MEMORANDUM TO: Gary Taverman  
Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations,  
Performing the non-exclusive functions and duties of the Assistant Secretary for Enforcement and Compliance

FROM: James Maeder  
Senior Director  
performing the duties of Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations

SUBJECT: Issues and Decision Memorandum for the Final Results of the 2014-2016 Administrative Review of the Antidumping Duty Order on Certain Steel Nails from the Republic of Korea

I. SUMMARY

The Department of Commerce (Commerce) analyzed the comments submitted by interested parties in the administrative review of the antidumping duty (AD) order on certain steel nails (nails) from the Republic of Korea (Korea) covering the period of review (POR) December 29, 2014, through June 30, 2016. This administrative review covers two producers/exporters of the subject merchandise. Based upon our analysis of the comments received, we made changes from the Preliminary Results\(^1\) to the margin calculation for one of the mandatory respondents, Daejin Steel Co. (Daejin). We continue to find that Daejin sold subject merchandise in the United States at prices below normal value during the POR, and that Korea Wire Co., Ltd. (Kowire) did not sell subject merchandise at prices below normal value. We recommend that you approve the positions described in the “Discussion of the Issues” section of this memorandum.

II. LIST OF ISSUES

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III. BACKGROUND

On August 7, 2017, Commerce published the Preliminary Results of this administrative review. On October 23, 2017, Commerce issued a post-preliminary memorandum regarding the petitioner’s particular market situation allegation. In accordance with 19 CFR 351.309(c), we invited interested parties to comment on the Preliminary Results and our preliminary particular market situation determination.4

On September 22, 2017, Commerce received case briefs from Daejin, Kowire, and Mid Continent Steel & Wire, Inc. (the petitioner), and rebuttal briefs from Daejin, Kowire and the petitioner on September 27, 2017. On October 30, 2017, the petitioner submitted a case brief regarding its particular market situation (PMS) allegation. On November 6, 2017, Daejin and Kowire submitted rebuttal briefs concerning the petitioner’s PMS allegation.

2 See Preliminary Results.
4 See Preliminary Results at 36751.
5 See Daejin’s Case Brief, “Administrative Review of the Antidumping Order on Certain Steel Nails from Korea — Comments on Preliminary Determination,” dated September 22, 2017 (Daejin Case Brief); Kowire’s Case Brief, “Steel Nails from the Republic of Korea,” dated September 22, 2017 (Kowire Case Brief); Petitioner’s Case Brief, “Certain Steel Nails from the Republic of Korea: Case Brief,” dated September 22, 2017 (Petitioner Case Brief). Commerce also received a letter from Jinheung Steel Corporation, Jinsco International Corporation, and Duo-Fast Korea Co., Ltd. (collectively, Jinheung). Jinheung’s letter concerned Commerce’s draft cash deposit instructions; we will include language in our cash deposit instructions reflecting Jinheung’s concerns.
IV. SCOPE OF THE ORDER

The merchandise covered by this order is certain steel nails having a nominal shaft length not exceeding 12 inches. Certain steel nails include, but are not limited to, nails made from round wire and nails that are cut from flat-rolled steel. Certain steel nails may be of one piece construction or constructed of two or more pieces. Certain steel nails may be produced from any type of steel, and may have any type of surface finish, head type, shank, point type and shaft diameter. Finishes include, but are not limited to, coating in vinyl, zinc (galvanized, including but not limited to electroplating or hot dipping one or more times), phosphate, cement, and paint. Certain steel nails may have one or more surface finishes. Head styles include, but are not limited to, flat, projection, cupped, oval, brad, headless, double, countersunk, and sinker. Shank styles include, but are not limited to, smooth, barbed, screw threaded, ring shank and fluted. Screw-threaded nails subject to this proceeding are driven using direct force and not by turning the nail using a tool that engages with the head. Point styles include, but are not limited to, diamond, needle, chisel and blunt or no point. Certain steel nails may be sold in bulk, or they may be collated in any manner using any material.

Excluded from the scope of the order are nails packaged in combination with one or more non-subject articles, if the total number of nails of all types, in aggregate regardless of size, is less than 25. If packaged in combination with one or more non-subject articles, nails remain subject merchandise if the total number of nails of all types, in aggregate regardless of size, is equal to or greater than 25, unless otherwise excluded based on the other exclusions below.

Also excluded from the scope are nails with a nominal shaft length of one inch or less that are (a) a component of an unassembled article, (b) the total number of nails is sixty (60) or less, and (c) the imported unassembled article falls into one of the following eight groupings: 1) builders’ joinery and carpentry of wood that are classifiable as windows, French-windows and their frames; 2) builders’ joinery and carpentry of wood that are classifiable as doors and their frames and thresholds; 3) swivel seats with variable height adjustment; 4) seats that are convertible into beds (with the exception of those classifiable as garden seats or camping equipment); 5) seats of cane, osier, bamboo or similar materials; 6) other seats with wooden frames (with the exception of seats of a kind used for aircraft or motor vehicles); 7) furniture (other than seats) of wood (with the exception of i) medical, surgical, dental or veterinary furniture; and ii) barbers’ chairs and similar chairs, having rotating as well as both reclining and elevating movements); or 8) furniture (other than seats) of materials other than wood, metal, or plastics (e.g., furniture of cane, osier, bamboo or similar materials). The aforementioned imported unassembled articles are currently classified under the following Harmonized Tariff Schedule of the United States (HTSUS) subheadings: 4418.10, 4418.20, 9401.30, 9401.40, 9401.51, 9401.59, 9401.61, 9401.69, 9403.30, 9403.40, 9403.50, 9403.60, 9403.81 or 9403.89.

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9 The shaft length of certain steel nails with flat heads or parallel shoulders under the head shall be measured from under the head or shoulder to the tip of the point. The shaft length of all other certain steel nails shall be measured overall.
Also excluded from the scope of the order are nails that meet the specifications of Type I, Style 20 nails as identified in Tables 29 through 33 of ASTM Standard F1667 (2013 revision).

Also excluded from the scope of the order are nails suitable for use in powder-actuated hand tools, whether or not threaded, which are currently classified under HTSUS subheadings 7317.00.20.00 and 7317.00.30.00.

Also excluded from the scope of the order are nails having a case hardness greater than or equal to 50 on the Rockwell Hardness C scale (HRC), a carbon content greater than or equal to 0.5 percent, a round head, a secondary reduced-diameter raised head section, a centered shank, and a smooth symmetrical point, suitable for use in gas-actuated hand tools.

Also excluded from the scope of the order are corrugated nails. A corrugated nail is made up of a small strip of corrugated steel with sharp points on one side.

Also excluded from the scope of the order are thumb tacks, which are currently classified under HTSUS subheading 7317.00.10.00.

Nails subject to the order are currently classified under HTSUS subheadings 7317.00.55.02, 7317.00.55.03, 7317.00.55.05, 7317.00.55.07, 7317.00.55.08, 7317.00.55.11, 7317.00.55.18, 7317.00.55.19, 7317.00.55.20, 7317.00.55.30, 7317.00.55.40, 7317.00.55.50, 7317.00.55.60, 7317.00.55.70, 7317.00.55.80, 7317.00.55.90, 7317.00.65.30, 7317.00.65.60 and 7317.00.75.00. Nails subject to the order also may be classified under HTSUS subheadings 7907.00.60.00, 8206.00.00.00 or other HTSUS subheadings.

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

V. DISCUSSION OF THE ISSUES

General Issue

Comment 1: Particular Market Situation (PMS)

The Petitioner’s Comments

- Commerce should reverse its post-preliminary determination to find that (1) a strategic alliance between Kowire and a subcontractor, (2) low-priced steel exports from China, and (3) the Korean government’s distortion of the electricity market, all contribute to a PMS here. Such a determination would be consistent with Commerce’s recent finding in OCTG from Korea.10

- Pursuant to Section 504 of Trade Preference Extension Act of 2015 (TPEA), if a PMS exists such that the cost of materials and fabrication or other processing of any kind does not accurately reflect the cost of production in the ordinary course of trade, the administering authority may use another calculation methodology under this subtitle or

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any other calculation methodology. In the recently completed administrative review of *OCTG from Korea*, Commerce found that a PMS existed in the Korean OCTG market because of the cumulative distortive effect of four sets of circumstances related to the cost of OCTG production in Korea. Commerce should reach the same conclusion here.

- First, a strategic alliance exists between Kowire and a subcontractor that performs processing services for Kowire. Commerce should find that Kowire and the subcontractor are affiliated. However, even if the companies are not found to be affiliated, the subcontractor is entirely dependent on Kowire for its survival, which raises the strong likelihood that Kowire did not pay fair market prices for the company’s services. The fact that the total value of the services rendered by the subcontractor during the POR is minimal does not undermine a finding that the company and Kowire are in a strategic alliance.

- Second, with respect to Chinese steel exports, in the recently-completed review of *OCTG from Korea*, Commerce found that a PMS existed in Korea in part due to allegations regarding the impact of Chinese exports on global prices. Nothing is different in this review. Commerce failed to distinguish the present record evidence from the record evidence in *OCTG from Korea* in this regard.

- With respect to electricity pricing, the petitioner’s allegations are similar to those presented in *OCTG from Korea*. However, unlike that case, Commerce did not find a PMS here. Commerce failed to articulate any reason why the virtually identical record evidence here does not warrant a finding of PMS. Additionally, the petitioner properly provided evidence showing that the market rate for electricity in Japan is higher than in Korea.

- Commerce improperly faulted the petitioner for not demonstrating the impact that each of the three distortive market conditions had on production costs for nails producers in Korea. In doing so, Commerce improperly appears to have added a new requirement to the sufficiency of PMS allegations, i.e., requiring that the petitioner must tie every single contributing factor of the PMS to the respondents’ cost of production.

- At no time did Commerce notify the petitioner of any deficiencies in its PMS allegation. Additionally, Commerce did not provide the petitioner with an opportunity to remedy any perceived deficiencies. If Commerce believes that additional information is necessary to support the petitioner’s PMS claim, it should reopen the record and solicit such information.

**Daejin’s Rebuttal Comments**

- The PMS provision in Section 504 of the TPEA does not permit Commerce to adjust a respondent’s costs for the purposes of testing whether home market sales are below cost. Rather, the statute only permits Commerce to adjust constructed value, and to make such an adjustment only when Commerce concludes that “the cost of materials and fabrication or other processing of any kind does not accurately reflect the cost of production in the ordinary course of trade.”

- The petitioner has not provided any evidence that low-priced Chinese imports of steel wire rod had an impact on Daejin’s costs, or that Daejin used imported Chinese steel wire rod in its production process. Furthermore, in *OCTG from Korea*, Commerce specifically declined to make an adjustment for the impact of allegedly low-priced imports of input materials from China.
• The petitioner’s reliance on Commerce’s affirmative PMS finding in *OCTG from Korea* is misplaced. Unlike *OCTG from Korea*, here, there has been no claim and no finding that Korean producers of the main material input (here, steel wire rod) are receiving subsidies. Additionally, the petitioner has not alleged that Daejin benefited from a strategic alliance with any Korean producers of steel wire rod, or any other entities. Therefore, two of the four market conditions that contributed to an affirmative PMS finding in *OCTG from Korea* are not alleged here with regard to Daejin.

• The petitioner in this case filed a countervailing duty (CVD) petition on imports of steel nails from Korea, and the CVD petition did not contain any allegations relating to electricity subsidies. This fact undermines the petitioner’s assertion that the electricity market is distorted in Korea. Additionally, Commerce has consistently found that electricity prices paid by Korean steel producers represent adequate remuneration and are not below appropriate market prices. In any case, there is no evidence on this record that the Korean nails industry benefitted from distorted electricity pricing.

*Kowire’s Rebuttal Comments*

• As in the *Preliminary Determination*, Commerce should continue to find that the petitioner failed to support an affirmative finding that a PMS exists in Korea with respect to the production of subject merchandise. Commerce correctly determined that: (1) there is no strategic alliance between Kowire and its subcontractor; (2) there is no evidence that Chinese steel imports distorted Kowire’s manufacturing costs; and (3) there is no evidence that Korean electricity costs are distorted.

• First, extensive record evidence confirms Commerce’s preliminary finding that there is no affiliation, let alone a “strategic alliance,” between Kowire and the subcontractor that performs processing services to Kowire. The relationship between Kowire and the company is a common service provider arrangement and, in any case, the value of the services provided was limited. The allegations here, therefore, stand in contrast to the “strategic alliances” highlighted in *OCTG from Korea*, which concerned relationships between OCTG producers and primary input supplies – where the input-in-question accounted for 80 percent of the cost of production.

• Second, with respect to Chinese steel exports, the petitioner points to no evidence that undermines Commerce’s conclusion that the petitioner has not tied Chinese steel overcapacity to prices paid by Korean nails producers for steel wire rod. For instance, the petitioner has not shown whether any meaningful differences exist between Chinese wire rod prices in the Korean market and the prices of domestically produced wire rod. In the absence of any demonstrated price distortions, Commerce has no meaningful way to make an adjustment to the cost of respondents’ wire rod purchases. Accordingly, as in *OCTG from Korea*, which the petitioner relies on throughout its PMS allegation, Commerce should decline to make an adjustment to cost based on the presence of Chinese steel exports.

• Third, the petitioner highlights no specific evidence on the record reflecting the direct or indirect benefit that Korean nail producers receive from alleged distortions in the Korean electricity market. As in *OCTG from Korea*, there is insufficient evidence to quantify an adjustment to account for the Korean Government’s alleged intervention in the electricity market. Additionally, the appropriateness of the petitioner’s proposed surrogate price – Japanese electricity prices – is not based on record evidence.
• The petitioner’s reliance on OCTG from Korea is misplaced. The petitioner makes no mention of the most critical aspect of Commerce’s determination in OCTG from Korea: the two mandatory respondents in that proceeding purchased hot-rolled coil substrate (the main material input) from POSCO, and Commerce previously determined in Hot-Rolled Steel Flat Products from Korea that POSCO had received countervailable subsidies from the Korean Government with respect to this product. Given this critical difference between the instant case and OCTG from Korea, the facts do not support finding a PMS here.
• Commerce should deny the petitioner’s request to issue additional questionnaires or to supplement the record at this time. It is well-established that a party making an allegation bears the burden of supporting its allegation, and the petitioner did not do so here.
• The petitioner’s assertion that Commerce should have provided an opportunity to correct its deficient allegations is incorrect. Although section 782 of the Act permits a responding party to correct factual responses to Commerce’s questionnaires, subject to certain limitations, it does not contemplate the reopening of the record to cure alleged deficiencies in a petitioner’s affirmative allegations.

Commerce’s Position:

After analyzing the case and rebuttal briefs submitted by interested parties in response to Commerce’s post-preliminary PMS Memorandum, we continue to find that the petitioner has not submitted sufficient evidence to warrant further investigation into whether a PMS exists here.

On June 29, 2015, the President of the United States signed into law the TPEA, which made numerous amendments to the antidumping and CVD law.\textsuperscript{11} The amendments are applicable to all determinations made on or after August 6, 2015, and, therefore, apply to this review.\textsuperscript{12} Section 504 of the TPEA added language to sections 771(15) and 773(e) of the Act that expressly incorporated the concept of PMS into the statutory provisions concerning ordinary course of trade and constructed value, respectively. Section 771(15) of the Act now states, in relevant part:

The administering authority shall consider the following sales and transactions, among others, to be outside the ordinary course of trade:

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(C) Situations in which the administering authority determines that the particular market situation prevents a proper comparison with the export price or constructed export price.

Section 773(e) of the Act now states, in relevant part:

For purposes of paragraph (1), if a particular market situation exists such that the cost of materials and fabrication or other processing of any kind does not accurately reflect the cost of production in the ordinary course of trade, the administering authority may use another calculation methodology under this subtitle or any other calculation methodology.

Pursuant to these provisions, if Commerce determines that a PMS exists such that a respondent’s input or fabrication costs do not reflect costs in the ordinary course of trade, it may adjust the costs used in its margins calculations. Therefore, when a petitioner alleges that a PMS impacts a respondent’s costs, Commerce must consider whether market conditions give rise to a cost distortion.\textsuperscript{13}

In Commerce’s PMS Memorandum, we analyzed the three\textsuperscript{14} market conditions that the petitioner alleges give rise to a PMS in the instant case. We concluded that none of the three factors, individually or as a whole, were supported by persuasive evidence that costs directly related to the production of the subject merchandise do not reasonably reflect the cost of production in the ordinary course of trade. The petitioner asserts that Commerce improperly weighed the evidence concerning each of these three market conditions: (i) the relationship between Kowire and a subcontractor that provides processing services, (ii) low-priced steel exports from China, and (iii) the Korean government’s distortion of the electricity market. The petitioner also asserts that Commerce should have provided an additional opportunity to develop the record here. We address each set of claims below.

\textbf{(i) Strategic Alliance}

The petitioner asserts that, in declining to find a PMS, Commerce did not properly consider the relationship between Kowire and a subcontractor that performed particular finishing operations for a select variety of nail for Kowire. First, the petitioner continues to assert that the companies are affiliated, or are “artificially close.”\textsuperscript{15} Second, the petitioner asserts that simply because the subcontractor “provided services that account for only a small portion of Kowire’s cost of manufacturing, that does not negate the fact that these two companies have a strategic relationship.”\textsuperscript{16} We disagree.

\textsuperscript{13} See, e.g., OCTG IDM at Comment 3 (finding that four intertwined market conditions give rise to a PMS); see also Steel Concrete Reinforcing Bar from Taiwan: Final Determination of Sales at Less Than Fair Value, 82 FR 34925 (July 27, 2017) (Rebar from Taiwan) and accompanying Issues and Decision Memorandum (Taiwan Rebar IDM), at Comment 1 (finding insufficient evidence to conclude that a PMS existed with regard to respondent’s purchase of Chinese billets in the instant investigation).

\textsuperscript{14} The petitioner’s allegation regarding the presence of a “strategic alliance” relates only to one of the mandatory respondents, Kowire. The allegation does not relate to Daejin.

\textsuperscript{15} Petitioner PMS Brief at 3.

\textsuperscript{16} Id. at 4.
With respect to the assertion that Kowire and its subcontractor are affiliated or are otherwise reliant upon each other in a manner that distorts costs, we addressed the companies’ relationship in Comment 7 below, our preliminary affiliation memorandum,17 and in our PMS Memorandum.18 Due to the proprietary nature of the affiliation issue, our analysis of this issue for the Final Results is contained in Kowire’s Final Analysis Memorandum, dated concurrently with this decision memorandum.19 We continue to find that Kowire is not affiliated with its subcontractor or otherwise engaged in a strategic alliance that distorts its costs.

Regarding the petitioner’s second argument, i.e., that the degree of any impact on costs caused by the potential distortion should not affect the analysis of whether a PMS exists, we do not agree. We believe that the magnitude of the impact of the alleged distortion is highly relevant to the analysis. For instance, in OCTG from Korea, which the petitioner extensively relies on to support its PMS allegation in this review, Commerce emphasized that the impact of the alleged distortions to the market for hot-rolled steel were significant because they related to the cost of the most significant input for the production of OCTG. There, Commerce explained that hot-rolled steel “as an input of OCTG constitutes approximately 80 percent of the cost of OCTG production; thus, distortions in the HRC market have a significant impact on production costs for OCTG.”20 Therefore, in OCTG, Commerce evaluated the degree of the impact from the alleged distortion in determining whether a PMS existed. Here, as discussed above, we disagree that Kowire and its subcontractor are affiliated or in a strategic alliance, as the petitioner asserts. But, even if we were to accept that Kowire and its subcontractor had a relationship that impacted Kowire’s costs, the fact that the services provided by the subcontractor here amount to a very small portion of Kowire’s total cost of manufacturing suggests that even if there was a distortion caused by the relationship, it would have an insignificant impact on Kowire’s production costs for nails. The insignificance of the impact, in turn, supports Commerce’s finding that the two companies are not engaged in a strategic alliance.

In light of these considerations, we find that the record contains no evidence that the relationship between Kowire and its subcontractor amounts to a strategic alliance, as discussed in OCTG from Korea, in substance or degree. Accordingly, we do not find persuasive the petitioner’s effort to draw a parallel between this case and OCTG from Korea, and do not believe that this market condition favors additional inquiry into whether a PMS exists here.

(ii) Low-Priced Steel Exports from China

The petitioner emphasizes that, in the recently-completed review of OCTG from Korea, Commerce found that a PMS exists in Korea in part due to allegations regarding the impact of Chinese exports on global prices. The petitioner further argues that “the Department failed to

18 See PMS Memorandum at 8.
19 See Memorandum, “Antidumping Duty Administrative Review of Certain Steel Nails from the Republic of Korea: Final Analysis Memorandum -- Korea Wire Co. Ltd. (Kowire),” dated concurrently with this memorandum.
20 See OCTG IDM at 40-41 (emphasis added).
distinguish the present record evidence from the record evidence in OCTG from Korea in this regard."\textsuperscript{21} We disagree.

In Commerce’s PMS Memorandum, we detailed the important differences between this case and OCTG from Korea; indeed, the parties’ case briefs centered upon the parallels and distinctions between the two cases. We ultimately determined in our PMS Memorandum that “the petitioner’s allegations regarding Chinese steel overcapacity and unfairly traded Chinese steel provide limited support for the petitioner’s allegation that a PMS exists here.”\textsuperscript{22} We did not determine that Chinese steel overcapacity could not contribute to an affirmative PMS finding – in fact, we explicitly noted that the factor was a contributory consideration in Commerce’s previous decision in OCTG from Korea.\textsuperscript{23} Rather, we explained that the petitioner’s general allegation concerning Chinese steel exports could not sustain a PMS finding without additional information concerning the tangible price effect of the allegedly distortive market condition. We stated:

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(a)lthough the petitioner provides voluminous information concerning PRC steel overcapacity, the petitioner provides no attempt to identify any relationship between PRC steel exports and steel prices in Korea, or distortions to the production costs of steel nails in Korea. Rather, the petitioner provides only general and unquantified assertions regarding the impact of PRC steel exports on global market prices, for instance, stating that PRC steel trade has a distortive effect on pricing and costs across the world, and that such developments significantly impacted and distorted Korean steel prices.\textsuperscript{24}
\end{quote}

In other circumstances, such as where a PMS claim is supported with quantifiable evidence of price distortion in the investigated market, a general allegation concerning Chinese steel exports may serve to contribute to an affirmative finding. That was the case in OCTG from Korea, where the record provided quantifiable evidence of a distortion (\textit{i.e.}, an affirmative finding by Commerce of Korean subsidization of a major input that was purchased by the respondent). As a result, other factors, such as Chinese steel imports, were found to be contributory considerations when viewed in conjunction with such subsidization. In contrast, here, the petitioner has presented generalized allegations concerning Chinese steel imports without the support of one or more allegations that provide a direct and quantifiable link between market distortions and the experience of respondents or nail producers in general.

Accordingly, we continue to find this case to be readily distinguishable from OCTG from Korea. Although the petitioner asserts that this record is “identical” to the record in OCTG from Korea, there are the substantial differences between the two cases.\textsuperscript{25} We acknowledge that the petitioner’s allegation concerning Chinese steel imports is similar to the allegation in OCTG from Korea. However, this was only one of four considerations that contributed to an affirmative finding in that case. Here, we do not find that the petitioner’s allegation regarding

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\textsuperscript{21} See Petitioner PMS Brief at 10.  \\
\textsuperscript{22} See PMS Memorandum at 8.  \\
\textsuperscript{23} See, \textit{e.g.}, \textit{id}. at 5, 11.  \\
\textsuperscript{24} \textit{id}. at 9 (internal quotations omitted).  \\
\textsuperscript{25} See, \textit{e.g.}, PMS Memorandum.
\end{flushleft}
Chinese steel imports, when considered in conjunction with the rest of the record developed in this proceeding, is sufficient to substantiate a PMS claim.

(iii) The Korean Electricity Market

With respect to the price of electricity in Korea, the petitioner again draws similarities between this case and the recently-completed review of "OCTG from Korea." There, Commerce found that a PMS existed in Korea due, in part, to allegations regarding distortions in the Korean electricity market. As in the context of the petitioner’s argument regarding Chinese steel imports, the petitioner again asserts that “the Department failed to articulate any reason why the virtually identical record evidence here does not warrant a finding of PMS.”

For reasons similar to those discussed above, we again disagree. In our post-preliminary PMS Memorandum, we explained at length why the facts of this case are decidedly different from the facts presented in "OCTG from Korea." The fact that in "OCTG from Korea" our affirmative PMS finding relied in part on an allegation that the Korean electricity market is distorted does not mean that, taken individually or as a whole, record evidence in this instance supports an affirmative PMS finding.

Although the petitioner repeatedly asserts that the record of this case and "OCTG from Korea" are identical or indistinguishable, we noted at numerous points throughout the PMS Memorandum that the parallels between the cases were limited. Where a PMS claim is supported with quantifiable evidence of price distortion, a general allegation concerning distortions in the Korean electricity market may serve to contribute to an affirmative finding. That was the case in "OCTG from Korea." In contrast, in the instant case, the petitioner has presented generalized allegations concerning the Korean electricity market without the support of one or more allegations that provide a direct and quantifiable link between market distortions and the experience of respondents or nail producers in general. The fact that allegations regarding the Korean electricity market were present in both this case and in "OCTG from Korea" does not necessarily require that Commerce reach identical conclusions in both cases.

(iv) Procedure

Finally, we do not agree with the petitioner’s assertions regarding Commerce’s procedural approach. The petitioner’s argument that Commerce “added a new requirement to the sufficiency of PMS allegations” by requiring that the petitioner “tie every single contributing factor of the PMS to the cost of production for the respondents” misstates the finding in our preliminary PMS determination. We explained that a petitioner must identify a connection between allegedly distortive market conditions and reported costs for the particular industry or respondents. However, we did not state that a petitioner must identify the precise degree of distortion attributable to every alleged market condition. In fact, we noted that identifying the

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26 See, e.g., Petitioner PMS Brief at 11.
27 See, e.g., id. at 10-11.
28 See, e.g., PMS Memorandum at 8, 10-11.
29 See, e.g., Petitioner PMS Brief at 13.
30 See PMS Memorandum at 10.
measurable impact of one of four alleged market conditions was sufficient, as was the case in 

*OCTG from Korea.* We stated:

{w}ith respect to the other market conditions alleged by the petitioner – a distorted electricity market in Korea and unfairly traded steel from the PRC – we agree that these considerations may support a PMS allegation. However, these considerations alone do not warrant the application of cost adjustments under our PMS methodology, because neither consideration is supported by information demonstrating the impact of such factors on production costs for nails producers in Korea.**31**

Here, unlike *OCTG from Korea*, the petitioner did not identify a connection between *any* of the allegedly distortive market conditions and the respondents’ costs. In the absence of a demonstrated connection between the alleged market conditions and cost of production for the respondents or the nails industry, general allegations regarding Chinese steel exports and electricity subsidies are insufficient to support a PMS.

Similarly, the petitioner’s assertion that we should have notified it of deficiencies in its PMS allegation is misplaced. Section 782(d) of the Act requires Commerce to notify a party of deficiencies only “in response to a request for information,” and, to the extent practicable, Commerce must allow that party an opportunity to remedy or explain the deficiency. However, the decision to make a PMS allegation is an affirmative choice on the part of the petitioner, and is thus not governed by section 782(d) of the Act. The initial burden to substantiate an unsolicited PMS allegation is on the petitioner. Although Commerce may request additional information from parties at any point in a proceeding, it is not required to request additional information from either petitioner or respondents following the receipt of a PMS allegation from a petitioner.

Commerce continues to develop its practice regarding PMS allegations, and a PMS allegation and our resulting analysis will necessarily be case specific. However, as we stated in our PMS Memorandum, to support a PMS allegation, the petitioner should provide a specific and quantifiable analysis of the alleged distortions that is particular to the industry or the respondents in question. For instance, an allegation may analyze subsidies that impact input costs,**32** the prices of key inputs when sourced in the subject country and when sourced from a third country,**33** or other factors that have an effect on supply and/or demand in the market. Regardless of how a petitioner may choose to substantiate its allegation, the burden remains with the petitioner to sufficiently substantiate its allegation so as to provide a sufficient basis for further investigation by Commerce. Although the petitioner suggests that Commerce did not identify the deficiencies in the PMS allegation, Commerce did so in the PMS memorandum,

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**31** *Id.*

**32** See, e.g., *OCTG from Korea.*

**33** See, e.g., *Rebar from Taiwan.* In *Rebar from Taiwan*, the petitioner provided a comparison of prices for the key input (steel billets) when sourced from China, and when sourced domestically, to demonstrate that Chinese prices were artificially low. *See Taiwan Rebar IDM*, at Comment 1. Although Commerce ultimately determined that the petitioner did not establish that a PMS existed, the petitioner provided a quantitative analysis to attempt to demonstrate the presence, and significance of, the alleged market distortions. *Id.*
explaining that the allegation did not identify a connection between allegedly distortive market conditions and reported costs for the particular industry or respondents.  With respect to the petitioner’s request that Commerce solicit additional information from respondents regarding its PMS allegation, the petitioner had the opportunity to put forth its allegation, and the burden is on the petitioner, not Commerce to substantiate its PMS allegation.  To the extent that the petitioner believes specific additional information was necessary to remedy the deficiency in its PMS allegation, it was permitted to identify, and request that Commerce consider, such information.

We also note that, here, following the petitioner’s filing of its PMS allegation, Commerce met with the petitioner to discuss the allegation.  Then, after the issuance of our post-preliminary determination, the petitioner had an additional opportunity to clarify its allegation and remedy the deficiency in its allegation with further arguments in support of its position. Accordingly, the petitioner had adequate opportunity to support its PMS allegation with factual information and/or legal argument.

For the reasons stated above, we continue to find that the petitioner failed to sufficiently substantiate its PMS allegation, and Commerce continues to determine that the PMS allegation does not warrant further investigation.

**Daejin-Specific Issues**

**Comment 2: Scrap Offset**

*The Petitioner’s Comments*

- Daejin’s reported scrap offset is based on the company’s revenues from scrap *sales* during the POR. Because Daejin’s offset is based on scrap *sales*, rather than the quantity of scrap *generated*, Commerce should deny the scrap offset.
- Furthermore, Daejin has not established a link between the quantities of scrap sold and the quantities actually generated during the POR. In fact, Daejin’s reported scrap sales show substantial fluctuation on a month-to-month basis, and there is not a strong correlation between production levels and scrap sales. Therefore, Daejin’s sales data are an unreliable proxy for its scrap generation.

*Daejin’s Rebuttal Comments*

- Daejin only sells scrap generated by its own production operations, and therefore the quantity of scrap sold by Daejin over any extended period of time cannot differ markedly from the quantity generated.

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34 See PMS Memorandum at 10.
35 We also note that Daejin argues that the PMS provision in Section 504 of the TPEA does not permit Commerce to adjust a respondent’s costs for the purposes of the cost test. However, this argument is moot here, and, in any case, has previously been raised, and rejected by Commerce. See OCTG IDM at 31-32, 40
36 See PMS Memorandum at 3 (noting that the provision governing the submission of new factual information in this context, 19 CFR 351.301(c)(2)(v), does not specify a deadline for the submission of factual information in support of “other allegations” and states that Commerce will determine whether to accept such information if submitted).
• In some instances during the POR, scrap sales were made in the middle of the month or even towards the beginning of the month. In other instances, Daejin waited for more scrap to accumulate prior to selling the scrap. Accordingly, the quantity of scrap sold was not identical in each sale.
• Commerce should grant Daejin’s scrap offset in full.

Commerce’s Position:

Commerce agrees with the petitioner in part, and with Daejin in part. In our Preliminary Results, we provided Daejin an offset to its direct material costs to reflect its scrap sales. However, we adjusted the scrap offset to account for the month-to-month fluctuations highlighted by the petitioner.38 We will continue to apply this approach – i.e., provide a scrap offset, as adjusted – in these final results.

During the POR, Daejin did not maintain records of scrap generation during the normal course of business. Daejin did, however, maintain records regarding scrap sales. In similar scenarios, where no record evidence undermines the reliability of the data regarding scrap sales, Commerce has relied on scrap revenue figures to calculate an appropriate offset.39 For instance, in Solar Products, we explained:

{o}ur review of {the respondent} SAS’ record of the quantity of scrap sold during the POR indicates that, for certain months the company sold scrap multiple times, whereas, for other months during the POR, it had no sales of scrap. However, the record also shows that such sales were made frequently during the POR, which indicates that SAS sold its scrap within a short period of time after the scrap was generated throughout the POR. Moreover, although SAS does not maintain a scrap inventory movement schedule in its normal course of business to show the scrap generated each month, it is reasonable to assume that the scrap generated during the POR is linked to the scrap sold during the POR, given the frequency with which SAS sells scrap. Accordingly, we find that the method SAS used to report its scrap sales is reasonable and consistent with the manner in which the company maintains its books and records. Therefore, we continue to grant SAS its reported scrap offset in the final results.40

Similarly, in the instant case, we find Daejin’s method of tracking of scrap sales to be an acceptable proxy for its generated scrap. As with the respondent in Solar Products, Daejin regularly sells scrap generated during its production process.41 Nothing on the record undermines Daejin’s assertion that it exclusively sells its own scrap. Therefore, given the administrative record in this review, we find that Daejin’s scrap sales reasonably approximate its generation of scrap on a POR basis.

38 See Daejin Preliminary Analysis Memorandum at 6.
40 Id.
41 See Letter from Daejin, “Response of Daejin Steel Company to the Department’s February 16 Supplemental Questionnaire,” dated March 6, 2017 (Daejin March 6, 2017 SQR) at 25.
Notwithstanding our conclusion that Daejin’s sales data provide an acceptable proxy for scrap generation under these circumstances, we find that Daejin’s initially-reported scrap offset is distortive because the proposed offset is influenced by the timing of scrap sales. Specifically, control numbers (CONNUMs) produced in months with higher scrap sales revenue received a comparatively larger offset by virtue of the timing of the production of such CONNUMs. As the petitioner has highlighted, Daejin’s monthly scrap sales do not precisely track production levels. Accordingly, to mitigate distortions caused by the timing of scrap sales, as in the Preliminary Results, we will continue to apply a POR average scrap offset.42

Comment 3: Cost Variations Not Due to Differences in Physical Characteristics

The Petitioner’s Comments

- In the normal course of business, Daejin calculates and records costs on a monthly basis. Daejin relied on these monthly costs to calculate its reported average costs of production.
- Commerce, and the petitioner, identified instances where highly similar CONNUMs had substantial variation in their respective cost of manufacturing (COM), as reported by Daejin. Daejin acknowledged that these differences in COM were a function of timing and production quantities of the various CONNUMs.
- Commerce has determined on multiple occasions that cost discrepancies caused by factors other than the physical characteristics of the products, including fluctuations in monthly costs, are inappropriate. Under similar circumstances, Commerce has reallocated respondents’ costs to eliminate such differences and to ensure that similar CONNUMs have similar costs. In the current case, in accordance with past practice and prior determinations, Commerce should revise Daejin’s reported costs to eliminate differences in the reported raw material and fabrication costs that, as Daejin itself indicates, are not due to differences in the physical characteristics of the subject merchandise.
- Commerce should eliminate variations in direct material costs that are not due to differences in the type of steel wire rod used by calculating and applying to each CONNUM a weighted average direct material cost specific to the reported STEELH/U code. Similarly, Commerce should eliminate the significant differences identified in Daejin’s reported conversion costs between CONNUMs that differed based only on the diameter and/or length characteristics.

Daejin’s Rebuttal Comments

- Pursuant to Commerce practice, a respondent’s costs will normally be based on the records of the exporter or producer of the merchandise, if such records are kept in accordance with the generally accepted accounting principles (GAAP) of the exporting country (or the producing country, where appropriate) and reasonably reflect the costs associated with the production and sale of the merchandise. Daejin’s costs were maintained on a monthly basis, in a manner consistent with accepted accounting principles, and therefore Commerce should rely on the costs as reported.
- The petitioner’s complaints relate, at most, to a tiny fraction of the reported control

42 See Daejin Final Analysis Memorandum.
numbers reported by Daejin. Accordingly, there is no basis for punishing Daejin with the arbitrary and flawed recalculation proposed by the petitioner.

**Commerce’s Position:**

We agree with the petitioner, in part. Pursuant to section 773(f)(1)(A) of the Act, “costs shall normally be calculated based on the records of the exporter or producer of the merchandise, if such records are kept in accordance with the generally accepted accounting principles of the exporting country (or the producing country, where appropriate) and reasonably reflect the costs associated with the production and sale of the merchandise.”

Accordingly, we are instructed by the Act to rely on a company’s normal books and records if two conditions are met: (1) the books are kept in accordance with the home country’s GAAP; and (2) the books reasonably reflect the cost to produce and sell the merchandise. In the instant case, Daejin reported its costs as those costs are recorded in the company’s normal books and records, which are kept in accordance with Korean GAAP. Therefore, the question facing Commerce is whether the per-unit costs from Daejin’s normal books reasonably reflect the cost to produce and sell the subject merchandise.

Here, Commerce identified several instances where pairs of CONNUMs that were similar in terms of physical characteristics had meaningfully different manufacturing costs reported. We asked Daejin to explain the reason for these cost differentials in supplemental questionnaires. In the first questionnaire, we identified two CONNUMs and requested an explanation for the substantially different costs associated with each product. Daejin explained that the discrepancy was a function of the manner in which Daejin maintains its books and records. Specifically, Daejin explained that it maintains its costs on a monthly, product-specific basis, and the underlying costs fluctuated from month to month. As a result, because one of the CONNUMs selected by Commerce was produced only in July and August of 2015, while the other CONNUM was produced in 2016, the costs diverged, notwithstanding the fact that the CONNUMs were similar in terms of physical characteristics. Daejin further stated that, “{a}s a result, the reported fabrication costs for the two CONNUMs relate to different months of production.”

Following Daejin’s response, we further examined Daejin’s cost database and observed additional instances where the COM for certain CONNUM pairs varied considerably even though the only difference in physical characteristics between the two identified CONNUMs were the products’ diameter and/or length. Accordingly, we identified several such CONNUM

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44 See Daejin March 6, 2017 SQR at 24.
45 Id.
46 Id.
47 Id.
48 See Daejin June 13, 2017 SQR at 3-4.
pairings and asked Daejin for an explanation of the observed cost differences. Daejin explained:

[t]he monthly costs for each product could vary as a result of changes in raw materials costs and total factory fabrication costs from month to month, as well as due to changes in total factory production quantities (which affected the allocation of fabrication costs to each product, as well as the calculation of the per-unit amounts) from month to month.

Daejin’s responses to our first and second supplemental questionnaires indicate that, in some instances, the costs reported for similar CONNUMs are substantially different based on factors unrelated to the physical characteristics of the products themselves. Therefore, the cost differences are not driven by differences in the CONNUMs’ physical characteristics. We, accordingly, find such differences to be distortive.

Although Commerce generally relies on costs as reported by respondents, we will not do so if we find the costs to be distortive. For instance, in Circular Welded Non-Alloy Steel Pipe, we described several scenarios where Commerce opted not to rely on respondents’ costs, as reported, where cost differentials between CONNUMs appeared to be driven by factors other than product characteristics:

[t]he Department faced similar situations where a CONNUM’s costs were highly dependent on either specific production runs or on the timing of the main raw material purchases under a cost allocation methodology that reflects a narrow population of the main raw material purchases (e.g., coil-specific, first in first out, monthly weight-averages, etc.) when allocating raw material costs to the products produced. For example, in UK Bar, the Department found that the respondent’s costs from its normal books and records were distortive. In that case, the respondent assigned a specific billet purchase price to each job order within a CONNUM, and because it produced and sold each product only a limited number of times during the cost reporting period, the specific billet costs did not represent the unit cost normally experienced by the company to produce the product during that time period. Similarly, in Nails from the UAE, the Department reallocated the respondent’s direct material costs from its normal books and records because the product-specific cost differences were related to timing differences rather than differences in physical characteristics.  

49 See February 16, 2017 Questionnaire, at 5.
Similarly, in *Certain Cut-to-Length Carbon-Quality Steel Plate from Korea*, Commerce was recently faced with facts similar to this case.\(^\text{52}\) There, Commerce “smoothed” out cost differences across CONNUMs that were not attributable to physical characteristics.\(^\text{53}\) We explained that where the differences in costs between similar CONNUMs could not be explained by the differences in the physical characteristics of those CONNUMs, we determined that {the respondent’s} reported costs did not reasonably reflect the costs associated with the production and sale of the merchandise. To mitigate the impact of the cost fluctuations which were unrelated to the reported products’ physical characteristics, we reallocated {the respondent’s} conversion costs … We continue to find our recalculation of {the respondent’s} conversion costs to be a reasonable methodology for mitigating the distortions found in {the respondent’s} reported costs.\(^\text{54}\)

Daejin’s reported costs are distortive because they result in significant cost differences for very similar models. As detailed above, Daejin acknowledges that these cost differences are the result of factors other than the physical characteristics of the merchandise.

Accordingly, we recalculated Daejin’s reported costs by applying an average cost to CONNUMs that match on all product characteristics except diameter and length.\(^\text{55}\) This approach reasonably mitigates the distortions in the reported costs by smoothing out differences in costs for very similar products caused by differences in production timing and/or volume. Our methodology here is consistent with Commerce’s past practice.\(^\text{56}\) Due to the use of proprietary information, we have included further details on our cost adjustment in the Daejin Final Analysis Memorandum, dated concurrently with this memorandum.

Finally, we note that Daejin objects to such an adjustment, asserting that the adjustment is unnecessary because Commerce only identified a relatively small number of CONNUMs for which costs varied by more than what could be attributable to differences in physical characteristics. We disagree. The CONNUMs we cited in our supplemental questionnaires were not an exhaustive list. Rather, the CONNUMs enumerated in the questionnaires simply constituted a selection of CONNUM pairings to illustrate Commerce’s general concern with Daejin’s assignment of costs across CONNUMs. As detailed in our calculation memorandum, the observed cost differentials affected a significant number of CONNUMs.\(^\text{57}\)


\(^{53}\) Id.

\(^{54}\) Id.

\(^{55}\) *See Daejin Final Analysis Memorandum.*

\(^{56}\) *See, e.g., Circular Welded Non-Alloy Steel Pipe from the Republic of Korea: Final Results of Antidumping Duty Administrative Review; 2013-2014*, 81 FR 39908 (June 20, 2016), and accompanying Issues and Decision Memorandum at Comment 9; see also *Welded Line Pipe from the Republic of Korea: Final Determination of Sales at Less Than Fair Value*, 80 FR 61366 (October 13, 2015), and accompanying Issues and Decision Memorandum at Comment 5.

\(^{57}\) *See Daejin Final Analysis Memorandum.*
For the reasons stated above, we will adjust Daejin’s costs to ensure that similar CONNUMs are not assigned substantially different costs.

Comment 4: SG&A Expenses

The Petitioner’s Comments

- Daejin allocated a portion of its selling, general and administrative (SG&A) expense items to separate selling and G&A categories based on the ratio of the salaries for the personnel performing selling and non-sales functions. Daejin asserts that its allocations are reasonable given that its selling activities for home market and export sales are handled by a single person in Daejin’s sales and administration team.
- Daejin’s allocations, however, are not supported by the record. Certain expense items such as depreciation, taxes, repairs, and maintenance, have no relation to personnel salaries, and are, by their nature, wholly unrelated to selling activities. Commerce should allocate Daejin’s SG&A expenses to separate selling and G&A categories based on the nature of each expense item.

Daejin’s Rebuttal Comments

- Daejin’s SG&A allocation was appropriate, because Daejin’s sales and administrative personnel work out of the same building at the same facility. Therefore, expenses generated by the building, such as depreciation, repairs and insurance expenses, relate to both selling and G&A activities performed in the building. Similarly, the sales personnel rely on publications, supplies, and vehicles; accordingly, expenses associated with these items should be attributed, in part, to selling activities.
- Although the petitioner asserts that Daejin’s allocation methodology (i.e., allocating based on personnel salaries) is inappropriate, it nonetheless indicates that such an allocation is appropriate for certain items, such as travel expenses, entertainment expenses and communication expenses. Therefore, there is no principled basis for the petitioner’s objection to Daejin’s allocation of expenses.

Commerce’s Position:

We agree with Daejin. Although the petitioner argues that various expense items must be reclassified or reallocated, we find that Daejin’s proposed allocation is consistent with the record evidence. Accordingly, for the final results, we will continue to rely on Daejin’s allocation methodology.

In assigning expenses to selling and G&A, Daejin assigned expenses that were clearly applicable to a single category to the appropriate category. For instance, salaries for selling agents were classified as selling, and other salaries were classified under G&A.\(^58\) Several expense categories, however, could not be readily classified as selling or G&A. To allocate expenses for these

categories, Daejin relied on the ratio of the salaries for employees performing selling and G&A functions, and used the ratio to allocate any expenses of a mixed nature.\textsuperscript{59}

We continue to find this allocation to be reasonable. Daejin states that its sales team works at the same location, and uses the same building, supplies, and vehicles, as other employees.\textsuperscript{60} Accordingly, expenses relating to these items are properly treated as both selling and G&A expenses. We find that Daejin’s allocation is not distortive, and no information on the record undermines the reasonableness of the allocation. Finally, we also note that Commerce has accepted similar expense allocations in the past.\textsuperscript{61} Thus, we continue to use Daejin’s allocation methodology for these final results.

**Comment 5: Quarterly Costs**

**Daejin’s Comments**

- Daejin faced significant changes in raw material costs during the review period. Commerce declined to use quarterly costs, however, because it found that the differences between the highest and lowest total COM for all five of the five CONNUMs with the highest volume of U.S. sales, and for four of the five CONNUMs with the highest volume of home-market sales, was less than 25 percent.
- Commerce has not explained, however, why its standard use of a 25 percent cut-off for ten CONNUMs is appropriate in the specific circumstances of this case.
- Commerce’s normal methodology of focusing on differences in the quarterly COM only for five CONNUMs with the highest volume of sales in each market does not provide an accurate measure of the actual variations in quarterly costs for products produced throughout the cost reporting period. Commerce should focus its examination on CONNUMs produced in at least four quarters for the purposes of applying the 25 percent “significant change” test to determine whether the use of a quarterly cost methodology is appropriate here.
- Commerce should examine whether there was a 25 percent change in raw material costs – rather than a 25 percent change to COM, which includes fabrication costs – to determine whether the use of a quarterly cost methodology is appropriate here.

**The Petitioner’s Rebuttal Comments**

\textsuperscript{59} Id.
\textsuperscript{60} Id.
\textsuperscript{61} See Notice of Final Determination of Sales at Less Than Fair Value: Steel Concrete Reinforcing Bars from the Republic of Korea, 66 FR 33526 (June 22, 2001) (Rebar from Korea) and accompanying Issues and Decision Memorandum (Korea Rebar IDM) at Comment 2 (accepting respondent’s allocations of non-salary/benefit expenses that were of a “mixed nature,” i.e., related to both selling and G&A, on the basis of salaries.). In Rebar from Korea, we explained that a salary-based allocation was appropriate because “most of the non-salary SG&A expenses consist of the overhead costs of the companies’ offices from which the SG&A employees operate.” \textit{See id.} The facts in Rebar from Korea are analogous to the facts of this case, where Daejin’s sales and non-sales employees work out of the same location. \textit{See also, e.g., Notice of Final Results of the Tenth Administrative Review and New Shipper Review of the Antidumping Duty Order on Certain Corrosion-Resistant Carbon Steel Flat Products from the Republic of Korea, 70 FR 12443 (March 14, 2005) at Comment 27 (accepting an allocation of expenses based on the number of employees performing a given function).
To determine whether reliance on quarterly cost data is appropriate, Commerce evaluates whether the change in COM for the respondent during the POR is significant. Commerce defines such a change as significant if there is a greater than 25 percent change in COM when comparing the highest cost quarter to the lowest quarter for the five highest volume CONNUMs in the home market and U.S. market.

Commerce applied its standard analysis, finding that none of the five highest volume CONNUMs in the U.S. market experienced a change in COM of 25 percent or more, and only one of the five highest volume CONNUMs in the home market experienced a change in COM of 25 percent or more. As a result, and consistent with agency practice, Commerce determined that its quarterly cost methodology was not appropriate for Daejin’s margin calculations. Daejin has provided no arguments that justify a departure from agency practice.

Daejin’s proposed alternate analysis, which emphasizes a focus on a subset of CONNUMs (i.e., CONNUMs that were sold in a particular number of quarters), is inappropriate because it fails to take into account the sales volume for the various CONNUMs.

Commerce’s quarterly cost methodology is established in agency practice, and has been affirmed by the Court of International Trade (CIT).

Additionally, Daejin’s assertion that fabrication costs mask percentage differences in raw material costs, amounts to an argument that Commerce’s 25 percent significance test should be executed on the basis of direct material costs as opposed to the total COM. This argument has previously been rejected by Commerce in Rebar from Turkey.62

Commerce’s Position:

We agree with the petitioner. In our preliminary results, we applied Commerce’s standard methodology to assess whether a deviation from the standard approach of relying on POR-average costs, rather than quarterly costs, was appropriate. Pursuant to the standard analysis, we evaluated whether the change in the COM for Daejin during the POR was “significant.” Specifically, we assessed whether there was a greater than 25 percent change in the COM from the highest cost to the lowest cost quarter, for five CONNUMs in each market.63 As we explained in the Daejin Analysis Memorandum:

{for Daejin’s} 5 highest volume CONNUMs in the U.S. market, none of the CONNUMs experienced a change in COM of 25 percent or more. In the home market, only one of the 5 highest volume CONNUMs experiences a change in COM of 25 percent or more. As a result, and consistent with Department practice, Commerce determines that quarterly cost methodology is not appropriate.

62 See Petitioner Rebuttal Brief at 5-6 (citing Steel Concrete Reinforcing Bar from the Republic of Turkey: Final Determination of Sales at Less Than Fair Value, 82 FR 23192 (May 22, 2017) (Rebar from Turkey) and accompanying Issues and Decision Memorandum at Comment 2)).
63 See Certain Steel Nails from the United Arab Emirates: Final Determination of Sales at Less Than Fair Value, 77 FR 17029 (March 23, 2012) and accompanying Issues and Decision Memorandum (UAE Nails IDM) at Comment 11; Welded Carbon Steel Standard Pipe and Tube Products from Turkey: Final Results of Antidumping Duty Administrative Review; 2011-2012, 78 FR 79665 (December 31, 2013) and accompanying Issues and Decision Memorandum (Turkey Welded Pipe) at Comment 1.
Accordingly, we relied on Daejin’s POR costs for our analysis.64

As Daejin acknowledges throughout its brief, Commerce adhered to its “normal methodology” in considering whether to use quarterly costs in this case. Nonetheless, Daejin asserts that Commerce should alter its analysis by focusing its examination on CONNUMs that were produced in four or more quarters.65

We disagree. First, we note at the outset that Daejin provides no authority for the proposition that Commerce should deviate from its normal approach and focus on products that were produced in four or more quarters. Second, such an approach would have Commerce disregard critical, high-volume CONNUMs simply because production of that merchandise was concentrated in a single time period (or a small number of time periods), and not spread out across four or more quarters. Commerce’s standard approach – i.e., selecting the CONNUMs with high sales volumes for examination – ensures that Commerce focuses its analysis on the CONNUM-specific costs for the sales that are most significant to Daejin’s operations and to Commerce’s dumping analysis. Daejin’s proposed alternative analysis represents an attempt to isolate a subset of the data that is favorable for achieving its desired results.

Daejin’s proposed analysis also departs from Commerce’s standard analysis in that it seeks to focus on the percent change to Daejin’s reported raw material costs, rather than the total COM, which includes fabrication costs. Daejin provides no explanation for such a departure, and this argument has been rejected elsewhere.66 In Rebar from Turkey, for instance, Commerce recently explained that

the use of the change in costs as a percentage of total COM is superior to the use of the change in costs as a percentage of only material costs as it accounts for all production costs, the total of which impact pricing. Since material costs as a percentage of total COM may vary significantly from product to product, using total COM as the denominator in our significant cost change test results in a more consistent test. Further, using total COM is more meaningful as it is the total cost of manufacturing that prices must be set to recover, not just material costs.67

Thus, in Rebar from Turkey, Commerce rejected the precise argument Daejin makes here. Accordingly, our analysis properly focused on changes to Daejin’s total COM over a period of time, rather than changes to the raw material costs. Therefore, for the final results, Commerce will continue to apply our standard methodology to assess period-to-period shifts in Daejin’s costs for the purposes of our margin calculation.

64 See Daejin Preliminary Analysis Memorandum at 5 (internal citations omitted); see also Daejin March 6, 2017 SQR at SD-3 (containing Daejin’s quarterly cost data).
65 See Daejin Brief at 2-3.
66 See at Attachment 2.
67 See Turkey Rebar IDM at Comment 2.
Comment 6: Differential Pricing

Daejin’s Comments

- Commerce has failed to justify the numerical thresholds used in the differential pricing analysis based on substantial evidence on the record. Because these thresholds were not adopted pursuant to notice-and-comment requirements of the Administrative Procedure Act (APA), Commerce must justify these thresholds in every case, and must provide substantial evidence on the record showing that the analysis is appropriate under the facts of this particular case.

- Commerce’s differential pricing analysis fails to explain why any patterns of price differences were not, or could not be, taken into account using an average-to-average (A-to-A) comparison. Demonstrating that dumping margins are different under an alternative methodology does not amount to an explanation of why an A-to-A price comparison is inappropriate.

- There is, in fact, no reason to believe that the price differences that give rise to a finding of “targeted dumping” are the cause of the divergent results across the comparison methodologies. Instead, the divergent margin calculations are primarily a function of the different treatment of negative dumping margins under Commerce’s standard methodology (where zeroing is not used) and its alternate methodologies (where negative margins are zeroed).

- The World Trade Organization (WTO) Appellate Body has held that zeroing of negative dumping margins is not permitted even when the average-to-transaction (A-to-T) methodology is justified.68 In the event that Commerce decides to utilize the A-to-T methodology in this review, it should not zero any negative dumping margins found in its comparisons.

The Petitioner’s Rebuttal Comments

- Commerce’s differential pricing analysis is consistent with the statute and supported by substantial evidence on the record.

- The CIT has held that Commerce’s differential pricing analysis is not a legislative rule, but instead is a change in Commerce’s practice and therefore is not subject to notice-and-comment requirements under the APA for rule-making. Accordingly, Commerce’s change in its differential pricing practice is supported by substantial evidence.

- The courts have repeatedly upheld the use of the numerical thresholds used in the differential pricing analysis, i.e., the 0.8 cut-off used for the “Cohen’s d” test and the 33 and 66 percent cut-offs used for the “ratio test.”69

- Commerce’s application of the meaningful difference test, and the different result obtained through each method, i.e., the margin obtained through the A-to-A method and the margin obtained through the A-to-T method, demonstrates why the A-to-A method cannot account for the pattern of significant price distortions here.70


69 See Petitioner Rebuttal Brief at 7 (citing Tri Union Frozen Products, Inc. v. United States, 163 F.Supp.3d 1255, 1301 (CIT 2016); Mid Continent Steel & Wire, Inc. v. United States, 219 F.Supp.3d 1326, 1339 (CIT 2017)).

70 Id. at 9 (citing Apex Frozen Foods Private Ltd v. United States, 144 F.Supp.3d 1308, 1332-1335 (CIT 2016) (Apex II), aff’d, Apex Frozen Foods Private Ltd v. United States, 862 F.3d 1337, 1346, 1348-1349 (Fed. Cir. 2017)).
• To date, the United States has not implemented the WTO’s findings in Washers from Korea. Therefore, the WTO determination in that case is not binding on the U.S., and Commerce has no obligation to change its use of zeroing in the final results of this review.

Commerce’s Position:

We disagree with Daejin’s assertion that Commerce has not justified the numerical thresholds used in our differential pricing analysis. We also disagree with Daejin’s assertion that Commerce failed to provide an explanation of why an A-to-A price comparison is inappropriate here. Accordingly, for the final results, we continue to apply our standard differential pricing analysis in these final results, and continue to calculate Daejin’s margin using the A-to-T methodology.

As an initial matter, Commerce notes that there is nothing in section 777A(d) of the Act that mandates how Commerce measures whether there is a pattern of prices that differ significantly or explains why the A-to-A method cannot account for such differences. On the contrary, carrying out the purpose of the statute here is a gap filling exercise properly conducted by Commerce.

As explained in the Preliminary Results, as well as in various other proceedings, Commerce’s differential pricing analysis, including the use of the Cohen’s d test as a component in this analysis, is reasonable and is not contrary to the law.

Daejin contends that Commerce must explain why the numerical thresholds used in this case are appropriate given the specific record because Commerce has not promulgated a rule regarding the numerical thresholds for its differential pricing analysis through notice-and-comment procedures. We disagree. Commerce normally makes these types of changes in practice (e.g., the change from the targeted dumping analysis to the current differential pricing analysis) in the context of our proceedings, on a case-by-case basis. As the CIT has recognized, Commerce is entitled to make changes and adopt a new approach in the context of its proceedings, provided it explains the basis for the change, and provided the change is a reasonable interpretation of the

71 See Koyo Seiko Co., Ltd. v. United States, 20 F. 3d 1156, 1159 (Fed. Cir. 1994) (“The purpose of the antidumping statute is to protect domestic manufacturing against foreign manufacturers who sell at less than fair market value. Averaging U.S. prices defeats this purpose by allowing foreign manufacturers to offset sales made at less-than-fair value with higher priced sales. Commerce refers to this practice as ‘masked dumping.’ By using individual U.S. prices in calculating dumping margins, Commerce is able to identify a merchant who dumps the product intermittently - sometimes selling below the foreign market value and sometimes selling above it. We cannot say that this is an unfair or unreasonable result.” (internal citations omitted)).


73 See, e.g., Welded Line Pipe from the Republic of Korea: Final Determination of Sales at Less Than Fair Value, 80 FR 61366 (October 13, 2015) (Line Pipe from Korea) and the accompanying Issues and Decision Memorandum at Comment 1; Circular Welded Non-Alloy Steel Pipe from the Republic of Korea: Final Results of Antidumping Duty Administrative Review; 2012-2013, 80 FR 32937 (June 10, 2015), and the accompanying Issues and Decision Memorandum, at Comments 1 and 2; Welded ASTM A-312 Stainless Steel Pipe from the Republic of Korea: Final Results of Antidumping Duty Administrative Review; 2013-2014, 81 FR 46647 (July 18, 2016), and accompanying Issues and Decision Memorandum, at Comment 4.
Moreover, the CIT in *Apex II* recently held that Commerce’s change in practice from targeted dumping to its differential pricing analysis was exempt from the APA’s rule making requirements, stating:

Commerce explained that it continues to develop its approach with respect to the use of A-to-T as it gains greater experience with addressing potentially hidden or masked dumping that can occur when the Department determines weighted-average dumping margins using the [A-to-A] comparison method. Commerce additionally explained that the new approach is a more precise characterization of the purpose and application of [19 U.S.C. § 1677f-(d)(1)(B)] and is the product of Commerce’s experience over the last several years . . . further research, analysis and consideration of the numerous comments and suggestions on what guidelines, thresholds, and tests should be used in determining whether to apply an alternative comparison method based on the [A-to-T] method. Commerce developed its approach over time, while gaining experience and obtaining input. Under the standard described above, Commerce’s explanation is sufficient. Therefore, Commerce’s adoption of the differential pricing analysis was not arbitrary.  

Moreover, the CIT acknowledged in *Apex II* that as Commerce “gains greater experience with addressing potentially hidden or masked dumping that can occur when [Commerce] determines weighted-average dumping margins using the [A-to-A] comparison method, [Commerce] expects to continue to develop its approach with respect to the use of an alternative comparison method.” Thus, Commerce is not restricted in what type of sales it may consider in assessing the existence of such a pattern so long as its methodological choice enables Commerce to reasonably determine whether application of A-to-T is appropriate.” (internal citations and quotations omitted). Further developments and changes, along with further refinements, are expected in the context of our proceedings based upon an examination of the facts and the parties’ comments in each case. The CIT’s holding in *Apex II* has since been upheld by the Federal Circuit. Thus, we find that the numerical thresholds used in Commerce’s standard differential pricing analysis are reasonable and consistent with the requirements of section 777A(d)(1)(B) of the Act. Accordingly, Commerce’s development of the differential pricing analysis and the application of this analysis in this case, including the thresholds relied upon herein, are consistent with established law. Daejin has submitted no factual evidence or argument that demonstrates that these thresholds should be modified for Daejin for the purposes of this review.

Next, Daejin asserts that Commerce failed to explain why the A-to-A method cannot account for any pattern of price differences observed. We disagree. Commerce finds that the comparison of each of the calculated weighted-average dumping margins using the standard and alternative comparison methodologies exactly quantifies the extent of the masked dumping. As the CIT has explained,

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74 See *Carlisle Tire v. United States*, 634 F. Supp. 419, 423 (CIT 1986) (*Carlisle Tire*) (discussing exceptions to the notice and comment requirements of the APA).
75 See *Apex II*, 144 F. Supp. 3d, at 1330 (“Commerce is not restricted in what type of sales it may consider in assessing the existence of such a pattern so long as its methodological choice enables Commerce to reasonably determine whether application of A-to-T is appropriate.”) (internal citations and quotations omitted).
76 Id.
77 See *Apex Frozen Foods Private Ltd*, 862 F.3d at 1337.
where the amount of uncovered masked dumping results in an A-T calculated margin that is not de minimis, and the A-A calculated margin would be de minimis, it is reasonable for Commerce to presume that A-A cannot account for the pattern of significant price differences because, unlike A-T, A-A cannot uncover the dumping that was masked by the differentially priced sales. The fact that A-A was unable to calculate more than a negligible dumping margin while A-T was able to is reason enough to demonstrate that A-A could not account for the pattern of significant price differences here.78

Here, the A-to-A and A-to-T methodologies calculated different dumping margins. This result demonstrates that the A-to-A method cannot account for the pattern of significant price differences.

Finally, we disagree with Daejin’s arguments regarding Commerce’s treatment of negative margins in light of WTO jurisprudence, including the WTO Appellate Body’s findings in US–Washing Machines (Korea). The CAFC has held that WTO reports are without effect under U.S. law, “unless and until such a {report} has been adopted pursuant to the specified statutory scheme” established in the Uruguay Round Agreements Act (URAA).79 In fact, Congress adopted an explicit statutory scheme in the URAA for addressing the implementation of WTO reports.80 As is clear from the discretionary nature of this scheme, Congress did not intend for WTO reports to automatically supersede the exercise of Commerce’s discretion in applying the statute.81 Commerce has not revised or changed its use of the differential pricing methodology in light of the case cited by Daejin, nor has the United States adopted changes to its methodology pursuant to the URAA’s implementation procedure. Accordingly, for the final results, we will continue to apply our differential pricing methodology.

Kowire-Specific Issues

Comment 7: Affiliation with Subcontractor

The Petitioner’s Comments

- Kowire and a subcontractor are affiliated pursuant to section 771(33) of the Act. Additionally, Kowire and the subcontractor are affiliated as a result of a close supplier relationship, and Commerce should adjust the reported costs of the subcontractor’s processing services in accordance with the transaction disregarded rule, pursuant to section 773(f)(2) of the Act.82

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78 See Apex II, 144 F.Supp.3d 1308 at 1332-1335.
80 See, e.g., 19 U.S.C. 3533, 3538 (sections 123 and 129 of the URAA).
81 See, e.g., 19 U.S.C. 3538(b)(4) (implementation of WTO reports is discretionary).
82 See Petitioner Case Brief at 11-20.
Kowire’s Rebuttal Comments

- Commerce should continue to find that Kowire and the subcontractor that performed processing services for one specific type of steel nail are not affiliated.\(^{83}\)

Commerce’s Position:

We agree with Kowire. Based on our review of record evidence, and the arguments submitted by both parties, we continue to find that Kowire and its subcontractor are not affiliated. Due to the proprietary nature of the arguments from the parties and our discussion of the affiliation issue, we have included our discussion of this issue in Kowire’s Final Analysis Memorandum, dated concurrently with this memorandum.

Comment 8: SG&A Expense Ratio

Kowire’s Comments

- In its preliminary margin calculation, Commerce increased the numerator of Kowire’s G&A expense ratio to account for duty drawback, which Kowire had excluded from the G&A expense ratio.\(^{84}\) Commerce never explained why it made this adjustment, which limits Kowire’s ability to comment on Commerce’s preliminary methodology.\(^{85}\)
- Commerce decided not to grant Kowire a duty drawback adjustment to U.S. prices.\(^{86}\) If the G&A expense ratio adjustment is related to this issue, then Commerce should not make this adjustment in its Final Results, as nothing on the record indicates that duty drawback is a G&A expense.\(^{87}\) Rather, duty drawback is income related to the purchase of raw materials that Kowire realized as a direct result of exporting the subject merchandise.\(^{88}\)
- Although Commerce has denied Kowire a duty drawback adjustment under section 772(c)(1)(B) of the Act, the nature of the amount in question has not changed.\(^{89}\) As such, Commerce should not adjust the G&A expense ratio in these final results.\(^{90}\)

Commerce’s Position:

We disagree with Kowire’s argument that Commerce increased the numerator of Kowire’s G&A expenses by the value of duty drawback. In its Second Supplemental Section D Questionnaire response, Kowire incorrectly reduced its G&A expenses by the duty drawback amount, even though duty drawback is not properly included as part of G&A.\(^{91}\) In order to correct the error, Commerce simply disallowed Kowire’s aforementioned deduction, thereby relying on Kowire’s

\(^{83}\) See Kowire Rebuttal Brief at 3-10.
\(^{84}\) See Kowire Case Brief at 2.
\(^{85}\) Id.
\(^{86}\) Id. at 3.
\(^{87}\) Id.
\(^{88}\) Id.
\(^{89}\) Id.
\(^{90}\) Id.
\(^{91}\) See Letter from Korea to Commerce, “Kowire’s Second Supplemental Section D Questionnaire Response,” dated May 1, 2017, at Exhibit SD2-17 (Kowire May 1, 2017 SQR).
actual G&A expenses without the deduction. Therefore, for the final results, we continue to use the G&A ratio calculated in the Preliminary Results.

Comment 9: Cash Deposit

Kowire’s Comments
- In its Preliminary Results, Commerce stated that Kowire’s weighted-average dumping margin was 0.16 percent ad valorem, and indicated in a footnote that this margin was de minimis.92 Similarly, Commerce listed this rate as Kowire’s weighted-average margin on page 1 of the Kowire Preliminary Calculation Memorandum.93
- However, Commerce should have stated that Kowire’s preliminary margin was 0.00 percent.94 Specifically, on page 2 of the Kowire Preliminary Calculation Memorandum, Commerce stated that it had calculated a 0.00 percent rate under the A-to-A method for all U.S. sales and a 0.16 percent rate under the A-to-T method for all U.S. sales.95 Moreover, Commerce stated that it used the A-to-A method for all U.S. sales in its Preliminary Results.96
- Thus, if Commerce does not make any changes to its preliminary calculations, or any revisions continue to show that the results under both the A-to-A and A-to-T methods are zero or de minimis, Commerce should state that the A-to-A rate of 0.00 percent is Kowire’s rate for the final results.97

 Commerce’s Position:

We agree with Kowire that, in the Preliminary Results, Commerce inadvertently stated that the weighted-average dumping margin of 0.16 percent under the A-to-T method applied to Kowire, despite the fact that Commerce found that there was not a meaningful difference in the weighted-average dumping margins calculated using the A-to-A method and the A-to-T method. In the Preliminary Results, based on the results of the differential pricing analysis for Kowire, we preliminarily found that 71.84 percent of the value of U.S. sales passed the Cohen’s d test, which confirmed the existence of a pattern of prices that differed significantly among purchasers, regions, or time periods.98

However, Commerce found that there was not a meaningful difference in the weighted-average dumping margins calculated using the A-to-A comparison method and the A-to-T comparison method when both methods were applied to all sales.99 As such, for the Preliminary Results, we should have applied the A-to-A margin of 0.00 percent to Kowire.

92 See Kowire Case Brief at 3 (citing Memorandum, “Korea Wire Co., Ltd Preliminary Results Sales and Cost Analysis Memorandum,” dated July 31, 2017) (Kowire Preliminary Calculation Memorandum)).
93 Id.
94 Id.
95 Id.
96 Id.
97 Id. at 4.
98 Id.
99 Id.
Accordingly, since there are no changes to Kowire’s dumping margin calculation in these final results, Commerce will use the weighted-average margin calculated under the A-to-A method for Kowire. Accordingly, Kowire’s margin is 0.00.

VI. RECOMMENDATION

We recommend following the above methodology for these final results.

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Agree                      Disagree

1/19/2018

Signed by: GARY TAVERMAN

_________________________________________
Gary Taverman
Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations
performing the non-exclusive functions and duties of the
Assistant Secretary for Enforcement and Compliance