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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
Associate Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations
performing the duties of Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations

SUBJECT: Decision Memorandum for the Preliminary Results of the 2016-2017 Administrative Review of the Antidumping Duty Order on Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico

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I. SUMMARY

The Department of Commerce (Commerce) is conducting an administrative review of the antidumping duty (AD) order on heavy walled rectangular welded carbon steel pipes and tubes (HWR pipes and tubes) from Mexico. The period of review (POR) is March 1, 2016, through August 31, 2017. The review covers 11 producers and/or exporters of the subject merchandise. Commerce selected two respondents for individual examination, Maquilacero S.A. de C.V. (Maquilacero) and Productos Laminados de Monterrey S.A. de C.V. (Prolamsa). We preliminarily determine that sales of the subject merchandise have been made at prices below normal value (NV). We also preliminarily determine that Tuberia Nacional S.A. de C.V. had no shipments during the POR.

II. BACKGROUND

In September 2016, Commerce published in the *Federal Register* an AD order on HWR pipes and tubes from Mexico.[1] Subsequently, on September 1, 2017, Commerce published in the

[1] *See Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from the Republic of Korea, Mexico, and the Republic of Turkey: Antidumping Duty Orders*, 81 FR 62865, 62866 (September 13, 2016).

Federal Register a notice of opportunity to request an administrative review of the AD order on HWR pipes and tubes from Mexico for the period March 1, 2016, through August 31, 2017.[2]

Pursuant to section 751(a)(1) of the Tariff Act of 1930, as amended (the Act), and 19 CFR 351.213(b)(1), in September 2017, Commerce received requests to conduct an administrative review of the AD order on HWR pipes and tubes from Mexico from certain domestic producers/interested parties (collectively, the petitioners)[3] for 11 Mexican producers/exporters. Commerce also received a request to conduct an administrative review from Prolamsa. On November 13, 2017, based on these timely requests, in accordance with 19 CFR 351.221(c)(1)(i), we initiated an administrative review of the AD order on HWR pipes and tubes from Mexico.[4]

In the *Initiation Notice*, Commerce indicated that, in the event that we would limit the respondents selected for individual examination in accordance with section 777A(c)(2) of the Act, we would select mandatory respondents for individual examination based upon U.S. Customs and Border Protection (CBP) entry data during the POR.[5] In January 2018, after considering the large number of potential producers/exporters involved in this administrative review, and the resources available to Commerce, we determined that it was not practicable to examine all exporters/producers of subject merchandise for which a review was requested.[6] As a result, pursuant to section 777A(c)(2)(B) of the Act, we determined that we could reasonably individually examine the two producers/exporters accounting for the largest volume of HWR pipes and tubes from Mexico during the POR (*i.e.*, Maquilacero and Prolamsa). Accordingly, we issued the AD questionnaire to these companies.

In February 2018, we received timely responses from Maquilacero and Prolamsa to section A (*i.e.*, the section relating to general information) of the questionnaire, and in March 2018, we received responses from these companies to the remaining sections of the questionnaire (*i.e.*, sections B, C, and D, the sections covering comparison market sales, U.S. sales, and cost of production (COP)/constructed value (CV), respectively). In April 2018, we received an additional response to section B from Maquilacero related to downstream sales, and we also received revised U.S. and comparison market sales listings from Prolamsa.

On May 10, 2018, Commerce extended the preliminary results of this review until October 3, 2018.[7]

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[2] *See Antidumping or Countervailing Duty Order, Finding, or Suspended Investigation; Opportunity to Request Administrative Review*, 82 FR 41595 (September 1, 2017).

[3] These companies are Independence Tube Corporation and Southland Tube, Incorporated, Nucor companies (collectively, "Nucor companies"); Atlas Tube, a division of Zekelman Industries (Atlas Tube), and Searing Industries.

[4] *See Initiation of Antidumping and Countervailing Duty Administrative Reviews,* 82 FR 52268 (November 13, 2017) (*Initiation Notice*).

[5] *See Initiation Notice,* 82 FR at 52268.

[6] *See* Memorandum, "Selection of Respondents for Individual Review," dated January 25, 2018 (Respondent Selection Memo).

[7] *See* Memorandum, "Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from the Republic of Mexico: Extension of Deadline for Preliminary Results of Antidumping Duty Administrative Review," dated May 10, 2018. In this memorandum, we noted that Commerce exercised its discretion to toll all deadlines affected by the

From May through September 2018, we issued supplemental questionnaires to Maquilacero and Prolamsa. We received responses to these supplemental questionnaires during the same time period. In addition, pursuant to 19 CFR 351.301(b) and (c), and 19 CFR 351.102(b)(21)(i), the petitioners submitted timely new factual information to rebut, clarify, and/or correct information in the respondents' questionnaire responses.[8] Also during this time, the petitioners submitted a request to require theoretical weight reporting, deficiency comments, and pre-preliminary results comments.[9]

III. SCOPE OF THE ORDER

The merchandise subject to the order is certain heavy walled rectangular welded steel pipes and tubes of rectangular (including square) cross section, having a nominal wall thickness of not less than 4 mm. The merchandise includes, but is not limited to, the American Society for Testing and Materials (ASTM) A-500, grade B specifications, or comparable domestic or foreign specifications. Included products are those in which: (1) iron predominates, by weight, over each of the other contained elements; (2) the carbon content is 2 percent or less, by weight; and (3) none of the elements below exceeds the quantity, by weight, respectively indicated:

- 2.50 percent of manganese, or
- 3.30 percent of silicon, or
- 1.50 percent of copper, or
- 1.50 percent of aluminum, or
- 1.25 percent of chromium, or
- 0.30 percent of cobalt, or
- 0.40 percent of lead, or
- 2.0 percent of nickel, or
- 0.30 percent of tungsten, or
- 0.80 percent of molybdenum, or

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closure of the Federal Government from January 20 through January 22, 2018. *See* Memorandum, "Deadlines Affected by the Shutdown of the Federal Government," dated January 23, 2018. As a result, the revised deadline for the preliminary results became October 3, 2018.

[8] *See* Nucor companies' letter, "Heavy-Walled Rectangular Welded Carbon Pipes and Tubes from Mexico: Submission of Factual Information to Rebut, Clarify, or Correct Prolamsa's Section B and C Questionnaire Responses," dated April 20, 2018; and Atlas Tube and Searing Industries' letter, "Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico – Factual Information regarding Theoretical Weight," dated September 5, 2018. With regard to the latter, Commerce instructed petitioners Atlas Tube and Searing Industries to refile their submission because it did not meet certain requirements under 19 CFR 351.301(b)(2). *See* Commerce's letter, "Antidumping Duty Administrative Review of Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Factual Information Submission," dated September 18, 2018. Subsequently, Atlas Tube and Searing Industries filed a supplemental letter containing additional information to support their previous filing. *See* Atlas Tube and Searing Industries' letter, "Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Additional Explanation of New Factual Information," dated September 21, 2018.

[9] *See* Atlas Tube and Searing Industries' letter, "Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Request to Require Theoretical Weight Reporting," dated April 17, 2018; Atlas Tube and Searing Industries' letter, "Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Deficiency Comments on Questionnaire Responses," dated August 17, 2018; and the petitioners' letter, "Heavy-Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Pre-Preliminary Comments on Prolamsa's Claimed Level of Trade Adjustment," dated September 18, 2018.

- 0.10 percent of niobium (also called columbium), or
- 0.30 percent of vanadium, or
- 0.30 percent of zirconium.

The product is currently classified under the Harmonized Tariff Schedule of the United States (HTSUS) item number 7306.61.1000. Subject merchandise may also be classified under 7306.61.3000. Although the HTSUS numbers and ASTM specification are provided for convenience and for customs purposes, the written product description remains dispositive.

IV. COMPANIES NOT SELECTED FOR INDIVIDUAL EXAMINATION

Commerce did not select the following companies for individual examination: Arco Metal S.A. de C.V., Forza Steel S.A. de C.V., Industrias Monterrey, S.A. de C.V., Perfiles y Herrajes LM S.A. de C.V., PYTCO S.A. de C.V., Regiomontana de Perfiles y Tubos S.A. de C.V., Ternium S.A. de C.V., and Tuberia Procarsa S.A. de C.V. None of these companies: (1) were selected as a mandatory respondent; (2) were the subject of a withdrawal of request for review; (3) requested to participate as a voluntary respondent; or (4) submitted a claim of no shipments. As such, these companies remain non-selected respondents.

The statute and Commerce's regulations do not address the establishment of a rate to be applied to companies not selected for examination when Commerce limits its examination in an administrative review pursuant to section 777A(c)(2) of the Act. Generally, Commerce looks to section 735(c)(5) of the Act, which provides instructions for calculating the all-others rate in a market economy investigation, for guidance when calculating the rate for companies which were not selected for individual review in an administrative review. Under section 735(c)(5)(A) of the Act, the all-others rate is normally "an amount equal to the weighted average of the estimated weighted-average dumping margins established for exporters and producers individually investigated, excluding any zero or *de minimis* margins, and any margins determined entirely {on the basis of facts available}."

In this review, we have preliminarily calculated a weighted-average dumping margin for these companies using the calculated rate of the mandatory respondent, Prolamsa, which is not zero, *de minimis*, or determined entirely on the basis of facts available.[10]

V. DISCUSSION OF THE METHODOLOGY

<u>Date of Sale</u>

Section 351.401(i) of Commerce's regulations states that, "{i}n 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." The regulation provides further that Commerce 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

[10] *See* section 735(c)(5)(A) of the Act.

producer establishes the material terms of sale.[11] Commerce has a long-standing practice of finding that, where shipment date precedes invoice date, shipment date better reflects the date on which the material terms of sale are established.[12]

For its home market sales and U.S. sales, Maquilacero reported that it used the invoice date as its date of sale because it is the point in time at which all material terms, such as price, quantity, and delivery terms of sale have been agreed upon.[13] We reviewed the sales and shipment documentation submitted by Maquilacero for its home market and U.S. sales (*e.g.*, customer purchase orders, order acknowledgements, invoices, mill test certificates, exit slips from warehouse, and proof of payment) and have confirmed that the material terms of sale are set at the invoice date.[14] Based on this information, we preliminarily find that the invoice date is the most appropriate date of sale for Maquilacero's home market and U.S. sales.

Prolamsa reported the date of sale for all home market and U.S. sales as the earlier of the date of shipment from the factory, or the date of invoice to the unaffiliated customer.[15] With respect to the U.S. market, Prolamsa reported the earlier of the date of shipment or the date of invoice to the first unaffiliated customer as the date of sale for all of its U.S. sales.[16] Therefore, for Prolamsa, we preliminarily used the earlier of the invoice date or the shipment date as the date of sale in both markets, in accordance with our practice.[17]

Normal Value Comparisons

Pursuant to section 773(a) of the Act and 19 CFR 351.414(c)(1) and (d), to determine whether Maquilacero's and Prolamsa's sales of HWR pipes and tubes from Mexico to the United States were made at less than NV, Commerce compared the export price (EP) or constructed export price (CEP) to the NV, as described in the "Export Price/Constructed Export Price" and "Normal Value" sections of this memorandum.

[11] *See* 19 CFR 351.401(i); *see also Allied Tube & Conduit Corp.* v. *United States*, 132 F. Supp. 2d 1087, 1090 (CIT 2001) (quoting 19 CFR 351.401(i)).
[12] *See, e.g., 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) (*Shrimp from Thailand*), and accompanying Issues and Decision Memorandum (IDM) at Comment 10; *see also Notice of Final Determination of Sales at Less Than Fair Value: Structural Steel Beams from Germany*, 67 FR 35497 (May 20, 2002) (*Steel Beams from Germany*), and accompanying IDM at Comment 2.
[13] *See* Maquilacero's March 16, 2018, Section B Questionnaire Response at B-18, and Maquilacero's March 16, 2018, Section C Questionnaire Response at C-14.
[14] *See* Maquilacero's February 22, 2018 Section A Questionnaire Response (Maquilacero's February 22, 2018 AQR) at 22 and Exhibits A-9 through A-12.
[15] *See* Prolamsa's February 22, 2018 Section A Questionnaire Response (Prolamsa's February 22, 2018 AQR) at A-24, and Prolamsa's March 19, 2018 Sections B and C Questionnaire Response (Prolamsa's March 19, 2018 BCQR) at B-23 and C-17.
[16] *Id.*
[17] *See e.g., Shrimp from Thailand* IDM at Comment 10, and *Steel Beams from Germany* IDM at Comment 2.

A. Determination of the Comparison Method

Pursuant to 19 CFR 351.414(c)(1), Commerce calculates weighted-average dumping margins by comparing weighted-average NVs to weighted-average EP or CEP (*i.e.*, the average-to-average method) unless the Secretary determines that another method is appropriate in a particular situation. In less-than-fair-value (LTFV) investigations, Commerce examines whether to compare weighted-average NVs with the EPs or CEPs of individual sales (*i.e.*, the average-to-transaction method) as an alternative comparison method using an analysis consistent with section 777A(d)(l)(B) of the Act. Although section 777A(d)(1)(B) of the Act does not strictly govern Commerce's examination of this question in the context of administrative reviews, Commerce nevertheless finds that the issue arising under 19 CFR 351.414(c)(1) in administrative reviews is, in fact, analogous to the issue in LTFV investigations.[18]

In recent investigations, Commerce has applied a "differential pricing" analysis for determining whether application of the average-to-average method is appropriate in a particular situation pursuant to 19 CFR 351.414(c)(1) and section 777A(d)(1)(B) of the Act.[19] Commerce finds that the differential pricing analysis used in recent investigations may be instructive for purposes of examining whether to apply an alternative comparison method in this administrative review. Commerce will continue to develop its approach in this area based on comments received in this and other proceedings, and on Commerce's additional experience with addressing the potential masking of dumping that can occur when Commerce uses the average-to-average method in calculating a respondent's weighted-average dumping margin.

The differential pricing analysis used in these preliminary results examines whether there exists a pattern of prices for comparable merchandise that differ significantly among purchasers, regions, or time periods. The analysis evaluates all U.S. sales by purchaser, region, and time period to determine whether a pattern of prices that differ significantly exists. If such a pattern is found, then the differential pricing analysis evaluates whether such differences can be taken into account when using the average-to-average method to calculate the weighted-average dumping margin. The analysis incorporates default group definitions for purchasers, regions, time periods, and comparable merchandise. Purchasers are based on the consolidated customer codes reported by the respondent. Regions are defined using the reported destination code (*i.e.*, zip code) 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 based upon the U.S. date of sale. For purposes of analyzing sales transactions by purchaser, region, and time period, comparable merchandise is defined using the product control number and all characteristics of

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[18] *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 IDM at Comment 1; *see also JBF RAK LLC v. United States*, 790 F.3d 1358, 1363-65 (Fed. Cir. 2015) ("{t}the fact that the statute is silent with regard to administrative reviews does not preclude Commerce from filling gaps in the statute to properly calculate and assign antidumping duties") (citations omitted).

[19] *See, e.g., Xanthan Gum from the People's Republic of China: Final Determination of Sales at Less Than Fair Value*, 78 FR 33351 (June 4, 2013); *Steel Concrete Reinforcing Bar from Mexico: Final Determination of Sales at Less Than Fair Value and Final Affirmative Determination of Critical Circumstances*, 79 FR 54967 (September 15, 2014); and *Welded Line Pipe from the Republic of Turkey: Final Determination of Sales at Less Than Fair Value*, 80 FR 61362 (October 13, 2015).

the U.S. sales, other than purchaser, region, and time period, that Commerce uses in making comparisons between EP or CEP and NV for the individual dumping margins.

In the first stage of the differential pricing analysis used here, the "Cohen's *d* test" is applied. The Cohen's *d* coefficient is a generally recognized statistical measure of the extent of the difference between the mean (*i.e.*, weighted-average price) of a test group and the mean (*i.e.*, weighted-average price) of a comparison group. First, for comparable merchandise, the Cohen's *d* coefficient is calculated when the test and comparison groups of data for a particular purchaser, region, or time period each have at least two observations, and when the sales quantity for the comparison group accounts for at least five percent of the total sales quantity of the comparable merchandise. Then, the Cohen's *d* coefficient is used to evaluate the extent to which the prices to the particular purchaser, region, or time period differ significantly from the 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 (0.2, 0.5 and 0.8, respectively). Of these thresholds, the large threshold provides the strongest indication that there is a significant difference between the mean of the test and comparison groups, while the small threshold provides the weakest indication that such a difference exists. For this analysis, the difference is considered significant, and the sales in the test group are found to pass the Cohen's *d* test, if the calculated Cohen's *d* coefficient is equal to or exceeds the large (*i.e.*, 0.8) threshold.

Next, the "ratio test" assesses the extent of the significant price differences for all sales as measured by the Cohen's *d* test. If the value of sales to purchasers, regions, and time periods that pass the Cohen's *d* test account for 66 percent or more of the value of total sales, then the identified pattern of prices that differ significantly supports the consideration of the application of the average-to-transaction method to all sales as an alternative to the average-to-average 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 average-to-transaction method to those sales identified as passing the Cohen's *d* test as an alternative to the average-to-average method and application of the average-to-average 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 average-to-average method.

If both tests in the first stage (*i.e.*, the Cohen's *d* test and the ratio test) demonstrate the existence of a pattern of prices that differ significantly such that an alternative comparison method should be considered, then in the second stage of the differential pricing analysis, Commerce examines whether using only the average-to-average method can appropriately account for such differences. In considering this question, Commerce tests whether using an alternative comparison 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 average-to-average method only. If the difference between the two calculations is meaningful, then this demonstrates that the average-to-average method cannot account for differences such as those observed in this analysis and, therefore, an alternative comparison 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 margins between the average-to-average method and the appropriate alternative method where both rates are above the *de minimis* threshold, or 2) the resulting weighted-average dumping margins between the average-to-average method and the appropriate alternative method move across the *de minimis* threshold.

Interested parties may present arguments and justifications 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

<u>Maquilacero</u>

For Maquilacero, based on the results of the differential pricing analysis, Commerce preliminarily finds that 63.53 percent of the value of U.S. sales pass the Cohen's *d* test,[20] and confirms the existence of a pattern of prices that differ significantly among purchasers, regions, or time periods. Further, Commerce preliminarily determines that there is no meaningful difference between the weighted-average dumping margin calculated using the average-to-average method and the weighted-average dumping margin calculated using an alternative comparison method based on applying the average-to-transaction method to all U.S. sales.[21] Thus, for these preliminary results, Commerce is applying the average-to-average method for all U.S. sales to calculate the weighted-average dumping margin for Maquilacero.

<u>Prolamsa</u>

For Prolamsa, based on the results of the differential pricing analysis, Commerce preliminarily finds that 55.97 percent of the value of U.S. sales pass the Cohen's *d* test,[22] and confirms the existence of a pattern of prices that differ significantly among purchasers, regions, or time periods. Further, Commerce preliminarily determines that the average-to-average method cannot account for such differences because there is a 25 percent relative change between the weighted-average dumping margin calculated using the average-to-average method and the weighted-average dumping calculated using an alternative comparison method based on applying the average-to-transaction method to those U.S. sales which passed the Cohen's *d* test and the average-to-average method to those sales which did not pass the Cohen's *d* test.[23] Thus, for these preliminary results, Commerce is applying the average-to-transaction method to those U.S. sales which passed the Cohen's *d* test and the average-to-average method to those sales which did not pass the Cohen's *d* test to calculate the weighted-average dumping margin for Prolamsa.

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[20] *See* Memorandum, "Calculations for Maquilacero S.A. de C.V. (Maquilacero) for the Preliminary Results," dated October 3, 2018 (Maquilacero Preliminary Calculation Memo) at 2.
[21] *Id*.
[22] *See* Memorandum, "Calculations for Productos Laminados d Monterrey S.A. de C.V. (Prolamsa) for the Preliminary Results," dated October 3, 2018 (Prolamsa Preliminary Calculation Memo).
[23] *Id*.

C. Product Comparisons

In accordance with section 771(16)(A) of the Act, we considered all products produced by the respondents covered by the description in the "Scope of the Order" section, above, and sold in the home market during the POR to be foreign like products for purposes of determining NV for the merchandise sold in the United States. Pursuant to 19 CFR 351.414(f), we compared the respondents' U.S. sales of HWR pipes and tubes to their sales of HWR pipes and tubes made in the home market within the contemporaneous window period, which extends from three months prior to the month of the first U.S. sale until two months after the month of the last U.S. sale.

Where there were no sales of identical merchandise in the home market made in the ordinary course of trade to compare to U.S. sales, according to section 771(16)(B) of the Act, we compared U.S. sales to sales of the most similar foreign-like product or CV, as appropriate. In making the product comparisons, we matched foreign like products based on the physical characteristics to the product sold in the United States. In the order of importance, these physical characteristics are as follows: steel input type, quality, metallic coating, painted, perimeter, wall thickness, scarfing, and shape.

D. Export Price/Constructed Export Price

For all sales made by Maquilacero and certain sales made by Prolamsa, we used EP methodology, in accordance with section 772(a) of the Act, because the subject merchandise was first sold by the producer/exporter outside of the United States directly to the first unaffiliated purchaser in the United States prior to importation and CEP methodology was not otherwise warranted based on the facts of record. We used CEP methodology for the remainder of Prolamsa's sales, in accordance with section 772(b) of the Act, because the subject merchandise was sold in the United States by a U.S. seller affiliated with the producer and EP methodology was not otherwise warranted.

<u>Maquilacero</u>

We based EP on packed prices to unaffiliated purchasers in the United States. We made deductions from the starting price, where appropriate, for discounts, rebates, and billing adjustments. We also made adjustments, where appropriate, for movement expenses (*i.e.*, foreign inland freight, and foreign brokerage and handling expenses), in accordance with section 772(c)(2)(A) of the Act.

<u>Prolamsa</u>

We based EP on packed, and either delivered or ex-works, prices to unaffiliated purchasers in the United States or to unaffiliated home market purchasers who shipped the merchandise to the United States. We made deductions from the starting price for movement expenses (*i.e.*, foreign inland freight expenses from the factory to the customer, foreign brokerage and handling expenses, insurance, and U.S. brokerage and handling expenses), where appropriate, in accordance with section 772(c)(2)(A) of the Act.

We calculated CEP based on packed, and either delivered or ex-works, prices to unaffiliated purchasers in the United States. We made deductions from the starting price for discounts and billing adjustments, where appropriate, in accordance with 19 CFR 351.401(c). We also made deductions from the starting price, where appropriate, for foreign inland freight expenses from the factory to the customer, foreign inland freight expenses from the factory to the warehouse, foreign brokerage and handling expenses, insurance, U.S. inland freight from the warehouse to the customer, U.S. warehousing expenses, and U.S. brokerage and handling expenses, in accordance with section 772(c)(2)(A) of the Act.

In accordance with section 772(d)(1) of the Act, we calculated CEP by deducting selling expenses associated with economic activities occurring in the United States, which include direct selling expenses (commissions, imputed credit expenses, and warranties) and indirect selling expenses (inventory carrying costs and other indirect selling expenses). Finally, we made an adjustment for profit allocated to these expenses, in accordance with section 772(d)(3) of the Act. In accordance with section 772(f) of the Act, we calculated the CEP profit rate using the expenses incurred by Prolamsa and its U.S. affiliate on their sales of the subject merchandise in the United States and the profit associated with those sales.

E. Normal Value

Home Market Viability

To determine whether there is a sufficient volume of sales in the home market to serve as a viable basis for calculating NV (*i.e.*, the aggregate volume of home market sales of the foreign like product is five percent or more of the aggregate volume of U.S. sales), we compared the volume of Maquilacero's and Prolamsa's respective home market sales of the foreign like product to the volume of their U.S. sales of subject merchandise, in accordance with section 773(a)(1)(C) of the Act and 19 CFR 351.404. Based on this comparison, we determined that, pursuant to 19 CFR 351.404(b), the aggregate volume of home market sales of the foreign like product for each of the respondents was sufficient to permit a proper comparison with U.S. sales of the subject merchandise. Therefore, we used home market sales as the basis for NV for Maquilacero and Prolamsa, in accordance with section 773(a)(1)(B)(i) of the Act.

Affiliated-Party Transactions and Arm's-Length Test

During the POR, Maquilacero and Prolamsa made sales of the foreign like product in the home market to affiliated parties, as defined in section 771(33) of the Act. Consequently, we tested these sales to ensure that they were made at arm's-length prices, in accordance with 19 CFR 351.403(c). To test whether the sales to affiliates were made at arm's-length prices, where appropriate, we compared the unit prices of sales to affiliated and unaffiliated customers net of all billing adjustments, discounts, movement charges, direct selling expenses, and packing expenses. Pursuant to 19 CFR 351.403(c) and in accordance with Commerce's practice, where the price to that affiliated party was, on average, within a range of 98 to 102 percent of the price of the same or comparable merchandise sold to the unaffiliated parties at the same level of trade

(LOT), we determined that the sales made to the affiliated party were at arm's length.[24] Sales to affiliated customers in the home market that were not made at arm's-length prices were excluded from our analysis because we considered these sales to be outside the ordinary course of trade.[25]

Maquilacero reported sales to three affiliated resellers during the POR and it also reported its home market sales by two of these affiliated resellers during the POR. Because the home market sales to one of these affiliated resellers failed the arm's-length test, we used the downstream sales made by this affiliate in our calculations for the preliminary results. Regarding Maquilacero's third affiliated reseller, we did not require this company to report its downstream sales information based on record evidence that all of its downstream sales were of non-prime merchandise.[26]

With respect to Prolamsa, sales of foreign like product to certain of Prolamsa's affiliated distributors failed the arm's-length test.[27] Therefore, Prolamsa reported its home market sales by these distributors, and we used Prolamsa's reported downstream home market sales data for these affiliates in our calculations for the preliminary results.

Level of Trade

Section 773(a)(1)(B)(i) of the Act states that, to the extent practicable, Commerce will calculate NV based on sales at the same LOT as the U.S. sales. Sales are made at different LOTs if they are made at different marketing stages (or their equivalent).[28] Substantial differences in selling activities are a necessary, but not sufficient, condition for determining that there is a difference in the stages of marketing.[29] To determine whether the comparison market sales were at different stages in the marketing process than the U.S. sales, we reviewed the distribution system in each market (*i.e.*, the chain of distribution), including selling functions and class of customer (customer category), and the level of selling expenses for each type of sale.

Pursuant to section 773(a)(1)(B)(i) of the Act, in identifying LOTs for EP and comparison market sales (*i.e.*, NV based on either home market or third country prices),[30] we consider the starting prices before any adjustments. For CEP sales, we consider only the selling activities reflected in the price after the deduction of expenses and profit under section 772(d) of the Act.[31]

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[24] *See Antidumping Proceedings: Affiliated Party Sales in the Ordinary Course of Trade*, 67 FR 69186 (November 15, 2002) (establishing that the overall ratio calculated for an affiliate must be between 98 and 102 percent in order for sales to be considered in the ordinary course of trade and used in the NV calculation).
[25] *See* section 771(15) of the Act and 19 CFR 351.102(b)(35).
[26] *See* Maquilacero's letter, "Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico; Maquilacero S.A. de C.V.'s Notification of Difficulty In Reporting to Antidumping Questionnaire," dated February 8, 2018 at 2-4.
[27] *See* Prolamsa Preliminary Calculation Memo.
[28] *See* 19 CFR 351.412(c)(2).
[29] *Id.*; *see also Certain Orange Juice from Brazil: Final Results of Antidumping Duty Administrative Review and Notice of Intent Not to Revoke Antidumping Duty Order in Part*, 75 FR 50999 (August 18, 2010) (*OJ from Brazil*), and accompanying IDM at Comment 7.
[30] Where NV is based on CV, we determine the NV LOT based on the LOT of the sales from which we derive selling, general and administrative expenses, and profit for CV, where possible. *See* 19 CFR 351.412(c)(1).
[31] *See Micron Tech., Inc. v. United States*, 243 F.3d 1301, 1314-16 (Fed. Cir. 2001).

When Commerce is unable to match U.S. sales of the foreign like product in the comparison market at the same LOT as the EP or CEP, Commerce may compare the U.S. sale to sales at a different LOT in the comparison market. In comparing EP or CEP sales at a different LOT in the comparison market, where available data make it possible, we make an LOT adjustment under section 773(a)(7)(A) of the Act. Finally, for CEP sales only, if the NV LOT is at a more advanced stage of distribution than the LOT of the CEP and there is no basis for determining whether the difference in LOTs between NV and CEP affects price comparability (*i.e.*, no LOT adjustment was possible), Commerce will grant a CEP offset, as provided in section 773(a)(7)(B) of the Act.[32]

In this administrative review, we obtained information from Maquilacero and Prolamsa regarding the marketing stages involved in making reported home market and U.S. sales, including a description of the selling activities performed by the respondents for each channel of distribution.[33] Our LOT findings are summarized below.

Maquilacero

In the home market, Maquilacero reported that it made sales through four channels of distribution (*i.e.*, direct sales from Maquilacero's warehouse to distributors and end users (channel 1), direct sales from an affiliate's warehouse to distributors and end users (channel 2), downstream sales made by an affiliate (channel 3), and downstream sales to original equipment manufacturers (OEMs) (channel 4)).[34] According to Maquilacero, it performed the following selling functions for sales to all home market customers: sales forecasting; market research; sales promotion/advertising; inventory maintenance; order input/processing; employment of direct sales personnel; packing; providing warranty services/quality claims assistance; handling of freight and delivery arrangements; traveling to customer locations; and sales/marketing support.[35] Further, Maquilacero stated that it performed the following selling functions for sales in all channels except channel 4: provision of cash/early payment discounts, and performing collections.[36]

Finally, Maquilacero reported that it paid commissions only on sales in channels 1 and 2,[37] and it performed procurement/sourcing services when making downstream sales in channel 3.[38] In addition, it reported that it performed a number of selling functions exclusively for sales in

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[32] *See, e.g.*, *OJ from Brazil* IDM at Comment 7.
[33] *See* Maquilacero's February 22, 2018 AQR at 18-21 and Exhibit A-8; Maquilacero's August 16, 2018 Supplemental Section A Questionnaire Response (Maquilacero's August 16, 2018 SAQR) at 15 and Exhibit SA-11; Prolamsa's February 22, 2018 AQR at A-19 – A-31 and Exhibit A-11; Prolamsa's September 5, 2018 Supplemental Selling Function Questionnaire Response (Prolamsa's September 5, 2018 SSFQR) at 1-12; and Prolamsa's September 24, 2018 Supplemental Section B Questionnaire Response (Prolamsa's September 24, 2018 SBQR) at Exhibit Supp B-2.
[34] *See* Maquilacero's August 16, 2018 SAQR at 15 and Exhibit SA-11.
[35] *See* Maquilacero's February 22, 2018 AQR at Exhibit A-8; and Maquilacero's August 16, 2018 SAQR at Exhibit SA-11.
[36] *Id.*
[37] *Id.*
[38] *Id.*

channel 4, including: meeting customer qualification requirements,[39] designing special order products,[40] performing just-in-time delivery, engaging in personnel training/exchange, and providing technical assistance/after sales services.[41]

Selling activities can be grouped generally into four selling function categories for analysis: 1) sales and marketing; 2) freight and delivery; 3) inventory maintenance and warehousing; and 4) warranty and technical support. Based on these selling function categories, we find that Maquilacero performed sales and marketing, freight and delivery services, inventory maintenance and warehousing, and warranty and technical support for all of its home market sales.

According to 19 CFR 351.412(c)(2), Commerce will determine that sales are made at different LOTs if they are made at different marketing stages (or their equivalent). Substantial differences in selling activities are necessary, but not sufficient, condition for determining that there is a difference in the stage of marketing. Commerce's LOT analysis takes into account qualitative factors, such as the significance of the activities themselves and the extent to which the activities are performed. In this case, as noted above, we find no substantial qualitative differences in the selling activities performed to make home market sales in channels 1 through 3. Although Maquilacero paid commissions only on sales in channels 1 and 2, we find that paying commissions does not amount to a significant difference in selling activities.

With respect to channel 4, however, we determine that substantial differences in Maquilacero's selling activities exist to make its channel 4 downstream sales versus its non-channel 4 downstream sales in the home market. In particular, we note that, when selling in this channel, Maquilacero not only underwent a lengthy qualification process, but it was also required to maintain a sufficient inventory of custom-designed parts to permit just-in-time delivery, provide a high level of technical assistance to the customer, and train its sales personnel under automotive industry standards.[42] These selling functions were either performed sparingly or not at all for other customers in the other distribution channels. Therefore, we find that Maquilacero's OEM selling activities are so substantial that they meet the requirements of 19 CFR 351.412(c)(2),[43] and, as a result, we determine that channel 4 sales were made at a different

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[39] *See* Maquilacero's August 16, 2018 SAQR at 27. Specifically, Maquilacero stated that it was required to complete a rigorous "Production Part Approval Process" (PPAP) prior to selling via channel 4.
[40] *Id*. Maquilacero generally described the downstream products sold to OEM customers as custom-designed merchandise produced based on drawings and specifications provided by each OEM.
[41] *See* Maquilacero's February 22, 2018 AQR at Exhibit A-8; and Maquilacero's August 16, 2018 SAQR at Exhibit SA-11.
[42] *See* Maquilacero's February 22, 2018 AQR at Exhibit A-8; and Maquilacero's August 16, 2018 SAQR at Exhibits SA-11 and SA-15.
[43] *See, e.g., Ball Bearings and Parts Thereof From Japan and the United Kingdom: Preliminary Results of Antidumping Duty Administrative Reviews; 2010-2011*, 79 FR 56771 (September 23, 2014), and accompanying Preliminary Decision Memorandum at 14-15, unchanged in *Ball Bearings and Parts Thereof From Japan and the United Kingdom: Final Results of Antidumping Duty Administrative Reviews; 2010-2011*, 80 FR 4248 (January 27, 2015) (*Ball Bearings*) (finding just-in-time delivery, prototype-development services, and custom-design products and customer-specific research and development, among other things, to be significant selling functions considered in the LOT analysis).

LOT during the POR. Accordingly, we find that there are two LOTs in the home market during the POR.

With respect to the U.S. market, Maquilacero reported that it made sales through one channel of distribution (*i.e.,* direct sales to its U.S. customers).[44] Maquilacero reported that it performed the following selling functions in Mexico for its EP sales: sales forecasting; market research; sales promotion/advertising; inventory maintenance; order input/processing; employment of direct sales personnel; packing; traveling to customer locations; warranty services/quality claims assistance; paying commissions/selling agents; distributor/dealer training; sales/marketing support; providing discounts/rebates; and handling of freight and delivery arrangements.[45] Based on these selling function categories, we find that Maquilacero performed sales and marketing, freight and delivery services, inventory maintenance and warehousing, and warranty and technical support for its U.S. sales. Because we find that there were no differences in selling activities performed by Maquilacero to sell to its U.S. customers, we determine that there is one LOT in the U.S. market.

Finally, we compared the U.S. LOT to the home market LOTs. We preliminarily find that the selling functions performed for Maquilacero's U.S. sales and its non-channel 4 home market sales do not differ significantly. Therefore, we preliminarily find that Maquilacero's U.S. sales and its non-channel 4 home market sales were made at the same LOT during the POR. Consequently, we compared Maquilacero's U.S. sales to sales at the same LOT in the home market, where possible. Where we could not compare Maquilacero's U.S. sales to home market sales of the most similar product at the same LOT, we made an LOT adjustment, where warranted, pursuant to section 773(a)(7)(A) of the Act.

Prolamsa

In the home market, Prolamsa reported that it made sales through four channels of distribution: 1) direct sales of HWR pipes and tubes to unaffiliated customers from inventory stored at its plants (*i.e.*, HM channel 1); 2) direct sales of HWR pipes and tubes to unaffiliated customers from inventory stored at its warehouses (*i.e.*, HM channel 2); 3) sales of HWR pipes and tubes to affiliated resellers, which are then resold to unaffiliated customers (*i.e.*, HM channel 3); and 4) sales of custom-designed parts to OEMs (*i.e.*, HM channel 4).[46] Prolamsa reported that sales made in HM channels 1, 2, and 3 were made at the same LOT, while sales made in HM channel 4 was made at a different, more advanced, LOT.

According to Prolamsa, it performed the following selling functions for sales to all home market customers: order input/processing and after sales service for quality.[47] Further, Prolamsa stated that it performed the following selling functions only for HM channel 4 sales: qualification

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[44] *See* Maquilacero's February 22, 2018 AQR at Exhibit A-8; and Maquilacero's August 16, 2018 SAQR at 15 and Exhibit SA-11.
[45] *Id*.
[46] *See* Prolamsa's February 22, 2018 AQR at 16, and Prolamsa's March 19, 2018 BCQR at 10 and Appendix B-2.
[47] *See* Prolamsa's September 24, 2018 Supplemental Section B Questionnaire Response (Prolamsa's September 24, 2018 SBQR) at Exhibit B-2. We note that Prolamsa performed these selling functions at a high level of intensity for its HM channel 4 sales, while, they were performed at a low level of intensity for the HM channel 1-3 sales.

requirements, just-in-time delivery, and engineering services.[48] Prolamsa also reported that it performed certain selling functions with respect to HM channel 4 at a higher level of intensity than those performed in HM channels 1-3 (*i.e.*, inventory maintenance, freight/delivery, and provide technical assistance).[49] Last, we note that Prolamsa reported that it performed post-sale warehousing for HM channel 2 while it did not for HM channel 4. With regard to similar selling functions between these LOTs, Prolamsa reported that it performed sales promotion, market research, advertising, and personnel training at similar intensities between HM channels 1-3 and HM channel 4.

Selling activities can be grouped generally into four selling function categories for analysis: 1) sales and marketing; 2) freight and delivery; 3) inventory maintenance and warehousing; and 4) warranty and technical support. Based on these selling function categories, we find that Prolamsa and its affiliates performed sales and marketing, inventory maintenance and warehousing, and warranty and technical support for its home market sales made through all sales channels. We further find that Prolamsa and its affiliates offered freight and delivery for all sales channels except channel 3.

Although Prolamsa reported the type and intensity of the selling functions performed with respect to HM channels 1 through 4, we preliminarily find that the support it provided does not substantiate its claim for an LOT adjustment with respect to channel 4 sales. Prolamsa reported certain selling functions that it performed at the highest intensity level with respect to its channel 4 sales.[50] After analyzing Prolamsa's initial section A questionnaire response regarding selling activities, Commerce, in a supplemental questionnaire, requested certain source documentation to demonstrate Prolamsa's intensity level at which it performed these selling functions during the POR.[51] However, in response to Commerce's request for source documentation regarding eight home market selling functions, Prolamsa provided limited additional source documentation for two of the selling functions performed (*i.e.*, qualification requirements and order input/processing), and no additional source documentation for the remaining six (*i.e.*, inventory maintenance, provide freight and delivery, engineering services, provide just-in-time delivery, technical assistance,[52] and provide after-sale services). Instead of providing contemporaneous source documentation for the POR, as requested, in its supplemental section A questionnaire response, Prolamsa cited to Commerce's LOT findings in the previous segment (*i.e.*, the underlying LTFV investigation) to substantiate its claim for an LOT adjustment for this review.[53] In the LTFV investigation, Commerce granted an LOT adjustment to Prolamsa based on information contained on the record and the analysis performed at verification.[54] Consistent with

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[48] We note that these selling functions were made at a high level of intensity.
[49] *See* Prolamsa's September 24, 2018 SBQR at Exhibit B-2.
[50] *See* Prolamsa's February 22, 2018 SAQR at Exhibit A-11; and September 24, 2018 SBQR at Exhibit B-2.
[51] *See* Commerce's Letter, "Administrative Review of Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico," dated September 4, 2018.
[52] While Prolamsa cited to portions of Commerce's findings in the previous LTFV segment (*i.e.*, Prolamsa's verification report and the Issues and Decision Memorandum) as support for this selling function, we note that these documents relate to Prolamsa's selling activities performed in the less-than-fair-value (LTFV) investigation (*i.e.*, covering 2014-2015) instead of those Prolamsa performed during the current POR. *See* Prolamsa's September 5, 2018 SSFQR at 11.
[53] *See*, *e.g.*, Prolamsa's February 22, 2018 AQR at A-18; and Prolamsa's September 5, 2018 SSFQR at 9-11.
[54] *See Heavy Walled Rectangular Welded Carbon Steel Pipes and Tubes from Mexico: Final Determination of Sales at Less Than Fair Value,* 81 FR 47352 (July 21, 2016), and accompanying IDM at Comment 8.

practice, Commerce's decision to grant Prolamsa an LOT adjustment was specific to Prolamsa's performance of certain selling functions during the period of investigation (POI) for its POI sales of HWR pipes and tubes during the time period 7/1/2014 through 6/30/2015. In the instant review, because 1) Prolamsa's attempts to substantiate certain selling functions and their corresponding intensity referred back to activities performed during the POI and not the current segment; and 2) Prolamsa did not provide the necessary source documentation requested by Commerce to substantiate the LOT information for the current review, we cannot consider Prolamsa's claim substantiating the high intensity level for the aforementioned six selling functions. With regard to the HM channel 4 selling functions performed at the highest intensity level that were adequately supported (*i.e.*, qualification requirements and order /input processing, and personal training/exchange), we note that Prolamsa performed two of these activities (*i.e.*, personal training/exchange and order input/processing) in HM channels 1-3 at varying degrees of intensity.[55] Further, Prolamsa reported and substantiated that it only provided the "qualification requirements" selling activity in HM channel 4 and did not perform this activity for HM channels 1-3. Therefore, when taken *in toto*, for these preliminary results, we preliminarily find that there were no significant differences between those selling activities for which Prolamsa provided adequate support to sell to its home market customers, and accordingly determine that there is one LOT in the home market for Prolamsa.

With respect to the U.S. market, Prolamsa reported that it made sales through three channels of distribution: 1) direct EP sales of HWR pipes and tubes to unaffiliated home market customers for which Prolamsa knew the final destination was the United States (*i.e.*, U.S. channel 1); 2) direct CEP sales of HWR pipes and tubes to unaffiliated U.S. customers from Prolamsa's inventory sold through its U.S. affiliate, Prolamsa, Inc. (*i.e.*, U.S. channel 2); and 3) direct CEP sales of HWR pipes and tubes to unaffiliated U.S. customers sold from Prolamsa Inc.'s warehouse through Prolamsa, Inc (*i.e.*, U.S. channel 3).[56] Prolamsa reported that it performed the following selling functions in Mexico for all U.S. channels: order input/processing; inventory maintenance, and the provision of freight and delivery.[57] Accordingly, based on the selling function categories noted above, we find that Prolamsa performed sales and marketing, freight and delivery services, and inventory maintenance and warehousing for all of its reported U.S. sales. Because Prolamsa performed the same selling functions at the same relative level of intensity for all of its U.S. sales, we determine that all U.S. sales are at the same LOT.

Finally, we compared the U.S. LOT to the home market LOT, and found that the types of selling functions Prolamsa performed for its home market customers are not significantly different from those performed for its sales to its U.S. affiliate, Prolamsa Inc., such that they would constitute a different marketing stage. Therefore, we preliminarily determine that sales to the home market during the POI were not made at a different LOT than sales to the United States. Because Prolamsa's home market LOT is not at a more advanced stage of distribution than Prolamsa's U.S. LOT, a CEP offset is not warranted.

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[55] *See* Prolamsa's AQR at A-26 – A-27; Prolamsa's September 5, 2018 SSFQR at 6-7 and 10-11; and Prolamsa's September 24, 2018 SBQR at Exhibit B-2.
[56] *See* Prolamsa's February 22, 2018 AQR at A-17.
[57] *See* Prolamsa's September 24, 2018 supplemental section B questionnaire response (Prolamsa's September 24, 2018 SBQR) at B-2.

Cost of Production Analysis

Section 773(b)(2)(A)(ii) of the Act controls all determinations in which the complete initial questionnaire has not been issued as of August 6, 2015. It requires Commerce to request constructed value and COP information from respondent companies in all AD proceedings.[58] Accordingly, Commerce requested this information from Maquilacero and Prolamsa.

1. Cost Averaging Methodology

Commerce's normal practice is to calculate an annual weighted-average cost for the POR. However, we recognize that possible distortions may result if we use our normal annual-average cost method during a time of significant cost changes. In determining whether to deviate from our normal methodology of calculating an annual weighted-average cost, we evaluate the case-specific record evidence by examining two primary criteria: 1) the change in the cost of manufacturing (COM) recognized by the respondent during the POR must be deemed significant; and 2) the record evidence must indicate that sales during the shorter cost-averaging periods could be reasonably lined with the COP or CV during the same shorter cost-averaging periods.[59] Based on the record evidence, we have used an alternative quarterly cost methodology for the preliminary results.

a. Significance of Cost Changes

In prior cases, we established 25 percent as the threshold (between the high- and low-quarter COM) during a period of 12 months for determining that the changes in COM are significant enough to warrant a departure from our standard annual-average cost approach.[60] In the instant case, record evidence shows that Maquilacero and Prolamsa experienced significant cost changes (*i.e.*, changes that exceeded 37.5 percent over the 18 month period (25 percent/12*18)) between the high and low quarterly COM during the POR.[61] This change in COM is attributable primarily to the price volatility for the primary input used in the production of pipe and tube.[62]

b. Linkage Between Sales and Cost Information

Consistent with past precedent, because we found the changes in costs to be significant, we evaluated whether there is evidence of a linkage between the cost changes and the sales prices

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[58] *See Dates of Application of Amendments to the Antidumping and Countervailing Duty Laws Made by the Trade Preferences Extension Act of 2015*, 80 FR 46793, 46794-95 (August 6, 2015).

[59] *See Stainless Steel Sheet and Strip in Coils from Mexico: Final Results of Antidumping Duty Administrative Review*, 75 FR 6627 (February 10, 2010) (*SSSSC Mexico Final*), and accompanying Issues and Decision Memorandum (IDM) at Comment 6; and *Stainless-Steel Plate in Coils from Belgium: Final Results of Antidumping Duty Administrative Review*, 73 FR 75398 (December 11, 2008) (*SSPC Belgium Final*), and accompanying IDM at Comment 4.

[60] *See SSPC Belgium Final* IDM at Comment 4.

[61] *See* Maquilacero's May 29, 2018 SDR at Exhibit SD-3; and Prolamsa's August 7, 2018 SSSSDR at Exhibit 4SD-4.

[62] *See* Maquilacero's May 29, 2018 SDR at Exhibit SD-2; and Prolamsa's May 18, 2018 SDR at Exhibit SD-1.

during the POR.[63] Absent a surcharge or other pricing mechanism, Commerce may alternatively look for evidence of a pattern showing that changes in selling prices reasonably correlate to changes in unit costs.[64] To determine whether a reasonable correlation existed between the sales prices and underlying costs during the POR, we compared weighted-average quarterly prices to the corresponding quarterly COM for the control numbers with the highest volume of sales in the comparison market. Our comparison revealed that sales and costs for Maquilacero and Prolamsa showed reasonable correlation.[65]

After reviewing this information and determining that changes in selling prices correlate reasonably to changes in unit costs, we preliminarily determine that there is linkage between Maquilacero's and Prolamsa's changing sales prices and costs during the POR.[66] Thus, we preliminarily determine that a shorter cost period approach, based on a quarterly-average COP, is appropriate for Maquilacero and Prolamsa because we found significant cost changes in COM as well as reasonable linkage between costs and sales prices.

2. Calculation of COP

In accordance with section 773(b)(3) of the Act, we calculated COP based on the sum of the costs of materials and fabrication for the foreign like product, plus amounts for general and administrative expenses and interest expenses.[67] As explained above, we examined the cost data and preliminarily determined that our quarterly cost methodology is warranted.[68] Therefore, the COP is based on a quarterly average COP rather than an annual average COP. *See* the "Cost Averaging Methodology" section, above, for further discussion.

We relied on the quarterly COP data submitted by Maquilacero,[69] except as follows:[70]

- We adjusted Maquilacero's reported hot-rolled coil costs in accordance with section 773(f)(2) of the Act (transactions disregarded).[71]

We relied on the quarterly COP data submitted by Prolamsa without adjustment.[72]

3. Test of Comparison Market Sales Prices

On a product-specific basis, pursuant to section 773(b) of the Act, we compared the adjusted weighted-average COPs to the home market sales prices of the foreign like product to determine

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[63] *See SSSSC Mexico Final* IDM at Comment 6; and *SSPC Belgium Final* IDM at Comment 4.
[64] *See SSPC Belgium Final* IDM at Comment 4.
[65] *See* Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Maquilacero S.A. de C.V.," dated October 3, 2018 (Maquilacero Preliminary Cost Calculation Memo); and Memorandum, "Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Prolamsa Co., Ltd.," dated October 3, 2018 (Prolamsa Preliminary Cost Calculation Memo).
[66] *Id*.; s*ee also SSSSC Mexico Final* IDM at Comment 6 and *SSPC Belgium Final* IDM at Comment 4.
[67] *See* "Test of Comparison Market Sales Prices" section, below, for treatment of home market selling expenses
[68] *See* Maquilacero Preliminary Cost Calculation Memo and Prolamsa Preliminary Cost Calculation Memo.
[69] *See* Maquilacero's September 7, 2017 SSBCD at Exhibit 46.
[70] *See* Maquilacero Preliminary Cost Calculation Memo.
[71] *Id*.
[72] *See* Prolamsa Preliminary Cost Calculation Memo.

whether the sale prices were below the COPs. For purposes of this comparison, we used COPs exclusive of selling and packing expenses. The prices were exclusive of any applicable billing adjustments, discounts and rebates, where applicable, movement charges, actual direct and indirect selling expenses, and packing expenses.

4. Results of the COP Test

In determining whether to disregard home market sales made at prices below the COP, we examined, in accordance with sections 773(b)(1)(A) and (B) of the Act, whether: 1) within an extended period of time, such sales were made in substantial quantities; and 2) such sales were made at prices which permitted the recovery of all costs within a reasonable period of time in the normal course of trade. In accordance with sections 773(b)(2)(B) and (C) of the Act, where less than 20 percent of a respondent's home market sales of a given product are at prices less than the COP, we do not disregard any of the below-cost sales of that product because we determine that in such instances the below-cost sales were not made within an extended period of time and in "substantial quantities." Where 20 percent or more of a respondent's sales of a given product are at prices less than the COP, we disregard the below-cost sales when: 1) the sales were made within an extended period of time in accordance with sections 773(b)(2)(B) of the Act; and 2) based on our comparison of prices to the weighted-average COPs for the POR, the sales were at prices which would not permit the recovery of all costs within a reasonable period of time, in accordance with section 773(b)(2)(D) of the Act.

We found that, for certain products, more than 20 percent of Maquilacero's and Prolamsa's home market sales were at prices less than the COP and, in addition, such sales did not provide for the recovery of costs within a reasonable period of time. We therefore disregarded these sales and used the remaining sales as the basis for determining NV, in accordance with section 773(b)(1) of the Act.

<u>Calculation of Normal Value Based on Comparison Market Prices</u>

<u>Maquilacero</u>

We calculated NV based on delivered prices to unaffiliated customers. We made deductions, where appropriate, from the starting price for discounts, rebates, and billing adjustments, in accordance with 19 CFR 351.401(c). We also made a deduction from the starting price for inland freight under section 773(a)(6)(B)(ii) of the Act. We capped freight revenue by the amount of inland freight expenses incurred, in accordance with our practice.[73]

For comparisons to EP sales, we made adjustments under section 773(a)(6)(C)(iii) of the Act and 19 CFR 351.410 for differences in circumstances of sale. Specifically, we deducted direct selling expenses incurred for home market sales (*i.e.*, credit expenses) and added U.S. direct selling expenses (*i.e.*, credit expenses and commissions). We also made adjustments, when applicable, for home market indirect selling expenses, to offset U.S. commissions.[74] We

[73] *See, e.g., OJ from Brazil*.
[74] *See* 19 CFR 351.410(e).

reclassified certain expenses that Maquilacero reported as direct home market commissions but were unrelated to particular sales as indirect selling expenses.[75] Finally, consistent with our practice,[76] we deducted expenses related to further processing performed on certain downstream sales from NV.[77]

When comparing U.S. sales with home market sales of similar merchandise, we also made adjustments for differences in costs attributable to differences in the physical characteristics of the merchandise, in accordance with section 773(a)(6)(C)(ii) of the Act and 19 CFR 351.411. We based this adjustment on the difference in the variable cost of manufacturing for the foreign like product and subject merchandise.[78] For comparisons to EP sales, we also deducted home market packing costs and added U.S. packing costs, in accordance with sections 773(a)(6)(A) and (B) of the Act.

Prolamsa

We calculated NV based on either delivered or ex-factory prices to unaffiliated customers. We made deductions, where appropriate, from the starting price for discounts, rebates, and billing adjustments, in accordance with 19 CFR 351.401(c). We also made a deduction from the starting price for inland freight expenses from the factory to the warehouse, warehousing expenses, inland freight expenses from the factory to the customer, inland freight expenses from the warehouse to the customer, and insurance expenses, under section 773(a)(6)(B)(ii) of the Act. We capped freight revenue by the amount of inland freight expenses incurred, in accordance with our practice.[79]

For comparisons to EP sales, we made adjustments under section 773(a)(6)(C)(iii) of the Act and 19 CFR 351.410 for differences in circumstances of sale. Specifically, we deducted direct selling expenses incurred for home market sales (*i.e.*, credit expenses) and added U.S. direct selling expenses (*i.e.*, credit expenses and commissions).

For comparisons to CEP sales, we deducted home market credit expenses, pursuant to 773(a)(6)(C) of the Act. In instances where home market sales remained unpaid as of the date of Prolamsa's most recent questionnaire response, we used the signature date of these preliminary results (*i.e.*, October 3, 2018), as the payment date.

When comparing U.S. sales with home market sales of similar merchandise, we also made adjustments for differences in costs attributable to differences in the physical characteristics of

[75] *See* Maquilacero Preliminary Calculation Memo at 3.
[76] *See Certain Cold-Rolled Steel Flat Products from the Russian Federation: Affirmative Preliminary Determination of Sales at Less Than Fair Value, Affirmative Preliminary Determination of Critical Circumstances, and Postponement of Final Determination*, 81 FR 12072 (March 8, 2016), and accompanying PDM at 29, unchanged in *Certain Cold-Rolled Steel Flat Products from the Russian Federation: Final Determination of Sales at Less Than Fair Value and Final Affirmative Determination of Critical Circumstances, in Part*, 81 FR 49950 (July 29, 2016).
[77] *See* Maquilacero Preliminary Calculation Memo at 3.
[78] *See* 19 CFR 351.411(b).
[79] *See, e.g., OJ from Brazil*.

the merchandise, in accordance with section 773(a)(6)(C)(ii) of the Act and 19 CFR 351.411. We based this adjustment on the difference in the variable cost of manufacturing for the foreign like product and subject merchandise.[80] We also deducted comparison market packing costs and added U.S. packing costs, where appropriate, in accordance with section 773(a)(6)(A) and (B) of the Act.

Calculation of Normal Value Based on Constructed Value

Section 773(a)(4) of the Act provides that where NV cannot be based on comparison market sales, NV may be based on CV. Accordingly, for those HWR pipe and tube products for which we could not determine the NV based on comparison market sales because, as noted in the "Results of the COP Test" section above, all sales of the comparable products failed the COP test, we based NV on CV.

Sections 773(e)(1) and (2)(A) of the Act provide that CV shall be based on the sum of the cost of materials and fabrication for the imported merchandise, plus amounts for selling, general, and administrative (SG&A) expenses, profit, and U.S. packing costs. For Prolamsa, we calculated the cost of materials and fabrication based on the methodology described in the "Cost of Production Analysis" section, above. We based SG&A and profit for Prolamsa on the actual amounts incurred and realized by it in connection with the production and sale of the foreign like product in the ordinary course of trade for consumption in the comparison market, in accordance with section 773(e)(2)(A) of the Act.

For comparisons to Prolamsa's EP sales, we made circumstances-of-sale adjustments by deducting direct selling expenses incurred on comparison market sales from, and adding U.S. direct selling expenses, to CV, in accordance with section 773(a)(8) of the Act and 19 CFR 351.410.

For comparisons to Prolamsa's CEP sales, we deducted from CV direct selling expenses incurred on its comparison market sales, in accordance with section 773(a)(7)(ii)(B) of the Act.

V. CURRENCY CONVERSION

We made currency conversions into U.S. dollars in accordance with section 773A of the Act and 19 CFR 351.415, based on the exchange rates in effect on the dates of the U.S. sales as certified by the Federal Reserve Bank.

[80] *See* 19 CFR 351.411(b).

VI. RECOMMENDATION

We recommend applying the above methodology for these preliminary results.

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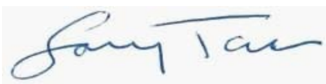
Agree Disagree

10/3/2018

X 

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