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May 16, 2014

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

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

SUBJECT: Decision Memorandum for Preliminary Results of 2012-2013
Antidumping Duty Administrative Review: Frontseating Service
Valves from the People's Republic of China

SUMMARY

In response to requests from interested parties, the Department of Commerce ("the Department") is conducting an administrative review of the antidumping duty order on frontseating service valves ("FSVs") from the People's Republic of China ("PRC") for the period of review ("POR") April 1, 2012, through March 31, 2013. The Department preliminarily finds that Zhejiang DunAn Hetian Metal Co., Ltd. ("DunAn") did not have reviewable transactions during the POR. In addition, we preliminarily determine that Zhejiang Sanhua Co., Ltd. ("Sanhua") made sales of subject merchandise at less than normal value ("NV") during the POR.

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 POR. Interested parties are invited to comment on these preliminary results. Unless otherwise extended, we intend to 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 April 2, 2013, the Department published a notice of opportunity to request an administrative review of the antidumping duty order on FSVs from the PRC for the POR April 1, 2012, through March 31, 2013.¹ On April 24, 2013, Sanhua requested a review of itself.² On April 29, 2013, the Department received a request for review of DunAn and Sanhua from Parker-Hannifin Corporation (“Parker-Hannifin” or “Petitioner”), Petitioner in the underlying investigation.³

On June 3, 2013, the Department initiated an administrative review of the antidumping duty order on FSVs from the PRC.⁴ On July 24, 2013, DunAn submitted a timely no shipments certification.⁵

On July 31, 2013, Sanhua submitted its original Section A response,⁶ and its original Section C and D response on September 9, 2013 (collectively, the “Original Questionnaire Response”).⁷ Sanhua submitted its supplemental AQR and CQR on March 3, 2014,⁸ and its supplemental DQR on March 13, 2013,⁹ (collectively the “1st SQR”). Sanhua submitted its second supplemental questionnaire response (“2nd SQR”) on April 23, 2014.¹⁰

As explained in the memorandum from the Assistant Secretary for Enforcement and Compliance, the Department exercised its discretion to toll deadlines for the duration of the closure of the Federal Government from October 1, through October 16, 2013.¹¹ On December 20, 2013, we extended the time limit for the preliminary results of review by 120 days, pursuant to section 751(a)(3)(A) of the Act, to May 16, 2014.¹²

¹ See *Antidumping or Countervailing Duty Order, Finding, or Suspended Investigation; Opportunity To Request Administrative Review*, 78 FR 19645 (April 2, 2013)

² See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Request for §751 Administrative Review of Exports by Zhejiang Sanhua Co., Ltd.,” dated April 24, 2013.

³ See letter from Parker-Hannifin, “Frontseating Service Valves from the People’s Republic of China: Request for Initiation of Antidumping Administrative Review,” dated April 29, 2013.

⁴ See *Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part*, 78 FR 33052 (June 3, 2013) (“*Initiation Notice*”).

⁵ See letter from DunAn, “No Shipment Letter for Zhejiang DunAn Hetian Metal Co., Ltd.: Fourth Annual Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People’s Republic of China, A-570-933 (POR: 04/01/12-03/31/13),” dated July 24, 2013.

⁶ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Section A Response by Zhejiang Sanhua Co., Ltd.,” dated July 31, 2013 (“AQR”).

⁷ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Sections C and D Response of Zhejiang Sanhua Co., Ltd.,” dated September 9, 2013 (“CQR” and “DQR”).

⁸ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Response to Supplemental Sections A and C Questionnaire by Zhejiang Sanhua Co., Ltd.,” dated March 3, 2014,

⁹ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Response to Supplemental Section D Questionnaire by Zhejiang Sanhua Co., Ltd.,” dated March 13, 2013.

¹⁰ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Response to the Second Supplemental Questionnaire Sections A, C and D by Zhejiang Sanhua Co., Ltd.,” dated April 23, 2014.

¹¹ See Memorandum to the File, “Frontseating Service Valves From the People’s Republic of China: Tolling of Deadlines for Shutdown of the Federal Government,” dated October 22, 2013.

¹² See Memorandum to Christian Marsh entitled, “Frontseating Service Valves from the People’s Republic of China: Extension of Deadline for the Preliminary Results of Antidumping Duty Administrative Review,” dated December 20, 2013.

The Department issued its list of surrogate countries on January 22, 2014¹³ and offered parties an opportunity to comment on the list of potential surrogate countries.¹⁴ Petitioner and Sanhua submitted comments on that list on February 14, 2014.¹⁵ Sanhua submitted additional comments on the surrogate country selection on February 26, 2014.¹⁶

On March 19 and 20, 2014, Sanhua and Petitioner, respectively submitted comments on the selection of surrogate values (“SVs”).¹⁷ On March 31, 2014, Sanhua submitted rebuttal SV comments.¹⁸ Sanhua submitted additional SV comments on April 16, 2014.¹⁹

On April 30, 2014, the Department issued Sanhua a questionnaire concerning the value-added (“VAT”) taxes applicable to export sales and domestic purchases.²⁰ On May 9, 2014, Sanhua provided its third supplemental questionnaire response.²¹

Scope of the Order

The merchandise covered by this order is frontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof. Frontseating service valves contain a sealing surface on the front side of the valve stem that allows the indoor unit or outdoor unit to be isolated from the refrigerant stream when the air conditioning or refrigeration unit is being serviced. Frontseating service valves rely on an elastomer seal when the stem cap is removed for

¹³ See Memorandum from Carole Showers, Director, Office of Policy, “Request for a List of Surrogate Countries for an Administrative Review of the Antidumping Duty Order on Frontseating Service Valves (“FSV”) from the People’s Republic of China (“China”), dated January 22, 2014 (“Surrogate-Country Memorandum”).

¹⁴ See letter to all interested parties, “Frontseating Service Valves from the People’s Republic of China: 12-13 Review: Request for Surrogate Country and Surrogate Value Comments and Information,” dated January 31, 2014.

¹⁵ See letter from Petitioner, “Petitioner’s Comments on Surrogate Country Selection in the Fourth Administrative Review of Certain Frontseating Service Valves From the People’s Republic of China: Case No. A-570-933,” dated February 14, 2014 (“Petitioner’s Surrogate-Country Comments”); and, letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Comments Regarding Surrogate Countries by Zhejiang Sanhua Co., Ltd.,” dated February 14, 2014.

¹⁶ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Surrogate Country Comments,” dated February 26, 2014 (“Sanhua’s Surrogate Country Comments”).

¹⁷ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Surrogate Value Information Comments,” dated March 19, 2014 (“Sanhua’s Surrogate-Value Comments”); and, letter from Petitioner, “Petitioner’s Surrogate Value Resubmission in the Fourth Administrative Review of Certain Frontseating Service Valves from the People’s Republic of China: Case No. A-570-933,” dated March 20, 2014 (“Petitioner’s Surrogate-Value Comments”).

¹⁸ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Rebuttal Surrogate Value Information by Zhejiang Sanhua Co., Ltd.,” dated March 31, 2014 (“Sanhua’s Rebuttal Surrogate-Value Comments”).

¹⁹ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Surrogate Value Information,” dated April 16, 2014 (“Sanhua’s Additional Surrogate-Value Comments”).

²⁰ See letter from the Department, “2012-2013 Administrative Review of Frontseating Service Valves from the People’s Republic of China: Third Supplemental Questionnaire for the Section C Questionnaire Response,” dated April 30, 2014.

²¹ See letter from Sanhua, “Frontseating Service Valves from the People’s Republic of China; A-570-933; Response to the Third Supplemental Questionnaire by Zhejiang Sanhua Co., Ltd.,” dated May 9, 2014 (“3rd SQR”).

servicing and the stem cap metal to metal seat to create this seal to the atmosphere during normal operation.²²

For purposes of the scope, the term “unassembled” frontseating service valve means a brazed subassembly requiring any one or more of the following processes: the insertion of a valve core pin, the insertion of a valve stem and/or O ring, the application or installation of a stem cap, charge port cap or tube dust cap. The term “complete” frontseating service valve means a product sold ready for installation into an air conditioning or refrigeration unit. The term “incomplete” frontseating service valve means a product that when sold is in multiple pieces, sections, subassemblies or components and is incapable of being installed into an air conditioning or refrigeration unit as a single, unified valve without further assembly.

The major parts or components of frontseating service valves intended to be covered by the scope under the term “certain parts thereof” are any brazed subassembly consisting of any two or more of the following components: a valve body, field connection tube, factory connection tube or valve charge port. The valve body is a rectangular block, or brass forging, machined to be hollow in the interior, with a generally square shaped seat (bottom of body). The field connection tube and factory connection tube consist of copper or other metallic tubing, cut to length, shaped and brazed to the valve body in order to create two ports, the factory connection tube and the field connection tube, each on opposite sides of the valve assembly body. The valve charge port is a service port via which a hose connection can be used to charge or evacuate the refrigerant medium or to monitor the system pressure for diagnostic purposes.

The scope includes frontseating service valves of any size, configuration, material composition or connection type. Frontseating service valves are classified under subheading 8481.80.1095, and also have been classified under subheading 8415.90.80.85, of the Harmonized Tariff Schedule of the United States (“HTSUS”). It is possible for frontseating service valves to be manufactured out of primary materials other than copper and brass, in which case they would be classified under HTSUS subheadings 8481.80.3040, 8481.80.3090, or 8481.80.5090. In addition, if unassembled or incomplete frontseating service valves are imported, the various parts or components would be classified under HTSUS subheadings 8481.90.1000, 8481.90.3000, or 8481.90.5000. The HTSUS subheadings are provided for convenience and customs purposes, but the written description of the scope of this proceeding is dispositive.

DISCUSSION OF THE METHODOLOGY

Nonmarket Economy Country

The Department considers the PRC to be a nonmarket economy (“NME”) country.²³ In accordance with section 771(18)(C)(i) of the Act, any determination that a foreign country is an

²² The frontseating service valve differs from a backseating service valve in that a backseating service valve has two sealing surfaces on the valve stem. This difference typically incorporates a valve stem on a backseating service valve to be machined of steel, where a frontseating service valve has a brass stem. The backseating service valve dual stem seal (on the back side of the stem), creates a metal-to-metal seal when the valve is in the open position, thus, sealing the stem from the atmosphere.

NME country shall remain in effect until revoked by the administering authority. Therefore, we continue to treat the PRC as an NME country for purposes of these preliminary results.

Separate Rates

Pursuant to section 771(18)(C)(i) of the Act, a designation of a country as an NME remains in effect until it is revoked by the Department. Accordingly, there is a rebuttable presumption that all companies within the PRC are subject to government control and, thus, should be assessed a single antidumping duty rate.²⁴

In the *Initiation Notice*, the Department notified parties of the application process by which exporters and producers may obtain separate rate status in NME proceedings.²⁵ It is the Department's policy to assign all exporters of the merchandise subject to review in NME countries a single rate unless an exporter can affirmatively demonstrate an absence of government control, both in law (*de jure*) and in fact (*de facto*), with respect to exports. To establish whether a company is sufficiently independent to be entitled to a separate, company-specific rate, the Department analyzes each exporting entity in an NME country under the test established in *Sparklers*,²⁶ as further developed by *Silicon Carbide*.²⁷ However, if the Department determines that a company is wholly foreign-owned, then a separate rate analysis is not necessary to determine whether it is independent from government control.²⁸

The Department received a completed Section A response to the NME antidumping questionnaire from Sanhua, which contained information pertaining to its eligibility for a separate rate.²⁹ Sanhua's submission does not indicate that Sanhua is wholly foreign-owned.³⁰ Therefore, the Department must analyze whether Sanhua can demonstrate the absence of both *de jure* and *de facto* governmental control over export activities.

a. Absence of De Jure Control

The Department considers the following *de jure* criteria in determining whether an individual company may be granted a separate rate: (1) an absence of restrictive stipulations associated

²³ See, e.g., *Certain Kitchen Appliance Shelving and Racks From the People's Republic of China: Preliminary Results of the First Administrative Review, Preliminary Rescission, in Part, and Extension of Time Limits for the Final Results*, 76 FR 62765, 62767-68 (October 11, 2011), unchanged in *Certain Kitchen Appliance Shelving and Racks From the People's Republic of China: Final Results and Partial Rescission of First Antidumping Duty Administrative Review*, 77 FR 21734 (April 11, 2012).

²⁴ See, e.g., *Notice of Final Determination of Sales at Less Than Fair Value, and Affirmative Critical Circumstances, In Part: Certain Lined Paper Products From the People's Republic of China*, 71 FR 53079, 53082 (September 8, 2006).

²⁵ See *Initiation Notice*, 78 FR at 33053-54.

²⁶ See *Final Determination of Sales at Less Than Fair Value: Sparklers From the People's Republic of China*, 56 FR 20588 (May 6, 1991) ("*Sparklers*").

²⁷ See *Notice of Final Determination of Sales at Less Than Fair Value: Silicon Carbide From the People's Republic of China*, 59 FR 22585 (May 2, 1994) ("*Silicon Carbide*").

²⁸ See, e.g., *Final Results of Antidumping Duty Administrative Review: Petroleum Wax Candles From the People's Republic of China*, 72 FR 52355, 52356 (September 13, 2007).

²⁹ See AQR.

³⁰ *Id.*, at A-2 and Exhibit A-3.

with an individual exporter's business and export licenses; (2) any legislative enactments decentralizing control of companies; and (3) other formal measures by the government decentralizing control of companies.³¹

The evidence provided by Sanhua supports a preliminary finding of *de jure* absence of governmental control based on the following: (1) an absence of restrictive stipulations associated with the individual exporters' business and export licenses;³² (2) there are applicable legislative enactments decentralizing control of the companies;³³ and (3) there are formal measures by the government decentralizing control of companies.³⁴

b. Absence of De Facto Control

Typically, the Department considers four factors in evaluating whether each respondent is subject to *de facto* governmental control of its export functions: (1) whether the export prices ("EPs") are set by or are subject to the approval of a governmental agency; (2) whether the respondent has authority to negotiate and sign contracts and other agreements; (3) whether the respondent has autonomy from the government in making decisions regarding the selection of management; and (4) whether the respondent retains the proceeds of its export sales and makes independent decisions regarding disposition of profits or financing of losses.³⁵ The Department determined that an analysis of *de facto* control is critical in determining whether respondents are, in fact, subject to a degree of governmental control which would preclude the Department from assigning separate rates.

For Sanhua, we determine that the evidence on the record supports a preliminary finding of *de facto* absence of government control based on record statements and supporting documentation showing the following: (1) Sanhua sets its own EPs independent of the government authority; (2) Sanhua retains the proceeds from its sales and makes independent decisions regarding disposition of profits or financing of losses; (3) Sanhua has the authority to negotiate and sign contracts and other agreements; and (4) Sanhua has autonomy from the government regarding the selection of management.³⁶

The evidence placed on the record of this review by Sanhua supports a finding of an absence of *de jure* and *de facto* government control with respect to its exports of the merchandise under review, in accordance with the criteria identified in *Sparklers* and *Silicon Carbide*. Therefore, we are preliminarily granting Sanhua separate-rate status.

³¹ See *Sparklers*, 56 FR at 20589.

³² See AQR at A-2 through A-13; see also Exhibits A-3 and A-4.

³³ *Id.*, at A-5 and Exhibit A-2.

³⁴ *Id.*, at A-7 to A-8.

³⁵ See *Silicon Carbide*, 59 FR at 22586-87; see also *Notice of Final Determination of Sales at Less Than Fair Value: Furfuryl Alcohol From the People's Republic of China*, 60 FR 22544, 22545 (May 8, 1995).

³⁶ See AQR at A-8 to A-13.

Surrogate Country and Surrogate Value Data

As stated above, the Department issued its list of surrogate countries on January 22, 2014, and interested parties subsequently submitted comments on the surrogate country list, surrogate country selection, and SVs. Our analysis of these comments and the record evidence follow.

Surrogate Country

When the Department is investigating imports from an NME country, section 773(c)(1) of the Act directs it to base NV, in most circumstances, on the NME producer's factors of production ("FOP"), valued in a surrogate market economy ("ME") country or countries considered to be appropriate by the Department. In accordance with section 773(c)(4) of the Act, in valuing the FOPs, the Department shall utilize, to the extent possible, the prices or costs of FOPs in one or more ME countries that are: (1) at a level of economic development comparable to that of the NME country; and (2) significant producers of comparable merchandise.³⁷ The Department determined that Bulgaria, Colombia, Ecuador, Indonesia, South Africa, and Thailand are countries at the same level of economic development as the PRC based on per capita gross national income ("GNI").³⁸ The sources of the SVs we used in this review are discussed in the "Normal Value" section below.

Petitioner's Surrogate-Country Comments argue that Thailand is the most appropriate surrogate country because it is a significant producer of the merchandise that is under review.³⁹ Moreover, Petitioner explains that Thailand also produces merchandise, such as brass valves, that is comparable to the merchandise under review.⁴⁰ In addition, Petitioner notes that World Trade Atlas ("WTA") data are available for the direct materials, energy, and packaging inputs used in the manufacture of the subject merchandise.⁴¹

Sanhua initially declined to comment on the usability of the six countries identified in the Surrogate-Country Memorandum, as a result of alleged confusion regarding alternative data from the World Bank, and because its analysis of the available SV data was not complete at the time of its submission.⁴² However, Sanhua explained that there may be other comparable countries, such as the Philippines, that may have better data for the purposes of valuing FSVs for this review.⁴³ Subsequently, in Sanhua's Surrogate Country Comments, it argued that the Department should select the Philippines as the primary surrogate country because, in its opinion, the Philippine tariff provisions are at a level of detail which enables the valuation of specific inputs without the inclusion of numerous non-comparable products.⁴⁴ Sanhua argued that the difficulties which might arise from the differences between the GNI in the Philippines and the PRC would be inapplicable because, according to Sanhua, the Philippine import data are

³⁷ See Policy Bulletin 04.1: Non-Market Economy Surrogate Country Selection Process (March 1, 2004) ("*Policy Bulletin*").

³⁸ See Surrogate-Country Memorandum at 2.

³⁹ See Petitioner's Surrogate-Country Comments at 2 and 3.

⁴⁰ *Id.*, at 2.

⁴¹ *Id.*, at 4.

⁴² See Sanhua's Surrogate-Country Comments at 2.

⁴³ *Id.*, at 2 and 3

⁴⁴ *Id.*, at 2.

not influenced by the relative GNI of the importing country.⁴⁵ Moreover, Sanhua states that: (1) to the extent that the Department does not use data of the Philippines, it should use data from Indonesia; and (2) if neither data from the Philippines nor Indonesia are used, the Department should use data from South Africa.⁴⁶ Finally, Sanhua argued that if the Department should determine to use Thailand as the primary surrogate country, it should use the financial statements of two producers of identical and/or comparable merchandise provided in Sanhua's Additional SV Comments.

Economic Comparability

As explained in our Surrogate-Country Memorandum, the Department considers Bulgaria, Colombia, Ecuador, Indonesia, South Africa, and Thailand all to be at the same level of economic development as the PRC.⁴⁷ Section 773(c)(4) of the Act is silent with respect to how the Department may determine that a country is at the same level of economic development as the NME country. As explained in the Department's *Policy Bulletin*, “[t]he surrogate countries on the list are not ranked.”⁴⁸ This lack of ranking reflects the Department's long-standing practice that, for the purpose of surrogate country selection, the countries on the list “should be considered equivalent” from the standpoint of their level of economic development, based on per capita GNI as compared to the PRC's level of economic development.⁴⁹ This also recognizes that the “level” in an economic development context necessarily implies a range of per capita GNI, not a specific per capita GNI.⁵⁰ The Department's long-standing practice of selecting, if possible, a surrogate country from a non-exhaustive list of countries at the same level of economic development as the NME country, or another country at the same level of economic development, fulfills the statutory requirement to value factors of production, to the extent possible, using data from “one or more market economy countries that are at a level of economic development comparable to that of the nonmarket economy country”⁵¹ In this regard, “countries that are at a level of economic development comparable to that of the NME country” necessarily includes countries that are at the same level of economic development as the NME country.

Accordingly, unless we find that all of the countries determined to be at the same level of economic development as the PRC are not significant producers of comparable merchandise, are not reliable sources of publicly-available SV data, are not suitable for use based on other reasons, or we find that another country not on the list is at the same level of economic development and is an appropriate surrogate, we will rely on data from one of these countries.⁵² Therefore, we

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ See Surrogate-Country Memorandum at 2.

⁴⁸ See *Policy Bulletin*.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ See section 773(c)(4) of the Act.

⁵² See, e.g., *Fresh Garlic From the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review; 2010-2011*, 77 FR 73980 (December 12, 2012) and accompanying Preliminary Decision Memorandum at 8-12, unchanged in *Fresh Garlic From the People's Republic of China: Final Results of Antidumping Duty Administrative Review; 2010-2011*, 78 FR 36168 (June 17, 2013).

consider all six countries identified in the Surrogate-Country Memorandum as having met this prong of the surrogate country selection criteria.

Significant Producers of Identical or Comparable Merchandise

Section 773(c)(4)(B) of the Act requires the Department to value FOPs in a surrogate country that is a significant producer of comparable merchandise. While the legislative history provides that the term “significant producer” includes any country that is a significant “net exporter,”⁵³ it does not preclude reliance on additional or alternative metrics. Moreover, neither the statute nor the Department’s regulations provide further guidance on what may be considered comparable merchandise. Given the absence of any definition in the statute or regulations, the Department looks to other sources such as the *Policy Bulletin* for guidance on defining comparable merchandise. The *Policy Bulletin* states that “in all cases, if identical merchandise is produced, the country qualifies as a producer of comparable merchandise.”⁵⁴ Conversely, if identical merchandise is not produced, then a country producing comparable merchandise is sufficient in selecting a surrogate country.⁵⁵ Further, when selecting a surrogate country, the statute requires the Department to consider the comparability of the merchandise, not the comparability of the industry.⁵⁶

“In cases where the identical merchandise is not produced, the Department must determine if other merchandise that is comparable is produced. How the Department does this depends on the subject merchandise.”⁵⁷ In this regard, the Department recognizes that any analysis of comparable merchandise must be done on a case-by-case basis:

In other cases, however, where there are major inputs, *i.e.*, inputs that are specialized or dedicated or used intensively, in the production of the subject merchandise, *e.g.*, processed agricultural, aquatic and mineral products, comparable merchandise should be identified narrowly, on the basis of a comparison of the major inputs, including energy, where appropriate.⁵⁸

Further, the statute grants the Department discretion to examine various data sources for determining the best available information.⁵⁹

⁵³ See Conference Report to the 1988 Omnibus Trade & Competitiveness Act, H.R. Rep. No. 100-576, at 590 (1988).

⁵⁴ See *Policy Bulletin* at 2.

⁵⁵ *Id.* The *Policy Bulletin* also states that “if considering a producer of identical merchandise leads to data difficulties, the operations team may consider countries that produce a broader category of reasonably comparable merchandise.” *Id.* at note 6.

⁵⁶ See *Sebacic Acid from the People’s Republic of China; Final Results of Antidumping Duty Administrative Review*, 62 FR 65674, 65676 (December 15, 1997) (“{T}o impose a requirement that merchandise must be produced by the same process and share the same end uses to be considered comparable would be contrary to the intent of the statute.”).

⁵⁷ See *Policy Bulletin* at 2.

⁵⁸ *Id.* at 3.

⁵⁹ See section 773(c) of the Act; see also *Nation Ford Chem. Co. v. United States*, 166 F.3d 1373, 1377 (Fed. Cir. 1999).

In this case, the record shows that all of the potential surrogate countries identified in the Department's Surrogate-Country Memorandum have significant exports of the comparable merchandise.⁶⁰ Thus, because none of the potential surrogate countries have been definitively disqualified through the above analysis, the Department looks to the availability of SV data to determine the most appropriate surrogate country.

Data Availability

When evaluating SV data, the Department considers several factors including whether the SV data is publicly available, contemporaneous with the POR, representative of broad-market averages, from an approved surrogate country, tax and duty-exclusive, and specific to the input.⁶¹ There is no hierarchy among these criteria. It is the Department's practice to carefully consider the available evidence in light of the particular facts of each industry when undertaking its analysis.⁶² Sanhua placed complete SV information on the record for all material inputs and surrogate financial ratios from Indonesia.⁶³ In addition, it placed selected SVs and financial statements for the Philippines on the record of this review.⁶⁴ Petitioner placed information for selected material inputs and surrogate financial ratios on the record for Thailand.⁶⁵ In addition, Sanhua placed financial statements for two Thai surrogate producers on the record for this review.⁶⁶ Finally, for the reasons provided below, the Department placed on the record the HTS descriptions on brass bar and rod and brass scrap from Colombia, Ecuador, South Africa, and Bulgaria.⁶⁷

Similar to its approach in past segments of this proceeding, the Department examined the record data for brass bar and rod and brass scrap in considering surrogate country selection.⁶⁸ An examination of Petitioner's recommended HTS category for brass bar and rod in Thailand (HTS 7407.21.00.000, "bars, rods and profiles of copper-zinc base alloys (brass)"),⁶⁹ and Sanhua's recommended HTS category for brass bar and rod in Indonesia (HTS 7407.21.00.00, "copper bars, rods and profiles; bars, rods and profiles of copper-zinc base alloys (brass); profiles of refined copper of copper-zinc base alloys (brass)"),⁷⁰ reveals that these HTS subcategories

⁶⁰ See Memorandum to the File, "2012-2013 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People's Republic of China: Factor Valuation Memorandum for the Preliminary Results of Review," dated concurrent with this memorandum ("Preliminary Factor Valuation Memorandum") at Attachment 2.

⁶¹ See, e.g., *Certain Activated Carbon from the People's Republic of China; 2010-2011; Final Results of Antidumping Duty Administrative Review*, 77 FR 67337 (November 9, 2012), and accompanying Issues and Decision Memorandum at 8.

⁶² See *Policy Bulletin*.

⁶³ See Sanhua's Surrogate-Value Comments at Attachments SV-2a through 2j.

⁶⁴ *Id.*, at Attachments SV-1b through 1e.

⁶⁵ See Petitioner's Surrogate-Value Comments at Attachments 1 through 5.

⁶⁶ See Sanhua's Additional Surrogate-Value Comments at Attachments FSV-1 and FSV-2.

⁶⁷ See Preliminary Factor Valuation Memorandum at Attachment 3a.

⁶⁸ See, e.g., *Frontseating Service Valves from the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 27954 (May 13, 2013) ("FSVs 11-12 Preliminary Results"), and accompanying Preliminary Decision Memorandum at 9, unchanged in *Frontseating Service Valves from the People's Republic of China; Final Results of Antidumping Duty Administrative Review; 2011-2012*, 78 FR 73825 (December 9, 2013) ("FSVs 11-12 Final Results").

⁶⁹ See Petitioner's Surrogate-Value Comments at Exhibit 1.

⁷⁰ See Sanhua's Surrogate-Value Comments at SV-1b.

include profiles, which are at a higher level of manufacturing than brass bar and rod,⁷¹ and therefore, are not comparable to the inputs used to produce the subject merchandise. In past segments of this proceeding, the Department found that these same HTS subcategories are not comparable to the brass bar and rod reported by Sanhua,⁷² and the record of this review contains no evidence that causes the Department to depart from its past findings.

Similarly, an examination of Petitioner's recommended HTS category for brass scrap in Thailand (HTS 7404.00.00.00, "copper waste and scrap"),⁷³ and Sanhua's HTS category for brass scrap in Indonesia (HTS 7404.00.00.00, "copper waste and scrap")⁷⁴ do not separate brass and copper scrap. In past segments of this proceeding, the Department found that these same HTS subcategories are not specific to the brass scrap by-product reported by Sanhua,⁷⁵ and the record of this review contains no evidence that causes the Department to depart from its past findings.

As a result of the problems identified in the Thai and Indonesian data, the Department evaluated the HTS categories for brass bar and rod for all of the other countries on the Surrogate-Country List, and determined that Bulgaria alone provided HTS categories specific to brass bar and rod that did not include profiles.⁷⁶ Similarly, the Department evaluated the HTS categories for brass scrap for all of the countries on the Surrogate-Country List, and determined that Bulgaria alone provided HTS categories that separated brass and copper scrap.⁷⁷

As a consequence, the Department preliminarily determines that Bulgaria provides the best available information to value brass bar and rod and brass scrap. Because Bulgaria provides the best available information for the primary input (brass bar and rod), the most significant input into the subject merchandise, and the byproduct (brass scrap), the most significant material offset used in the determination of the normal value, the Department preliminarily determines that Bulgaria represents the best choice as the primary surrogate country for this review in accordance with section 773(c)(4) of the Act. The Department based its decision on the following: (1) Bulgaria is at the same level of economic development as the PRC; (2) Bulgaria is a significant producer of comparable merchandise; (3) Bulgaria has the best available information for valuing brass bar and rod, the most significant input into the subject merchandise, as well as for brass scrap, the most significant byproduct generated in the production of subject merchandise. However, because there are no other available surrogate-

⁷¹ See Sanhua's Rebuttal Surrogate-Value Comments at Exhibit 2, citing the *Explanatory Notes for the World Customs Organization, Harmonized Commodity, Description and Coding System, Fourth Edition (2007)*, Chapter 74, Copper and articles thereof, note 1(e):

Rolled, extruded, drawn, forged or formed products, coiled or not, of a uniform cross-section along their whole length, which do not conform to any of the definitions of bars, rods, wire, plates, sheets, strip, foil, tubes or pipes. The expression also covers cast or sintered products, of the same forms, which have been subsequently worked after production (otherwise than by simple trimming or de-scaling), provided that they have not thereby assumed the character of articles or products of other headings.

⁷² See, e.g., *FSVs 11-12 Preliminary Results*, and accompanying Preliminary Decision Memorandum at 9, unchanged in *FSVs 11-12 Final Results*.

⁷³ See Petitioner's Surrogate-Value Comments at Exhibit 1.

⁷⁴ See Sanhua's Surrogate-Value Comments at Exhibit 1c.

⁷⁵ See *FSVs 11-12 Final Results*, and accompanying Preliminary Decision Memorandum at Comment 7.

⁷⁶ See Preliminary Factor Valuation Memorandum Attachment 3a.

⁷⁷ *Id.*

value data on the record from Bulgaria, we determine to value all other inputs using Thailand as a secondary surrogate country. The Department based its decision on the following: (1) Thailand is at the same level of economic development as the PRC; (2) Thailand is a significant producer of identical and comparable merchandise; and (3) Thailand has quality data available for the remaining raw materials, packing materials either on the record or available through the GTA; and (4) Thailand has usable surrogate financial statements on the record for a producer of identical merchandise. As a consequence, Thailand provides the best available information to value the remaining FOPs. There is no available data on the record from the remaining countries on the surrogate country list for remaining raw materials, packing materials and/or usable surrogate financial statements.

Finally, because we have usable SV data from significant producers identified on the surrogate country list, we do not find it appropriate to select the Philippines, as requested by Sanhua, as the primary surrogate country.

Date of Sale

19 CFR 351.401(i) states that:

In identifying the date of sale of the subject merchandise or foreign like product, the Secretary normally will use the date of invoice, as recorded in the exporter or producer's records kept in the ordinary course of business. However, the Secretary may use a date other than the date of invoice if the Secretary is satisfied that a different date better reflects the date on which the exporter or producer establishes the material terms of sale.⁷⁸

After examining the questionnaire responses and the sales documentation Sanhua placed on the record, we preliminarily find that we should follow our regulatory presumption and use the invoice date as the date of sale for Sanhua because no party demonstrated that the material terms of sale were established on another date. To the contrary, the record evidence indicates that the terms of sale were set at the time when the commercial invoice was issued.⁷⁹

Comparisons to Normal Value

To determine whether Sanhua's sales of FSVs to the United States were made at less than normal value, we compared Sanhua's constructed export price ("CEP") to NV, as described in the "Constructed Export Price" and "Normal Value" sections below.

⁷⁸ 19 CFR 351.401(i); *see also* 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; *Allied Tube and Conduit Corp. v. United States*, 132 F. Supp. 2d 1087, 1090-1092 (CIT 2001) (upholding the Department's rebuttable presumption that invoice date is the appropriate date of sale).

⁷⁹ *See* AQR at A-17.

A. Determination of Comparison Method

Pursuant to 19 CFR 351.414(c)(1) (2012), the Department calculates dumping margins by comparing weighted-average NVs to weighted-average CEPs (or EPs) (“the average-to-average (‘A-A’) method”) unless the Secretary determines that another method is appropriate in a particular situation. In antidumping investigations, the Department examines whether to use the average-to-transaction (“A-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 finds that the issue arising under 19 CFR 351.414(c)(1) in administrative reviews is, in fact, analogous to the issue in antidumping investigations.⁸⁰ In recent investigations, the Department applied a “differential pricing” analysis for determining whether application of A-T comparisons is appropriate in a particular situation pursuant to 19 CFR 351.414(c)(1) and consistent with section 777A(d)(1)(B) of the Act.⁸¹ The Department finds the differential pricing analysis used in those recent investigations may be instructive for purposes of examining whether to apply an alternative comparison method in this administrative review. The Department will 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-A method in calculating weighted-average dumping margins.

The differential pricing analysis used in these preliminary results requires a finding of a pattern of CEPs (or EPs) for comparable merchandise that differs significantly among purchasers, regions, or time periods.⁸² If such a pattern is found, then the differential pricing analysis evaluates whether such differences can be taken into account when using the A-A method to calculate the weighted-average dumping margin. The differential pricing 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 customer names. 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 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 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 CEP (or EP) and NV for the individual dumping margins. In the first stage

⁸⁰ 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.

⁸¹ See also *Xanthan Gum From the People’s Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 33350 (June 4, 2013), and the accompanying Issues and Decision Memorandum at Comment 3; and *Hardwood and Decorative Plywood From the People’s Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 58273 (September 23, 2013), and the accompanying Issues and Decision Memorandum at Comment 3.

⁸² As noted above, differential pricing was used in recent investigations. It was also used in the recent antidumping duty administrative review of polyester staple fiber from Taiwan. See *Polyester Staple Fiber from Taiwan: Preliminary Results of Antidumping Duty Administrative Review; 2011–2012*, 78 FR 17637 (March 22, 2013).

of the differential pricing 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 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 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 (*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 account for 66 percent or more of the value of total sales, then the identified pattern of CEPs that differ significantly supports the consideration of the application of the A-T method to all sales as an alternative to the A-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-T method to those sales identified as passing the Cohen’s *d* test as an alternative to the A-A method, and application of the A-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-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 CEPs that differ significantly such that an alternative comparison method should be considered, then in the second stage of the differential pricing analysis, we examine whether using only the A-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-A method only. If the difference between the two calculations is meaningful, this demonstrates that the A-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-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 differential pricing approach used in these preliminary results, including arguments for modifying the group definitions used in this proceeding.

B. Results of the Differential Pricing Analysis

For Sanhua, based on the results of the differential pricing analysis, the Department finds that 86.3 percent of Sanhua's export sales confirm the existence of a pattern of CEPs for comparable merchandise that differ significantly among purchasers, regions, or time periods.⁸³ Further, the Department determines that the average-to-average method cannot 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 the alternative method based on the average-to-transaction method applied to all U.S. sales.⁸⁴ Accordingly, the Department determines to use the average-to-transaction method in making all comparisons of CEP and NV for Sanhua.

Constructed Export Price

In accordance with section 772(b) of the Act, the CEP is the price at which the subject merchandise is first sold (or agreed to be sold) 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 sections 772(c) and (d) of the Act. In accordance with section 772(b) of the Act, we used CEP for Sanhua's sales because the sales were made by U.S. affiliates in the United States.

We calculated CEP based on delivered prices to unaffiliated purchasers in the United States. We made adjustments, where applicable, to the reported gross unit prices for billing adjustments and early payment discounts, to arrive at the price at which the subject merchandise is first sold in the United States to an unaffiliated customer. We made deductions from the U.S. sales price for movement expenses in accordance with section 772(c)(2) of the Act. These included, where applicable, foreign inland freight from plant to the port of exportation, foreign brokerage and handling, ocean freight, marine insurance, U.S. inland freight from port of importation to the warehouse, U.S. freight from warehouse to customer, U.S. warehousing, U.S. customs duty, and U.S. brokerage and handling. In accordance with section 772(d)(1) of the Act, the Department deducted, where applicable, commissions, credit expenses, inventory carrying costs, and indirect selling expenses, all of which relate to commercial activity in the United States. In accordance with section 772(d) of the Act, we calculated Sanhua's credit expenses and inventory carrying costs based on its short-term interest rate. In addition, we deducted CEP profit in accordance with sections 772(d)(3) and 772(f) of the Act.⁸⁵

⁸³ See Memorandum to the File, "Frontseating Service Valves ("FSVs") from the People's Republic of China ("PRC"): Analysis Memorandum for the Preliminary Results of the 2012-2013 Administrative Review: Zhejiang Sanhua Co., Ltd. ("Sanhua")," ("Sanhua Preliminary Analysis Memorandum"), at Attachment 5, page 63.

⁸⁴ *Id.*, page 86.

⁸⁵ For a detailed description of all adjustments, see Sanhua Preliminary Analysis Memorandum.

Value-Added Tax

In 2012, the Department announced a change of methodology with respect to the calculation of EP and CEP to include an adjustment of any un-refunded (herein irrecoverable) VAT in certain non-market economies in accordance with section 772(c)(2)(B) of the Act.⁸⁶ The Department explained that when an NME government imposes an export tax, duty, or other charge on subject merchandise, or on inputs used to produce subject merchandise, from which the respondent was not exempted, the Department will reduce the respondent's EP and CEP prices accordingly, by the amount of the tax, duty or charge paid, but not rebated.⁸⁷ Here the irrecoverable VAT is a fixed percentage of EP, the Department explained that the final step in arriving at a tax neutral dumping comparison is to reduce the U.S. EP downward by this same percentage.⁸⁸

The Department's methodology, as explained above and applied in this review, essentially amounts to performing two basic steps: (1) determining the irrecoverable VAT tax on subject merchandise, and (2) reducing U.S. price by the amount (or rate) determined in step one. Information placed on the record of this review by Sanhua indicates that according to the Chinese VAT schedule, the standard VAT levy is 17 percent⁸⁹ and the rebate rate for subject merchandise is 15 percent.⁹⁰ For the purposes of these preliminary results, therefore, we removed from U.S. price the difference between the rates (2 percent), which is the irrecoverable VAT as defined under Chinese tax law and regulation.⁹¹

Normal Value

Section 773(c)(1) of the Act provides that the Department shall determine NV using an FOP methodology if: (1) The merchandise is exported from an NME country; and (2) the information does not permit the calculation of NV using home-market prices, third-country prices, or constructed value under section 773(a) of the Act. When determining NV in an NME context, the Department will base NV on FOPs because the presence of government controls on various aspects of these economies renders price comparisons and the calculation of production costs invalid under our normal methodologies. The Department's questionnaire requires that Sanhua provide information regarding the weighted-average FOPs across all of the company's plants and/or suppliers that produce the merchandise under consideration, not just the FOPs from a single plant or supplier. This methodology ensures that the Department's calculations are as accurate as possible.⁹² Under section 773(c)(3) of the Act, FOPs used by Sanhua in the production of FSVs include, but are not limited to, (1) hours of labor required; (2) quantities of

⁸⁶ See *Methodological Change for Implementation of Section 772(c)(2)(B) of the Tariff Act of 1930, as Amended, In Certain Non-Market Economy Antidumping Proceedings*, 77 FR 36481 (June 19, 2012)(Methodological Change for Implementation of Section 772(c)(2)(B) of the Act).

⁸⁷ *Id.*; see also *Chlorinated Isocyanurates from the People's Republic of China: Final Results of Antidumping Duty Administrative Review*; 2011-2012, 79 FR 4875 (January 30, 2014) and accompanying Issues and Decision Memorandum at Comment 5.A.

⁸⁸ *Id.*

⁸⁹ See 3rd SQR at 2.

⁹⁰ *Id.* at 3.

⁹¹ See Sanhua Preliminary Analysis Memorandum at Attachment 4..

⁹² See, e.g., *Final Determination of Sales at Less Than Fair Value and Critical Circumstances: Certain Malleable Iron Pipe Fittings from the People's Republic of China*, 68 FR 61395 (October 28, 2003), and accompanying Issue and Decision Memorandum at Comment 19.

raw materials employed; (3) amounts of energy and other utilities consumed; and (4) representative capital costs. The Department based NV on Sanhua's reported FOPs for materials, energy, and labor.

Sanhua reported that it generated brass and copper scrap during the production process of merchandise under consideration and requested an offset for this scrap.⁹³ Sanhua established that it sold all of the brass and copper scrap that it produced during the POR.⁹⁴ Therefore, for these preliminary results, we granted Sanhua a by-product offset for brass and copper scrap because it demonstrated that there is commercial value to this scrap.⁹⁵

Factor Valuations

In accordance with section 773(c) of the Act, for subject merchandise produced by Sanhua, the Department calculated NV based on the FOPs reported by Sanhua for the POR. The Department used Bulgarian and Thai import data and other publicly available Thai sources in order to calculate SVs for Sanhua's FOPs. To calculate NV, the Department multiplied Sanhua's reported per-unit FOPs by publicly-available SVs.⁹⁶ The Department's practice when selecting the best available information for valuing FOPs is to select, to the extent practicable, SVs which are product-specific, representative of a broad market average, publicly available, contemporaneous with the POR, and exclusive of taxes and duties.⁹⁷

The Department adjusted input prices by including freight costs, as appropriate, to render them delivered prices. Specifically, to Bulgarian or Thai import SVs reported on a cost, insurance, and freight basis, the Department added a surrogate freight cost using the shorter of: (i) the reported distance from the domestic supplier to the factory; or (ii) the distance from the nearest seaport to the factory. This adjustment is in accordance with the decision of the Federal Circuit in *Sigma Corp. v. United States*, 117 F.3d 1401, 1408 (Fed. Cir. 1997). Additionally, where necessary, the Department adjusted SVs for inflation and exchange rates, and the Department converted all applicable FOPs to a per-gram basis.

Furthermore, with regard to the Bulgarian and Thai import-based SVs, we disregarded import prices that we have reason to believe or suspect may be subsidized. We have reason to believe or suspect that prices of inputs from Indonesia, India, South Korea, and Thailand may have been subsidized because we found in other proceedings that these countries maintain broadly

⁹³ See DQR at D-17 to D-20 and at Exhibit D-10a.

⁹⁴ *Id.*, at D-17 to D-20 and at Exhibits D-10d through D-10g.

⁹⁵ See Sanhua Preliminary Analysis Memorandum.

⁹⁶ See Preliminary Factor Valuation Memorandum.

⁹⁷ See, e.g., *Electrolytic Manganese Dioxide From the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 73 FR 48195 (August 18, 2008), and accompanying Issues and Decision Memorandum at Comment 2.

available, non-industry-specific export subsidies.⁹⁸ Therefore, it is reasonable to infer that all exports to all markets from these countries may be subsidized.⁹⁹ Further, guided by the legislative history, it is the Department's practice not to conduct a formal investigation to ensure that such prices are not subsidized.¹⁰⁰ Rather, the Department bases its decision on information that is available to it at the time it makes its determination. Additionally, consistent with our practice, we disregarded prices from NME countries and excluded imports labeled as originating from an "unspecified" country from the average value, because the Department could not be certain that they were not from either an NME country or a country with general export subsidies.¹⁰¹ Therefore, we have not used prices from these countries in calculating the Bulgarian and/or Thai import-based SVs.

In accordance with 19 CFR 351.408(c)(1), the Department will normally use publicly available information to find an appropriate SV to value FOPs, but when a producer sources an input from a ME and pays for it in ME currency, the Department may value the factor using the actual price paid for the input.¹⁰² Sanhua reported that it did not purchase inputs from ME suppliers for the production of the merchandise under consideration.¹⁰³

The record shows that data in the Bulgarian and Thai import statistics, as well as those from the other Thai sources, are contemporaneous with the POR, product-specific, and tax-exclusive.¹⁰⁴ In those instances where we could not obtain publicly available Bulgarian or Thai data contemporaneous to the POR with which to value factors, we adjusted the SVs using, where appropriate, inflation factors derived from the Bulgarian or Thai Producer Price Index ("PPI"), as published in the International Monetary Fund's *International Financial Statistics*.¹⁰⁵ The Department used Bulgarian or Thai Import Statistics from the Global Trade Atlas ("GTA") and

⁹⁸ See, e.g., *Carbazole Violet Pigment 23 from India: Final Results of the Expedited Five-year (Sunset) Review of the Countervailing Duty Order*, 75 FR 13257 (March 19, 2010), and accompanying Issues and Decision Memorandum at 4-5; *Certain Cut-to-Length Carbon-Quality Steel Plate from Indonesia: Final Results of Expedited Sunset Review*, 70 FR 45692 (August 8, 2005), and accompanying Issues and Decision Memorandum at 4; *Corrosion-Resistant Carbon Steel Flat Products from the Republic of Korea: Final Results of Countervailing Duty Administrative Review*, 74 FR 2512 (January 15, 2009), and accompanying Issues and Decision Memorandum at 17, 19-20; *Final Affirmative Countervailing Duty Determination: Certain Hot-Rolled Carbon Steel Flat Products From Thailand*, 66 FR 50410 (October 3, 2001), and accompanying Issues and Decision Memorandum at 23.

⁹⁹ See *Notice of Final Determination of Sales at Less Than Fair Value and Negative Final Determination of Critical Circumstances: Certain Color Television Receivers From the People's Republic of China*, 69 FR 20594 (April 16, 2004), and accompanying Issues and Decision Memorandum at Comment 7.

¹⁰⁰ See Conference Report to the 1988 Omnibus Trade & Competitiveness Act, H.R. Rep. No. 100-576, at 590 (1988); see also *Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Coated Free Sheet Paper from the People's Republic of China*, 72 FR 30758, 30763 (June 4, 2007), unchanged in *Final Determination of Sales at Less Than Fair Value: Coated Free Sheet Paper from the People's Republic of China*, 72 FR 60632 (October 25, 2007).

¹⁰¹ See *Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Chlorinated Isocyanurates From the People's Republic of China*, 69 FR 75294, 75300 (December 16, 2004), unchanged in *Notice of Final Determination of Sales at Less Than Fair Value: Chlorinated Isocyanurates From the People's Republic of China*, 70 FR 24502 (May 10, 2005).

¹⁰² See 19 CFR 351.408(c)(1); see also *Shakeproof Assembly Components, Div. of Ill. Tool Works, Inc. v. United States*, 268 F.3d 1376, 1382-1383 (Fed. Cir. 2001) (affirming the Department's use of market-based prices to value certain FOPs).

¹⁰³ See DQR at D-7.

¹⁰⁴ See Preliminary Factor Valuation Memorandum at Attachment 1.

¹⁰⁵ *Id.*, at Attachments 1 and 4.

other publicly available Thai sources to value most raw materials, energy, and packing inputs that Sanhua used to produce subject merchandise during the POR, except where listed below.

In these preliminary results, the Department calculated the labor input using data on industry-specific labor cost from the secondary surrogate country (*i.e.*, Thailand). On June 21, 2011, the Department announced its new methodology to value the cost of labor in NME countries.¹⁰⁶ In *Labor Methodologies*, the Department determined that the best methodology to value the labor input is to use industry-specific labor rates from the primary surrogate country.¹⁰⁷ Additionally, the Department determined that the best data source for industry-specific labor rates is Chapter 6A: Labor Cost in Manufacturing, from the International Labor Organization (ILO) Yearbook of Labor Statistics (Yearbook).¹⁰⁸

At this time, there is no labor data on the record from the primary surrogate country, Bulgaria. The Department intends to place labor data from Bulgaria on the record of this review after the issuing the preliminary results and to allow interested parties an opportunity to comment on the use of this data prior to issuing the final results.

Instead, the Department calculated the labor input using the best available data on the record, labor data from the 2007 Industrial Census data published by Thailand's National Statistics Office (the "2007 NSO data").¹⁰⁹ Although the 2007 NSO data are not from the ILO, the Department finds that this fact does not preclude us from using this source for valuing labor. In *Labor Methodologies*, the Department decided to change to the use of the ILO Chapter 6A data from the use of ILO Chapter 5B data, on the rebuttable presumption that Chapter 6A data better account for all direct and indirect labor costs.¹¹⁰ The Department did not, however, preclude all other sources for evaluating labor costs in NME antidumping proceedings. Rather, we continue to follow our practice of selecting the "best information available" to determine SVs for inputs such as labor. Thus, we find that the 2007 NSO data are the best available information for valuing labor for this segment of the proceeding. Specifically, the 2007 NSO data are more contemporaneous than the most recently published ILO Chapter 6A data from Thailand, which reflect labor costs as of 2000.¹¹¹ and are available at <http://laborsta.ilo.org>. Additionally, the NSO data are industry-specific, reflects all costs related to labor, including wages, benefits, housing, training, *etc.*¹¹² Finally, selecting the NSO data over the ILO Chapter 6A data aligns with recent determinations in other proceedings.¹¹³

¹⁰⁶ See *Antidumping Methodologies in Proceedings Involving Non-Market Economies: Valuing the Factor of Production: Labor*, 76 FR 36092 (June 21, 2011) ("*Labor Methodologies*").

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ See Preliminary Factor Valuation Memorandum.

¹¹⁰ See *Labor Methodologies*, 76 FR at 36093-94.

¹¹¹ See <http://laborsta.ilo.org>.

¹¹² See Preliminary Factor Valuation Memorandum for a more detailed description of the wage rate calculation methodology.

¹¹³ See *e.g.*, *Drawn Stainless Steel Sinks From the People's Republic of China: Investigation, Final Determination*, 78 FR 13019 (February 26, 2013) and accompanying Issues and Decision Memorandum at Comment 3; and *Xanthan Gum From the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 33351 (June 4, 2013) and accompanying Issues and Decision Memorandum at Comment 6-C.

As stated above, the Department used the 2007 NSO data reported by Thailand’s National Statistics Office, which reflects all costs related to labor, including wages, benefits, housing, and training. Pursuant to *Labor Methodologies*, the Department’s practice is to consider whether financial ratios reflect labor expenses that are included in other elements of the respondent’s factors of production (*e.g.*, general and administrative expenses).¹¹⁴ The financial statements used to calculate financial ratios in this review were sufficiently detailed to allow the Department to isolate labor expenses from other expenses such as selling, general, and administrative expenses. Therefore, the Department made no revisions to its calculation of surrogate financial ratios pursuant to *Labor Methodologies*.¹¹⁵

We valued electricity using contemporaneous Thai data from Electricity Generating Authority of Thailand, Annual Report 2012, Key Statistical Data http://www.egat.co.th/en/images/annual-report/2012/ENG_annual_2012_for_web_p118.pdf¹¹⁶

We valued water using the average tariff rate for “Type 2” (“Commerce, Government Agency, State Enterprise, and Industry”) consumers, as reported by the Thailand Board of Investment, which also reports water rates for industrial users that are exclusive of value-added taxes.¹¹⁷ We did not inflate the rate since all data points are contemporaneous with the POR.¹¹⁸

We used Thai transport information in order to value the inland freight. The Department determined the best available information for valuing truck freight to be from the World Bank’s *Doing Business 2014: Economy Profile: Thailand*. This World Bank report gathers information concerning the distance and cost to transport products in a 20-foot container from the largest city in Thailand to the nearest seaport. We calculated the per-unit inland freight costs using the distance from Thailand’s largest city, Bangkok, to the nearest seaport.¹¹⁹

We valued international freight using information from the Thailand Board of Investment, current as of July 2013.¹²⁰ Since this date is not contemporaneous with the POR, we deflated it to the POR using applying the Thai PPI.¹²¹

We valued brokerage and handling expenses using a price list of export procedures necessary to export a standardized cargo of goods in Thailand, as published in the World Bank’s *Doing Business 2014, Economy Profile: Thailand* publication.¹²²

We valued marine insurance using a price quote for July 2010, which we obtained from RJG Consultants.¹²³ RJG Consultants is a ME provider of marine insurance. We inflated the rates to

¹¹⁴ See *Labor Methodologies*, 76 FR at 36094.

¹¹⁵ See Preliminary Factor Valuation Memorandum at Attachment 8.

¹¹⁶ *Id.*, at Attachment 6.

¹¹⁷ *Id.*, at Attachment 7.

¹¹⁸ *Id.*

¹¹⁹ *Id.*, at Attachment 10.

¹²⁰ *Id.*, at Attachment 9.

¹²¹ *Id.*, at Attachments 1 and 4.

¹²² *Id.*, at Attachment 11.

¹²³ *Id.*, at Attachment 12.

the POR by applying the Thai PPI.¹²⁴ 19 CFR 351.408(c)(4) directs the Department to value overhead, general, and administrative expenses (“SG&A”) and profit using non-proprietary information gathered from producers of identical or comparable merchandise in the surrogate country. In this review, Petitioner submitted the 2011 financial statements of the following companies:

- **DunAn Metals (Thailand) Co., Ltd. (“DunAn Thailand”)**: a Thai producer of cooling equipment and spare parts, and a wholly-owned subsidiary of DunAn;¹²⁵
- **Emori Environmental Products Co., Ltd. (“Emori Environmental”)**: a Thai re-seller of valves for water supply, water treatment system, waste water treatment system, piles, and all kinds of construction projects.¹²⁶
- **Tozen Thailand Co., Ltd. (“Tozen Thailand”)**: a Thai re-seller of rubber expansion joints, stainless steel expansion joints and flexible hoses; vibration isolators, industrial rubber hoses, composite hoses, butterfly valves, ball valves, check valves, gate valves, and y-strainers.¹²⁷

Sanhua placed the financial statements of the following companies on the record:

- **Tai Peng Valve Manufacturing Co., Ltd. (“TP Valve”)**: a Thai manufacturer of valves and accessory equipment applicable to pipeline systems, both residential and industrial.¹²⁸
- **Grand D.K. Co., Ltd. (“Grand D.K.”)**: a Thai manufacturer of high quality service valves (packed valves) used in air-conditioners.¹²⁹
- **PT Tembaga Mulia Semanan TBK (“PT Tembaga Mulia”)**: an Indonesian company that manufactures copper rod and wire and aluminum rod and wire products.¹³⁰
- **PT Astra Otoparts Tbk (“PT Astra Otoparts”)**: an Indonesian company that engages in trading of automotive components, both domestic and export and in the manufacture of metal, plastics and automotive components.¹³¹

¹²⁴ *Id.*, at Attachments 1 and 4.

¹²⁵ See Petitioner’s Surrogate-Value Comments at Exhibit 3; *see also* Memorandum to the File, “2012-2013 Administrative Review of the Antidumping Duty Order on Frontseating Service Valves from the People’s Republic of China: Websites of the Financial Statement Companies,” dated May 16, 2014 (“Websites of the Financial-Statement Companies”) at Attachment 1.

¹²⁶ See Petitioner’s Surrogate-Value Comments at Exhibit 4; *see also* Websites of the Financial-Statement Companies at Attachment 2.

¹²⁷ See Petitioner’s Surrogate-Value Comments at Exhibit 5; *see also* Websites of the Financial-Statement Companies at Attachment 3.

¹²⁸ See Sanhua’s Additional Surrogate-Value Comments at Exhibit FSV-1b; *see also* Websites of the Financial-Statement Companies at Attachment 4.

¹²⁹ See Sanhua’s Additional Surrogate-Value Comments at Exhibit FSV-2b; *see also* Websites of the Financial-Statement Companies at Attachment 5.

¹³⁰ See Sanhua’s Surrogate-Value Comments at Exhibit SV 2f; *see also* Websites of the Financial-Statement Companies at Attachment 6.

¹³¹ See Sanhua’s Surrogate-Value Comments at Exhibit SV 2i; *see also* Websites of the Financial-Statement Companies at Attachment 7.

- **Makati Foundry Inc. (“Makati Foundry”)**: a Philippine manufacturer of water pipes, valves, fire hydrants, fittings and PVC’s.¹³²

To value overhead, general expenses and profit, we used the financial statements of Grand D.K., because Grand D.K. is a Thai producer of identical merchandise and it earned a profit during the 2012 fiscal reporting period.¹³³ There is no record evidence to indicate that it received benefits that the Department previously determined to be countervailable. Further, its audited financial statements are complete and sufficiently detailed to disaggregate materials, labor, overhead, and SG&A expenses.¹³⁴

We declined to use the following financial statements submitted by the parties during the course of this review. We did not use DunAn Thailand’s financial statements because: (1) DunAn Thailand received an exemption from corporate income tax,¹³⁵ under the Investment Promotion Act (“IPA”) of B.E. 2520 (IPA Sec. 31), that the Department previously determined to constitute a countervailable subsidy;¹³⁶ (2) DunAn Thailand’s purchased a significant portion of its raw materials from affiliated parties in the PRC, thus its production experience does not reflect ME costs;¹³⁷ and, (3) DunAn’s financial statements do not report production and SG&A expenses in sufficient detail to allow us to calculate surrogate financial ratios.¹³⁸

We did not use Emori Environmental’s or Tozen Thailand’s financial statements because there is no information on the record indicating that either company produces merchandise comparable to the merchandise under review. Specifically, an examination of each of the audited financial statements shows that neither company incurred depreciation expenses for production equipment; rather, these companies included depreciation only for office furniture, office machinery, computer equipment, and vehicles.¹³⁹ Consequently, these companies appear to be sales offices, rather than producers of comparable merchandise. In addition, Emori Environmental did not obtain a qualified opinion from its auditor.¹⁴⁰

We did not use PT Tembaga Mulia because it was not located in either the primary or secondary surrogate country and did not produce merchandise that is identical or comparable to the subject merchandise; rather, it produced only inputs to the subject merchandise.¹⁴¹ Similarly, we decline to use the financial statements of PT Astra Otoparts (from Indonesia) and Makati Foundry (from the Philippines) because neither company is located in either the primary or secondary surrogate

¹³² See Sanhua’s Surrogate-Value Comments at Exhibit SV 1e, note 1.

¹³³ See Sanhua’s Additional Surrogate-Value Comments at Exhibit FSV-2b.

¹³⁴ *Id.*; see also Preliminary Factor Valuation Memorandum at Attachment 8.

¹³⁵ See Petitioner’s Surrogate-Value Comments at Exhibit F, note 14.

¹³⁶ See *Final Negative Countervailing Duty Determination: Bottle-Grade Polyethylene Terephthalate (PET) Resin From Thailand*, 70 FR 13462 (March 21, 2005); see also *Ball Bearings and Parts Thereof From Thailand: Final Results of Countervailing Duty Administrative Review*, 61 FR 729 (January 6, 1997).

¹³⁷ See Petitioner’s Surrogate-Value Comments at Exhibit 3 note 9.

¹³⁸ *Id.*, at Income Statement.

¹³⁹ See Petitioner’s Surrogate-Value Comments at Exhibit 4, note 3 for Emori Environmental, and Petitioner’s Surrogate-Value Comments at Exhibit 5, note 10 for Tozen Thailand.

¹⁴⁰ Petitioner’s Surrogate-Value Comments at Exhibit 4, “Report of Certified Auditor.”

¹⁴¹ See Sanhua’s Surrogate-Value Comments at Exhibit SV 2f, note 1.

country, and neither produces identical merchandise; we have usable financial statements for a producer of identical merchandise in the secondary surrogate country.¹⁴²

We declined to use the financial statements of TP Valve because TP Valve produces comparable merchandise,¹⁴³ and we have at least one financial statement on the record of a surrogate producer that produces identical merchandise.

For a complete listing of all the inputs and a detailed discussion about our SV selections, *see* Preliminary Factor Valuation Memorandum.

Currency Conversion

Where necessary, the Department made currency conversions into U.S. dollars, in accordance with section 773A(a) of the Act, 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

May 16, 2014
(Date)

¹⁴² See Websites of the Financial-Statement Companies at Attachment 7 for PT Astra Otoparts; *see also* Sanhua's Surrogate-Value Comments at Exhibit SV 1e, note 1 for Makati Foundry.

¹⁴³ *See also* Websites of the Financial-Statement Companies at Attachment 4.