionnaire response (AQR) dated January 17, 2014, at A-24-A26.

¹⁶ See section 772(b) of the Act.

¹⁷ See AQR at A-19 and A-23 at Exhibit A-8.

¹⁸ See Preliminary Analysis Memorandum.

¹⁹ *Id.*

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 BCQR at B-19, 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 calculated NV based on downstream sales by ANSA.

Cost of Production Analysis

The Department disregarded sales priced below the cost of production (COP) in the last administrative review of the order completed prior to the initiation of this review.²⁰ Thus, in accordance with section 773(b)(2)(A)(ii) of the Act, there are reasonable grounds to believe or suspect that ASB made sales of the subject merchandise in its home market at prices below the COP in the current review period. Pursuant to section 773(b)(1) of the Act, we initiated a COP investigation of sales by ASB.

A. Calculation of Cost of Production

In accordance with section 773(b)(3) of the Act, we calculated a weighted-average COP by product control number (*i.e.*, CONNUM) based on the sum of the cost of materials and fabrication for the foreign like product, plus amounts for general and administrative (G&A) and financial expenses. We relied on the COP information provided by Deacero in its most recently submitted cost database. Therefore, we followed our normal methodology of calculating CONNUM-specific weighted-average COPs 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 CONNUM-specific basis, we compared the COP to the comparison market prices, less any applicable movement charges 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 CONNUM 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 CONNUM 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.

²⁰ 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.

As discussed in further detail in the preliminary calculation memoranda, we found that Deacero made sales below cost and we disregarded certain sales where appropriate.²¹

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

Ronald K. Lorentzen

Ronald K. Lorentzen
Acting Assistant Secretary
for Enforcement and Compliance

October 31, 2014

(Date)

²¹ See Preliminary Analysis Memorandum.