

Producer/exporter	Net subsidy rate (percent)
Sammi	59.30
Taihan	7.00
All Others Rate	1.68

We determine that the total estimated net countervailable subsidy rates for POSCO is 0.65 percent *ad valorem*, which is *de minimis*. Therefore, we determine that no countervailable subsidies are being provided to POSCO for its production or exportation of stainless steel sheet and strip in coils. In accordance with section 705(c)(5)(A)(i) of the Act, we have calculate the all-others rate by averaging the weighted average countervailable subsidy rates determined for the producers individually investigated. On this basis, we determine that the all-others rate is 1.68 percent *ad valorem*.

In accordance with our preliminary affirmative determination, we instructed the U.S. Customs Service to suspend liquidation of all entries of stainless steel sheet and strip in coils from the Republic of Korea which were entered, or withdrawn from warehouse, for consumption on or after November 17, 1998, the date of the publication of our preliminary determination in the **Federal Register**. Since the estimated net countervailing duty rates for POSCO and Dai Yang were *de minimis*, these companies were excluded from this suspension of liquidation. In accordance with section 703(d) of the Act, we instructed the U.S. Customs Service to discontinue the suspension of liquidation for merchandise entered on or after March 17, 1999, but to continue the suspension of liquidation of entries made between November 17, 1998, and March 16, 1999.

We will reinstate suspension of liquidation under section 706(a) of the Act if the ITC issues a final affirmative injury determination, and will require a cash deposit of estimated countervailing duties for such entries of merchandise in the amounts indicated above. Because the estimated net countervailing duty rate for POSCO is *de minimis*, this company will be excluded from the suspension of liquidation.

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all non-privileged and non-proprietary information related to this investigation. We will allow the ITC access to all privileged and business proprietary

information in our files provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Assistant Secretary for Import Administration.

If the ITC determines that material injury, or threat of material injury, does not exist, this proceeding will be terminated and all estimated duties deposited or securities posted as a result of the suspension of liquidation will be refunded or canceled. If, however, the ITC determines that such injury does exist, we will issue a countervailing duty order.

Destruction of Proprietary Information

In the event that the ITC issues a final negative injury determination, this notice will serve as the only reminder to parties subject to Administrative Protective Order (APO) of their responsibility concerning the destruction of proprietary information disclosed under APO in accordance with 19 CFR 351.305(a)(3). Failure to comply is a violation of the APO.

This determination is published pursuant to sections 705(d) and 777(i) of the Act.

Dated: May 19, 1999.

Richard W. Moreland,

Acting Assistant Secretary for Import Administration.

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DEPARTMENT OF COMMERCE

International Trade Administration

[A-580-834]

Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Sheet and Strip in Coils From the Republic of Korea

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

EFFECTIVE DATE: June 8, 1999.

FOR FURTHER INFORMATION CONTACT: Maria Dybczak (POSCO), Brandon Farlander (Inchon) or Rick Johnson, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230; telephone: (202) 482-5811, (202) 482-1082 or (202) 482-3818, respectively.

The Applicable Statute

Unless otherwise indicated, all citations to the Tariff Act of 1930, as

amended ("the Act"), are references to the provisions effective January 1, 1995, the effective date of the amendments made to the Act by the Uruguay Round Agreements Act ("URAA"). In addition, unless otherwise indicated, all citations to the Department of Commerce ("Department") regulations are to the regulations at 19 CFR Part 351 (1998).

Final Determination

We determine that stainless steel sheet and strip in coils ("SSSS") from the Republic of Korea are being sold in the United States at less than fair value ("LTFV"), as provided in section 735 of the Act. The estimated margins are shown in the "Continuation of Suspension of Liquidation" section of this notice.

Case History

Since the preliminary determination, issued on December 17, 1998, (*Notice of Preliminary Determination of Sales at Less Than Fair Value: Stainless Steel Sheet and Strip in Coils ("SSSS") from the Republic of Korea ("Preliminary Determination")*), 64 FR 137 (January 4, 1999)), the following events have occurred:

On December 17, 1998, the Department postponed the final determination to 135 days after publication of the preliminary determination (see *Notice of Preliminary Determination of Sales at Less Than Fair Value: Stainless Steel Sheet and Strip in Coils ("SSSS") from the Republic of Korea ("Preliminary Determination")*), 64 FR 137 (January 4, 1999)). On December 28, 1998, respondent Pohang Iron & Steel Co., Ltd., ("POSCO") alleged "significant ministerial errors" made in the Department's margin calculation for the preliminary determination. After reviewing POSCO's allegations, the Department agreed that it had inadvertently used daily rates instead of a weighted-average exchange rate, that sales made to unaffiliated companies were erroneously excluded from the calculation of normal value, and that deductions for inland freight from plant to warehouse and warehousing expenses were inadvertently excluded from the calculation of normal value. Because these errors taken together constitute a significant ministerial error, as defined in 19 CFR 351.224(g), we amended our preliminary determination. On January 26, 1999 the Department published its amended preliminary determination (see *Notice of Amended Preliminary Determination of Sales at Less Than Fair Value: Stainless Steel Sheet and Strip in Coils from Korea* (64 FR 3928)), amending

POSCO's cash deposit rate and the All Others rate from 12.59 to 3.92 percent. On February 23, 1999, the Department published a subsequent amended preliminary determination, incorporating corrected scope language. See *Notice of Preliminary Determinations of Sales at Less than Fair Value: Stainless Steel Sheet and Strip in Coils from France, Germany, Italy, Japan, Mexico, South Korea, and United Kingdom; and Amended Preliminary Determination of Sales at Less Than Fair Value, Stainless Steel Sheet and Strip from Taiwan*, 64 FR 8799 (February 23, 1999).

During December 1998, the Department conducted the cost verification of POSCO's responses to the antidumping questionnaire. On January 12, 1999, we issued our cost verification report (see *Memorandum to Neal Halper, Acting Director, Office of Accounting: Cost Verification Report—Pohang Iron and Steel Company, Ltd.* ("Cost Verification Report"), dated January 12, 1999). On February 12, 1999, we requested that POSCO provide narrative descriptions of certain home market variables on the first day of the home market sales verification (see *Memorandum to File: Narrative Definitions of Certain Home Market Variables*, dated February 12, 1999). From February 22 through February 26, 1999, and from March 17 through March 18, 1999, we conducted the sales verification of POSCO's responses to the antidumping questionnaire. On April 2, 1999, we issued our sales verification report on the U.S. sales verification of Pohang Steel America ("POSAM") (see *Memorandum to the File: Report on the Verification of U.S. Sales by Pohang Steel America ("POSAM") in the Antidumping Investigation of Stainless Steel Sheet and Strip in Coils from Korea ("POSAM Verification Report")*). On April 6, 1999, we issued our sales verification report on the home market and U.S. sales verification in Seoul, Korea (see *Memorandum to the File: Report on the Sales Verification of Pohang Iron & Steel Company, Ltd.* ("POSCO Verification Report"). Following verification, POSCO submitted a revised sales database reflecting its pre-verification corrections on March 8, 1999.

On February 3, 1999, we received additional comments from petitioners and, on February 11, 1999, we issued a second supplemental questionnaire to Incheon. On February 22, 1999, we received Incheon's second supplemental questionnaire response. We verified Incheon's sales and cost questionnaire responses in Incheon, South Korea, from March 1–5, 1999. On March 15–16,

1999, we verified Hyundai U.S.A., a wholly-owned U.S. subsidiary of Hyundai Corporation, an affiliated trading company of Incheon. On April 5, 1999, we issued the U.S. sales verification report (see *Memorandum to the File: Report on the Verification of U.S. Sales by Hyundai U.S.A. in the Antidumping Investigation of Stainless Steel Sheet & Strip in Coils from South Korea ("Hyundai U.S.A. Verification Report")*). On April 8, 1999, we issued the home market sales and cost verification report (see *Memorandum to the File: Incheon Iron & Steel Co., Ltd. Home Market Sales, United States Sales, and Cost of Production Verification Report ("Incheon Verification Report")*).

On January 21 and January 28, 1999, respondents and petitioners, respectively, submitted their requests for a public hearing, and asked that the Department extend the procedural schedule so that the hearing might follow the release of all verification reports. On April 15, 1999, respondents and petitioners submitted their case briefs and on April 21, 1999, all parties submitted their rebuttal briefs. A public hearing was held on April 26, 1999, a transcript of which has been placed on the record of this investigation.

Finally, on April 1, 1999, we asked Incheon and POSCO to submit monthly shipment data for 1996, 1997, and 1998, requested by the Department for the purposes of making a final critical circumstances determination. On April 12, 1999, both POSCO and Incheon submitted monthly shipment information as requested by the Department.

Scope of Investigation

We have made minor corrections to the scope language excluding certain stainless steel foil for automotive catalytic converters and certain specialty stainless steel products in response to comments by interested parties.

For purposes of this investigation, the products covered are certain stainless steel sheet and strip in coils. Stainless steel is an alloy steel containing, by weight, 1.2 percent or less of carbon and 10.5 percent or more of chromium, with or without other elements. The subject sheet and strip is a flat-rolled product in coils that is greater than 9.5 mm in width and less than 4.75 mm in thickness, and that is annealed or otherwise heat treated and pickled or otherwise descaled. The subject sheet and strip may also be further processed (e.g., cold-rolled, polished, aluminized, coated, etc.) provided that it maintains the specific dimensions of sheet and strip following such processing.

The merchandise subject to this investigation is classified in the Harmonized Tariff Schedule of the United States (HTS) at subheadings:

7219.13.00.30, 7219.13.00.50, 7219.13.00.70, 7219.13.00.80, 7219.14.00.30, 7219.14.00.65, 7219.14.00.90, 7219.32.00.05, 7219.32.00.20, 7219.32.00.25, 7219.32.00.35, 7219.32.00.36, 7219.32.00.38, 7219.32.00.42, 7219.32.00.44, 7219.33.00.05, 7219.33.00.20, 7219.33.00.25, 7219.33.00.35, 7219.33.00.36, 7219.33.00.38, 7219.33.00.42, 7219.33.00.44, 7219.34.00.05, 7219.34.00.20, 7219.34.00.25, 7219.34.00.30, 7219.34.00.35, 7219.35.00.05, 7219.35.00.15, 7219.35.00.30, 7219.35.00.35, 7219.90.00.10, 7219.90.00.20, 7219.90.00.25, 7219.90.00.60, 7219.90.00.80, 7220.12.10.00, 7220.12.50.00, 7220.20.10.10, 7220.20.10.15, 7220.20.10.60, 7220.20.10.80, 7220.20.60.05, 7220.20.60.10, 7220.20.60.15, 7220.20.60.60, 7220.20.60.80, 7220.20.70.05, 7220.20.70.10, 7220.20.70.15, 7220.20.70.60, 7220.20.70.80, 7220.20.80.00, 7220.20.90.30, 7220.20.90.60, 7220.90.00.10, 7220.90.00.15, 7220.90.00.60, and 7220.90.00.80.

Although the HTS subheadings are provided for convenience and Customs purposes, the Department's written description of the merchandise under investigation is dispositive.

Excluded from the scope of this investigation are the following: (1) Sheet and strip that is not annealed or otherwise heat treated and pickled or otherwise descaled, (2) sheet and strip that is cut to length, (3) plate (i.e., flat-rolled stainless steel products of a thickness of 4.75 mm or more), (4) flat wire (i.e., cold-rolled sections, with a prepared edge, rectangular in shape, of a width of not more than 9.5 mm), and (5) razor blade steel. Razor blade steel is a flat-rolled product of stainless steel, not further worked than cold-rolled (cold-reduced), in coils, of a width of not more than 23 mm and a thickness of 0.266 mm or less, containing, by weight, 12.5 to 14.5 percent chromium, and certified at the time of entry to be used in the manufacture of razor blades. See Chapter 72 of the HTS, "Additional U.S. Note" 1(d).

In response to comments by interested parties, the Department has determined that certain specialty stainless steel products are also excluded from the scope of this investigation. These excluded products are described below.

Flapper valve steel is defined as stainless steel strip in coils containing,

by weight, between 0.37 and 0.43 percent carbon, between 1.15 and 1.35 percent molybdenum, and between 0.20 and 0.80 percent manganese. This steel also contains, by weight, phosphorus of 0.025 percent or less, silicon of between 0.20 and 0.50 percent, and sulfur of 0.020 percent or less. The product is manufactured by means of vacuum arc remelting, with inclusion controls for sulphide of no more than 0.04 percent and for oxide of no more than 0.05 percent. Flapper valve steel has a tensile strength of between 210 and 300 ksi, yield strength of between 170 and 270 ksi, plus or minus 8 ksi, and a hardness (Hv) of between 460 and 590. Flapper valve steel is most commonly used to produce specialty flapper valves in compressors.

Also excluded is a product referred to as suspension foil, a specialty steel product used in the manufacture of suspension assemblies for computer disk drives. Suspension foil is described as 302/304 grade or 202 grade stainless steel of a thickness between 14 and 127 microns, with a thickness tolerance of plus-or-minus 2.01 microns, and surface glossiness of 200 to 700 percent Gs. Suspension foil must be supplied in coil widths of not more than 407 mm, and with a mass of 225 kg or less. Roll marks may only be visible on one side, with no scratches of measurable depth. The material must exhibit residual stresses of 2 mm maximum deflection, and flatness of 1.6 mm over 685 mm length.

Certain stainless steel foil for automotive catalytic converters is also excluded from the scope of this investigation. This stainless steel strip in coils is a specialty foil with a thickness of between 20 and 110 microns used to produce a metallic substrate with a honeycomb structure for use in automotive catalytic converters. The steel contains, by weight, carbon of no more than 0.030 percent, silicon of no more than 1.0 percent, manganese of no more than 1.0 percent, chromium of between 19 and 22 percent, aluminum of no less than 5.0 percent, phosphorus of no more than 0.045 percent, sulfur of no more than 0.03 percent, lanthanum of less than 0.002 or greater than 0.05 percent, and total rare earth elements of more than 0.06 percent, with the balance iron.

Permanent magnet iron-chromium-cobalt alloy stainless strip is also excluded from the scope of this investigation. This ductile stainless steel strip contains, by weight, 26 to 30 percent chromium, and 7 to 10 percent cobalt, with the remainder of iron, in widths 228.6 mm or less, and a thickness between 0.127 and 1.270 mm. It exhibits magnetic remanence between

9,000 and 12,000 gauss, and a coercivity of between 50 and 300 oersteds. This product is most commonly used in electronic sensors and is currently available under proprietary trade names such as "Arnokrome III."¹

Certain electrical resistance alloy steel is also excluded from the scope of this investigation. This product is defined as a non-magnetic stainless steel manufactured to American Society of Testing and Materials ("ASTM") specification B344 and containing, by weight, 36 percent nickel, 18 percent chromium, and 46 percent iron, and is most notable for its resistance to high temperature corrosion. It has a melting point of 1390 degrees Celsius and displays a creep rupture limit of 4 kilograms per square millimeter at 1000 degrees Celsius. This steel is most commonly used in the production of heating ribbons for circuit breakers and industrial furnaces, and in rheostats for railway locomotives. The product is currently available under proprietary trade names such as "Gilphy 36."²

Certain martensitic precipitation-hardenable stainless steel is also excluded from the scope of this investigation. This high-strength, ductile stainless steel product is designated under the Unified Numbering System ("UNS") as S45500-grade steel, and contains, by weight, 11 to 13 percent chromium, and 7 to 10 percent nickel. Carbon, manganese, silicon and molybdenum each comprise, by weight, 0.05 percent or less, with phosphorus and sulfur each comprising, by weight, 0.03 percent or less. This steel has copper, niobium, and titanium added to achieve aging, and will exhibit yield strengths as high as 1700 Mpa and ultimate tensile strengths as high as 1750 Mpa after aging, with elongation percentages of 3 percent or less in 50 mm. It is generally provided in thicknesses between 0.635 and 0.787 mm, and in widths of 25.4 mm. This product is most commonly used in the manufacture of television tubes and is currently available under proprietary trade names such as "Durphynox 17."³

Finally, three specialty stainless steels typically used in certain industrial blades and surgical and medical instruments are also excluded from the scope of this investigation. These include stainless steel strip in coils used in the production of textile cutting tools (e.g., carpet knives).⁴ This steel is

similar to AISI grade 420 but containing, by weight, 0.5 to 0.7 percent of molybdenum. The steel also contains, by weight, carbon of between 1.0 and 1.1 percent, sulfur of 0.020 percent or less, and includes between 0.20 and 0.30 percent copper and between 0.20 and 0.50 percent cobalt. This steel is sold under proprietary names such as "GIN4 Mo." The second excluded stainless steel strip in coils is similar to AISI 420-J2 and contains, by weight, carbon of between 0.62 and 0.70 percent, silicon of between 0.20 and 0.50 percent, manganese of between 0.45 and 0.80 percent, phosphorus of no more than 0.025 percent and sulfur of no more than 0.020 percent. This steel has a carbide density on average of 100 carbide particles per 100 square microns. An example of this product is "GIN5" steel. The third specialty steel has a chemical composition similar to AISI 420 F, with carbon of between 0.37 and 0.43 percent, molybdenum of between 1.15 and 1.35 percent, but lower manganese of between 0.20 and 0.80 percent, phosphorus of no more than 0.025 percent, silicon of between 0.20 and 0.50 percent, and sulfur of no more than 0.020 percent. This product is supplied with a hardness of more than Hv 500 guaranteed after customer processing, and is supplied as, for example, "GIN6".⁵

Period of Investigation

The period of investigation is April 1, 1997 through March 31, 1998.

Transactions Investigated

POSCO

According to section 351.403(d) of the Department's regulations, downstream sales to a home market affiliate accounting for less than 5 percent of total sales are normally excluded from the normal value calculation. In the preliminary determination, since respondent's sales to resellers did not meet the Department's 5 percent threshold, the Department has considered POSCO's sales to the affiliated service centers and, to the extent that these sales pass the arm's length test, has included these sales in our calculation of margin. Additionally, as described in Comment 5, the Department has determined that for POSCO's U.S. and home market sales the date of invoice is the appropriate date of sale as this is the date on which the material terms of sale are set. Therefore, the Department has included POSCO's sales in our margin calculation based on invoice date.

⁵ "GIN4 Mo," "GIN5" and "GIN6" are the proprietary grades of Hitachi Metals America, Ltd.

¹ "Arnokrome III" is a trademark of the Arnold Engineering Company.

² "Gilphy 36" is a trademark of Imphy, S.A.

³ "Durphynox 17" is a trademark of Imphy, S.A.

⁴ This list of uses is illustrative and provided for descriptive purposes only.

Inchon

For the final determination, the Department determines that, for Inchon's home market sales, the purchase order date is the appropriate date of sale as this is the date on which the material terms of sale are set. For U.S. sales, we determine that Hyundai U.S.A.'s invoice date (or shipment date, when shipment occurs prior to issuing the invoice) is the appropriate date of sale as this is the date on which the material terms of sale are set. See Comment 12 for additional information. Additionally, Inchon stated that it erroneously included in its home market sales database sales shipped during the POI but returned after the POI. Inchon provided a list of these returns. See *Inchon Verification Report*, Exhibit 1. Therefore, we have excluded the returns noted above from Inchon's home market sales database.

Product Comparisons

In accordance with section 771(16) of the Act, we considered all products produced by the respondents, covered by the description in the *Scope of Investigation* section above, and sold in the home market during the POI, to be foreign like products for purposes of determining appropriate product comparisons to U.S. sales. Where there were no sales of identical merchandise in the home market to compare to U.S. sales, we compared U.S. sales to the next most similar foreign like product on the basis of the characteristics listed in the antidumping duty questionnaire and the August 3, 1998 reporting instructions.

Fair Value Comparisons

To determine whether sales of SSSS from the Republic of Korea to the United States were made at less than fair value, we compared export price ("EP") or constructed export price ("CEP") to the Normal Value ("NV"), as described below in the "Export Price/Constructed Export Price" and "Normal Value" sections of this notice.

POSCO

In the preliminary determination, for sales classified as EP by POSCO, we compared EP to NV, and compared CEP to NV for those sales the respondent identified as CEP transactions. However, as discussed in Comment 3, the Department finds that POSCO's U.S. sales through POSAM (U.S. channel 2) constitute CEP sales and has therefore compared CEP to NV for those sales. In accordance with section 777A(d)(1)(A)(i) of the Act, we calculated weighted-average EPs or

CEPs for comparison to weighted-average NVs.

Inchon

For the final determination, we compared Inchon's U.S. sales through Hyundai U.S.A. (U.S. channel 1), which we classified as CEP sales (see Comment 19), to NV for those sales. For Inchon's sales through U.S. channel's 2 and 3, we compared EP to NV. In accordance with section 777A(d)(1)(A)(i) of the Act, we calculated weighted-average EPs or CEPs for comparison to weighted-average NVs.

Level of Trade

In accordance with section 773(a)(1)(B)(i) of the Act, to the extent practicable, we determine NV based on sales in the comparison market at the same level of trade ("LOT") as the EP or CEP transaction. The NV LOT is that of the starting price sales in the comparison market or, when NV is based on CV, that of the sales from which we derive selling, general and administrative expenses ("SG&A") and profit. For EP, the LOT is also the level of the starting price sale, which is usually from the exporter to the importer. For CEP, it is the level of the constructed sale from the exporter to the importer.

To determine whether NV sales are at a different LOT from EP or CEP sales, we examine stages in the marketing process and selling functions along the chain of distribution between the producer and the unaffiliated customer. If the comparison market sales are at a different LOT, and the difference affects price comparability, as manifested in a pattern of consistent price differences between the sales on which NV is based and comparison market sales at the LOT of the export transaction, we make a LOT adjustment under section 773(a)(7)(A) of the Act. Finally, for CEP sales, if the NV level is more remote from the factory than the CEP level and there is no basis for determining whether the differences in the levels between NV and CEP sales affects price comparability, we adjust NV under section 773(A)(7)(B) of the Act (the CEP offset provision). See *Notice of Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon Steel Sheet and Strip from South Africa*, 62 FR 61731 (November 19, 1997).

In the present investigation, neither respondent requested a LOT adjustment. To ensure that no such adjustment was necessary, in accordance with the principles discussed above, we examined information regarding the distribution systems in both the United

States and Korean markets, including the selling functions, classes of customer, and selling expenses for each respondent.

POSCO

POSCO did not claim a LOT adjustment. POSCO identified two channels of distribution in the home market: (1) sales made by POSCO directly to its customers; and (2) sales made by POSCO through its selling arm, POSCO Steel Sales & Services Co., Ltd. ("POSTEEL"), to customers. Both POSCO and POSTEEL made sales to domestic trading companies, service centers, and unaffiliated and affiliated end-users. For both channels, POSCO and POSTEEL report that they perform similar selling functions. Either POSCO or POSTEEL contacted customers, managed inventory, arranged for shipment and freight, and invoiced the customer. In addition, POSCO claims that either POSCO or POSTEEL offered, as needed, technical services and warranty processing. At verification, the Department confirmed the selling functions performed by the affiliates. See *POSCO Verification Report* at 10-12. Therefore, we determine that selling functions performed in HM Channel 1 (sales made by POSCO directly to customers) are similar to selling functions performed in HM Channel 2 (sales made by POSCO through POSTEEL to customers): freight and delivery, invoicing, sales negotiation, and limited amounts of market research, warranty services, and technical advice. Because channels of distribution do not qualify as separate LOTs when the selling functions performed for each customer class are sufficiently similar, we find that the home market constitutes a single LOT.

POSCO reported three channels of distribution in the U.S. market: (1) sales made by POSTEEL directly to a U.S. end-user; (2) sales to U.S. end-users made by POSTEEL through its wholly-owned U.S. subsidiary, POSAM; and (3) sales made by POSTEEL to unaffiliated Korean trading companies for shipment to the United States. POSCO claimed two LOTs in the U.S. market, but requested no LOT adjustment for the U.S. LOT purported to be different from the home market LOT. The Department examined at verification the claimed selling functions performed by POSCO and its subsidiaries, POSTEEL and POSAM, for all U.S. sales. These selling functions included freight and delivery arrangements, invoicing customers, and extending credit. See *POSAM Verification Report*, at 4-6. As discussed in Comment 3 below, we have determined that POSCO's U.S. sales

through POSAM (U.S. channel 2) should be classified as CEP transactions.

In order to determine whether NV was established at a different LOT than EP or CEP sales, we examined stages in the marketing process and selling functions along the chains of distribution between POSCO and its home market and U.S. customers. We compared the selling functions performed for home market sales with those performed with respect to the EP and CEP transactions, after deductions for economic activities occurring in the United States, pursuant to section 772(d) of the Act, to determine if the home market level of trade constituted a more advanced stage of distribution than the EP or CEP level of trade.

We have determined that sales made through U.S. channels 1 or 3 should be classified as EP transactions. Therefore, we have examined the selling functions performed by POSCO and/or POSTEEL, and have found that they are similar to the functions performed for home market sales. As discussed in Comment 3 below, we have determined that POSCO's U.S. sales through POSAM (U.S. channel 2) should be classified as CEP transactions. With regard to POSTEEL's selling activities and services offered to its U.S. affiliate (POSAM) for CEP sales, we note that POSCO failed to provide this information despite the Department's explicit request in its questionnaire (see Questionnaire at A-7). In any event, we found at verification that POSTEEL itself performs selling functions for U.S. sales. Specifically, POSTEEL conducted market research for initial customer contacts, sales negotiation, arranged for ocean freight and delivery to the U.S. port, and invoiced POSAM for sales of subject merchandise. See *POSCO Verification Report*, at 11-12. Therefore, we find that the selling activities in the U.S. market are similar to those in the home market.

Based on our analysis of the chains of distribution and selling functions performed for sales in the home market and in the U.S. market, we find that sales to all three channels of distribution are made at the same stage in the marketing process and involve nearly identical selling functions. Therefore, we determine that POSCO and its subsidiaries POSTEEL and POSAM provided a sufficiently similar degree of services on sales to all three channels of distribution, and that the sales made to the United States constitute one LOT.

Based on a comparison of the selling activities performed in the U.S. market to the selling activities in the home market, we find that there is not a

significant difference in the selling functions performed in both markets, and thus, sales in both markets were made at the same LOT. Therefore, a LOT adjustment is not appropriate.

Inchon

In the home market, Inchon reported two sales channels: (1) To unaffiliated distributors; and (2) to affiliated and unaffiliated end-users. We examined record evidence to identify the selling functions performed for both channels. These selling functions included inventory maintenance, freight and delivery arrangements, and credit services. At verification, we confirmed the selling functions noted above. See *Inchon Verification Report*, at 20-21. Because there are no differences between the selling functions on sales made to either unaffiliated distributors or affiliated and unaffiliated end-users in the home market, sales through both channels constitute one LOT. Therefore, for the final determination, we conclude that sales to unaffiliated distributors and affiliated and unaffiliated end-users constitute one LOT in the home market.

For its EP and CEP sales in the U.S. market, Inchon reported three sales channels: (1) Inchon sales through Hyundai Corporation, Inchon's affiliated trading company, to Hyundai U.S.A., a wholly-owned subsidiary of Hyundai Corporation located in the United States and an affiliate of Inchon, and finally, to an unaffiliated customer; (2) Inchon sales through Hyundai Corporation, to an unaffiliated customer; and (3) Inchon sales to an unaffiliated trading customer. For purposes of our LOT analysis, Inchon's U.S. customers for all three sales channels are trading companies and distributors. We examined the selling functions performed for each of the three U.S. sales channels. These selling functions included freight and delivery arrangements, credit services, and post-sale warehousing. With the exception of post-sale warehousing for one sale in channel one, selling functions performed in the three sales channels were identical. At verification, we confirmed the selling functions noted above. See *Hyundai U.S.A. Verification Report*, at 4-6. Therefore, for the final determination, we determine that Inchon provided a sufficiently similar degree of services on sales to all three channels of distribution, and that the sales made to the United States constitute one LOT.

Further, because we determined that the U.S. LOT and the home market LOT included similar selling functions, we conclude that these sales are made at the same LOT. Therefore, a LOT

adjustment for Inchon is not appropriate. For a further discussion, see *Analysis Memo: Inchon*.

Export Price/Constructed Export Price *POSCO*

POSCO reported three channels of distribution for U.S. sales. In channel 1, POSCO Steel Sales and Service Co., Ltd. ("POSTEEL"), which is POSCO's affiliated trading company, sold directly to a U.S. customer. In channel 3, POSTEEL sold directly to unaffiliated Korean trading companies for resale of subject merchandise to the United States. We classified sales made through these two channels as EP sales, since the U.S. affiliate, POSAM, had no involvement in the selling process. In channel 2, however, POSAM was involved in all the sales made to unaffiliated U.S. customers, and reported that although the majority of sales were EP sales, there were some sales classified as CEP.

For U.S. sales channels one and three, we based our calculation on EP, in accordance with section 772(a) of the Act, because the subject merchandise was sold by the producer or exporter directly to the first unaffiliated purchaser in the United States prior to importation, and CEP methodology was not otherwise indicated.

For U.S. sales made through POSAM, we calculated CEP based on packed prices to unaffiliated customers in the United States. We made deductions for movement expenses in accordance with section 772(c)(2)(A) of the Act; these included, where appropriate, foreign inland freight, foreign brokerage and handling, international freight, marine insurance, U.S. inland freight, U.S. Customs Duty, and U.S. brokerage and wharfage charges. In accordance with section 772(d)(1) of the Act, we deducted those selling expenses associated with economic activity occurring in the United States, including direct selling expenses (credit costs, bank charges, and U.S. commissions) and indirect selling expenses. In addition, we deducted a per unit direct selling expense to account for bad debt losses incurred by POSAM for sales made to a bankrupt customer. For a further discussion of the bad debt expense and an explanation of its calculation, please refer to Comment 1, and *Memorandum to the File: Analysis for Final Determination in the Investigation of Stainless Steel Sheet and Strip in Coils from Korea—Pohang Iron & Steel Co., Ltd.*, ("Analysis Memo: POSCO"), dated May 19, 1999. Also, we made an adjustment for CEP profit in accordance with section 772(d)(3) of the

Act. Finally, we added to U.S. price an amount for duty drawback pursuant to section 772(c)(1) (B) of the Act.

Inchon

For U.S. sales channels two and three, which are defined in the Level of Trade section above, we based our calculation on EP, in accordance with section 772(a) of the Act, because the subject merchandise was sold by the producer or exporter directly to the first unaffiliated purchaser in the United States prior to importation, and CEP methodology was not otherwise indicated. For U.S. sales channel one, which are sales made through Inchon's affiliate, Hyundai U.S.A., we based our calculation on CEP, in accordance with section 772(b) of the Act, because the merchandise was sold by or for the account of the producer or exporter of such merchandise or by a seller affiliated with the producer or exporter, to a purchaser not affiliated with the producer or exporter, and based on our analysis of the facts as discussed in this section.

In the preliminary determination, we found that Hyundai U.S.A., the U.S. affiliate, did more than merely act as a "processor of sales-related documentation and a communication link with the unrelated U.S. buyer." See *Preliminary Determination*, 64 FR at 142. To ensure proper application of statutory definitions, where a U.S. affiliate is involved in making a sale, we normally consider the sale to be CEP unless the record demonstrates that the U.S. affiliate's involvement in making the sale is incidental or ancillary. The record demonstrates that Hyundai U.S.A.'s role exceeds that of an incidental or ancillary role. For a further discussion of this issue, see *Analysis Memo: Inchon*, and Comment 19 below.

We based EP on the packed, delivered, tax and duty unpaid price to unaffiliated purchasers in the United States. We made deductions for movement expenses in accordance with section 772(c)(2)(A) of the Act; these included, where appropriate, foreign inland freight, foreign wharfage and loading, international freight, marine insurance, domestic inland freight, and U.S. brokerage and wharfage. Additionally, we added to the U.S. price an amount for duty drawback pursuant to section 772(c)(1)(B) of the Act. For a further discussion of this issue, see *Analysis Memo: Inchon*.

We calculated CEP, in accordance with subsections 772(b), (c), and (d) of the Act, for those sales to the first unaffiliated purchaser that took place after importation into the United States. We based CEP on the packed, delivered,

duty paid or delivered prices to unaffiliated purchasers in the United States. We made deductions for movement expenses in accordance with section 772(c)(2)(A) of the Act; these included, where appropriate, foreign inland freight, foreign wharfage and loading, international freight, marine insurance, domestic inland freight, U.S. brokerage and wharfage, and U.S. warehousing expenses. In accordance with section 772(d)(1) of the Act, we deducted those selling expenses associated with economic activities occurring in the United States, including direct selling expenses (credit costs and bank charges), and indirect selling expenses. For CEP sales, we also made an adjustment for profit in accordance with section 772(d)(3) of the Act. Additionally, we added to the U.S. price an amount for duty drawback pursuant to section 772(c)(1)(B) of the Act. For a further discussion of this issue, see *Analysis Memo: Inchon*.

We made certain adjustments based on minor discrepancies noted at Inchon's U.S. verification and pre-verification corrections to several CEP transactions. For one sale, we adjusted credit expenses and the quantity and converted quantity, in MT, sold. For several sales, Inchon did not report a handling commission (see Comment 14). In addition, for several sales, we adjusted U.S. duty per MT and, for one sale, we adjusted marine insurance. Further, Hyundai U.S.A. had incorrectly invoiced one of its customers; hence, we adjusted multiple fields for several sales. As this information involves proprietary information, see *Analysis Memo: Inchon*.

Normal Value

After testing home market viability and whether home market sales were at below-cost prices, we calculated NV as noted in the "Price-to-Price Comparisons" and "Price-to-CV Comparison" sections of this notice.

1. Home Market Viability

As discussed in the preliminary determination, we determined that the home market was viable and no parties have contested that decision. For the final determination, we have based NV on home market sales.

2. Cost of Production Analysis

POSCO

As discussed in the preliminary determination, we conducted an investigation to determine whether POSCO made sales of the foreign like product in the home market during the POI at prices below their cost of

production ("COP"). In accordance with section 773(b)(3) of the Act, we calculated COP based on the sum of POSCO's cost of materials and fabrication for the foreign like product, plus amounts for home market SG&A, interest expenses, and packing costs. We used the information from POSCO's questionnaire responses and the updated sales database (dated March 8, 1999) to calculate COP, except in the following instance.

POSCO purchased a significant amount of elements of value from affiliated parties during the POI. For each affiliated purchase, we reviewed whether the transfer price was at an arm's length price. Where appropriate, we increased POSCO's per unit costs to the market price or the supplier's cost of production, pursuant to 19 CFR 351.407(b). See *Memorandum to Neal Halper, Acting Director, Office of Accounting: Cost of Production ("COP") and Constructed Value ("CV") Calculation Adjustments for the Final Determination of Pohang Iron & Steel Co., Ltd. ("POSCO") ("Cost Analysis Memorandum")*, dated May 19, 1999. See also, Comment 11.

Inchon

As discussed in the preliminary determination, we conducted an investigation to determine whether Inchon made sales of the foreign like product in the home market during the POI at prices below their cost of production ("COP"). In accordance with section 773(b)(3) of the Act, we calculated COP based on the sum of Inchon's cost of materials and fabrication for the foreign like product, plus amounts for home market SG&A, interest expenses, and packing costs. We used the information from Inchon's questionnaire responses and the sales database to calculate COP, except in the following instance.

Inchon stated that it erroneously used indirect selling expenses during the POI rather than the 1997 fiscal year. See *Inchon Verification Report*, Exhibit 1. We modified Inchon's G&A calculation based on a pre-verification correction.

3. Test of Home Market Sales Prices

As in our preliminary determination, we compared the weighted-average COP, adjusted where appropriate (see above), to home market sales of the foreign like product as required under section 773(b) of the Act. In determining whether to disregard home market sales made at prices less than the COP, we examined whether the sales were made (1) within an extended period of time in substantial quantities, and (2) whether such sales were made at prices which

permitted the recovery of all costs within a reasonable period of time.

4. Results of the COP Test

Pursuant to section 773(b)(2)(C) of the Act, where less than 20 percent of respondent's sales of a given product were at prices less than the COP, we did not disregard any below-cost sales of that product because we determined that the below-cost sales were not made in "substantial quantities." Where 20 percent or more of a respondent's sales of a given product during the POI were at prices less than the COP, we determined such sales to have been made in "substantial quantities," as defined in section 773(b)(2)(C)(i) of the Act, within an extended period of time in accordance with section 773(b)(2)(B) of the Act. In such cases, because we compared prices to weighted-average COPs for the POI, we also determined that such sales were not made at prices which would permit recovery of all costs within a reasonable period of time, in accordance with section 773(b)(2)(D) of the Act. Therefore, we disregarded the below-cost sales.

Calculation of CV

As in our preliminary determination, we calculated CV based on the sum of respondent's cost of materials, fabrication, SG&A, interest expenses and profit. In calculating CV, we made the same adjustments as those noted above, in the "Calculation of COP" section of the notice. In accordance with section 773(e)(2)(A) of the Act, we based SG&A and profit on the amounts incurred and realized by the respondent in connection with the production and sale of the foreign like product in the ordinary course of trade, for consumption in the foreign country.

Price-to-Price Comparisons

As in our preliminary determination, for those product comparisons for which there were sales at prices above the COP, we based NV on prices to home market customers. We made adjustments, where appropriate, for physical differences in the merchandise in accordance with section 773(a)(6)(C)(ii) of the Act.

POSCO

We calculated NV based on the same methodology used in the preliminary determination, with the following exception. As discussed in Comment 9, we determined at verification that POSCO incorrectly excluded housing expenses from its calculation of POSAM's indirect selling expense ratio. We recalculated POSCO's indirect selling expenses reported for U.S.

Channel 2 sales (sales through POSAM), and used this updated expense in deducting from NV the amount of indirect selling expenses, capped by the amount of the U.S. commissions.

Inchon

We calculated NV based on the same methodology used in the preliminary determination, with the following exceptions. In its home market pre-verification corrections, Inchon discovered that it charged interest to certain customers, when Inchon extended the due date of the promissory notes. Inchon argued that because Inchon did not reduce credit expense by the interest income, interest income should be added, as noted in Inchon's Interest Revenue for STS Customer during POI table. See *Inchon Verification Report*, Exhibit 1. We made an adjustment to account for Inchon's interest revenue because we had accepted Inchon's pre-verification correction. Additionally, we adjusted U.S. Other Transportation Expenses for several sales, based on Inchon's February 22, 1999 submission.

Price-to-CV Comparisons

For price-to-CV comparisons, we made adjustments to CV in accordance with section 773(a)(8) of the Act. If appropriate, we deducted from CV the amount of indirect selling expenses (adjusted as described in the "Price-to-Price Comparisons" section above) capped by the amount of the U.S. commissions.

Currency Conversion

In the preliminary determination, the Department determined that the decline in the won at the end of 1997 was so precipitous and large that the dollar-won exchange rate cannot reasonably be viewed as having simply fluctuated during this time, i.e., as having experienced only a momentary drop in value. Therefore, the Department used daily rates exclusively for currency conversion purposes for HM sales matched to U.S. sales occurring between November 1 and December 31, 1997, and the standard exchange rate model with a modified benchmark for sales occurring between January 1, 1999 and February 28, 1999. See *Preliminary Determination*, 64 FR at 145. As discussed in Comment 2, the Department continues to find that use of daily exchange rates and modified benchmarks are warranted during the periods noted above.

In addition, as discussed in Comment 2 and *Analysis Memo: POSCO*, we have determined that the severe and precipitous drop in the value of the won

from November 1997 through February 1998 necessitates the use of two averaging periods, under 19 CFR 351.414(d)(3).

Critical Circumstances

On October 30, 1998, petitioners alleged that there is a reasonable basis to believe or suspect that critical circumstances exist with respect to imports of SSSS from Korea. In accordance with 19 CFR 351.206(c)(2)(i), we preliminarily determined that critical circumstances did not exist with respect to respondents POSCO and Inchon, which the Department had preliminarily determined not to have margins over 15 percent, the first criterion for ascertaining whether critical circumstances exist. See *Preliminary Determination*, 64 FR at 145-46.

Section 735(a)(3) of the Act provides that the Department will determine that critical circumstances exist if: (A)(i) there is a history of dumping and material injury by reason of dumped imports in the United States or elsewhere of the subject merchandise; or (ii) the person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the subject merchandise at less than its fair value and that there would be material injury by reason of such sales; and (B) there have been massive imports of the subject merchandise over a relatively short period.

To determine whether there is a history of injurious dumping of the merchandise under investigation, in accordance with section 735(a)(3) of the Act, the Department considers evidence of an existing antidumping order on SSSS from the country in question in the United States or elsewhere to be sufficient. We are not aware of any antidumping order in any country on SSSS from any of the countries subject to this investigation.

In determining whether an importer knew or should have known that the exporter was selling SSSS at less than fair value and thereby causing material injury, the Department normally considers margins of 15 percent for CEP sales and 25 percent for EP sales or more sufficient to impute knowledge of dumping and of resultant material injury. See *Notice of Final Determination of Sales Less than Fair Value: Certain Cut-to-Length Carbon Steel Plate from the People's Republic of China*, 63 FR 61964, 61967 (November 20, 1997); see also *Notice of Final Determination of Sales Less than Fair Value: Manganese Sulphate from*

People's of Republic of China 60 FR 52155, 52161 (October 5, 1995).

In this investigation, respondents POSCO and Incheon, which the Department has determined have both EP and CEP sales, do not have margins over 15 percent. Based on these facts, we determine that the first criterion for ascertaining whether critical circumstances exist is not satisfied. Therefore, we determine that there is no basis to find that critical circumstances exist with respect to imports of SSSS from respondents POSCO or Incheon, pursuant to section 735(a)(3) of the Act. Therefore, we did not analyze the respondent's shipment data to examine whether imports of SSSS have been massive over a relatively short period. See e.g., *Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Collated Roofing Nails from Korea*, 63 FR 25895, 25898 (May 12, 1997).

However, one respondent, Taihan Electric Wire ("Taihan") has not responded to the Department's questionnaires, and has been assigned a margin based on facts otherwise available (see "Facts Available" section, below). As Taihan's margin exceeds 25 percent, the first criterion has been met. Also, as facts available, we consider Taihan to have had massive imports over a relatively short period. Therefore, having met both criteria, critical circumstances exist for imports of subject merchandise from Taihan. See *Preliminary Determination of Sales at Less Than Fair Value: Stainless Sheet and Strip in Coils from Japan*, 64 FR 108, 112 (January 4, 1999).

Regarding all other exporters, an "All Others" rate has been determined (see "The All Others Rate," below); because this rate does not exceed 15 percent, we determine that critical circumstances do not exist for companies covered by the "All Others" rate.

Verification

As provided in section 782(i) of the Act, we conducted on-site verification of the information submitted by the respondents for use in our final determination. We used standard verification procedures, including examination of relevant sales, accounting and production records and original source documents provided by the respondents.

Interested Party Comments

Comment 1: POSCO—Sales to a Bankrupt Customer

Petitioners argue that POSCO's sales to a bankrupt U.S. customer are neither

atypical nor insignificant, and that the Department should account for the value of these sales in its final determination. Petitioners contend that the Department should also not exclude the sales based on a "5 percent threshold" for the exclusion of insignificant sales from its analysis. Citing *Gulf States Tube Div. v. United States*, 981 F. Supp. 630 (CIT 1997) and *Certain Carbon and Alloy Steel Wire Rod from Canada*, 58 FR 62639, 62641 (November 29, 1993), petitioners argue that these cases stand for the proposition that the exclusion threshold is primarily to limit reporting of sales data that would place a disproportionate burden on the Department. Petitioners contend that no such burden exists in the instant case, as the sales are already on the record.

Petitioners maintain that sales to financially troubled customers are an everyday occurrence, and that the terms of sale usually reflect the increased risk borne by the seller. Petitioners note that the chart of accounts for the Korean parent, POSCO, includes several accounts and reserves relating to bad debt. Petitioners note that the Department's practice in an investigation is to take a "snapshot" of a respondent's selling practices, and that since the Department uses a weighted average of sales in its margin determination, no sales, whether or not they are atypical, should be excluded from the analysis.

Petitioner notes that in *Notice of Final Determination Sales at Less Than Fair Value: Stainless Steel Plate in Coils ("SSPC") from the Republic of Korea ("SSPC from Korea")*, 64 FR 15444 (March 31, 1999), the Department treated the cost of the bankrupt sales as direct selling expenses allocated to all U.S. sales. Petitioners argue that this treatment was correct. Petitioners further argue that under the Department's reasoning in the preliminary determination of this investigation, there would be no consequences when an importer is not paid for subject merchandise if the sales have been classified as EP sales. Petitioners further insist that POSCO must bear fees and production costs associated with the bankrupt sales, and that these must be classified as direct selling expenses since POSCO would not have incurred them but for the customer's bankruptcy. Petitioners contend that the value of these sales is most analogous to a warranty claim, and that the Department reached this same conclusion in *SSPC from Korea* and in *Color Television Receivers from the Republic of Korea: Final Results of Antidumping Administrative Review*

(*"CTVs from Korea"*), 61 FR 4408 (February 6, 1996). Petitioners note that the Department, citing *AOC Intl. v. United States*, 721 F. Supp. 314 (CIT 1989) and *Daewoo Elecs. Co. v. United States*, 712 F. Supp. 931 (CIT 1989), concluded in *SSPC from Korea*, 64 FR at 15449, that "a bad debt expense * * * is directly related to sales of the subject merchandise," which petitioners contend requires a direct selling expense adjustment to starting price. Petitioners contend that since the sales were never paid for, and that future payments are highly unlikely, the expense associated with these sales should be treated in the same manner as is the expense associated with merchandise returned for warranty claims, and that there should be no "sale" since the sales had been written off and effectively canceled by POSCO. However, petitioners note that there is a direct selling expense associated with the sale of subject merchandise, similar to a warranty-related refund or forgiveness of payment. Petitioners contend that the loss resulting from the unpaid sales is a "direct and unavoidable consequence of the sale," and that the Department should follow its own precedent in its treatment of these sales.

Petitioners also argue that, according to *Timken Co. v. United States*, 852 F. Supp. 1122, 1125 (CIT 1994), all selling expenses are presumed to be direct, unless the respondent can prove otherwise; petitioners further argue that as the respondent failed to meet that burden, the Department must treat these expenses associated with the bankrupt sales as direct selling expenses. In addition, petitioners argue that the expenses should be allocated to total sales of subject merchandise only, citing *Smith-Corona Group v. United States*, 713 F.2d 1568, 1577 (Fed. Cir.1983), wherein the court stated that the administering authority must make a fair value comparison, comparing "apples to apples." Petitioners contend that as information regarding unpaid sales of stainless steel plate in coil products is not on the record of this investigation, it would be inappropriate to include sales of these products in the denominator.

Petitioners also argue that the Department should not include the bankrupt sales in its margin determination, comparing these sales to merchandise that was returned or lost in transit, which would not be considered a sale. Petitioners further argue that sales made to a bankrupt customer where there is no reasonable expectation of payment cannot be considered as "sales" and must instead

be considered as a direct selling expense. Petitioners contend, however, that should the Department include the sales in its margin analysis, it must impute a credit period, and should assume that payment was made on the date of the final determination.

Petitioners argue that POSCO has provided no support for its contention that unpaid sales to the bankrupt customer represent indirect selling expenses. They contend that in *Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Wire Rod from Korea* ("SSWR from Korea"), 63 FR 40404, 40406 (July 29, 1998), the Department treated an accrual for bad debt as an indirect selling expense, not an actual expense. Petitioners distinguish that treatment with the instant case, wherein POSCO incurred a tangible loss directly related to the sales of subject merchandise. In *Notice of Final Determination of Sales at Less Than Fair Value: Bicycles from the People's Republic of China* ("Bicycles from the PRC"), 61 FR 19026, 19044 (April 30, 1996), petitioners contend, the Department never addressed the issue of whether the bad debt expense was a direct or an indirect selling expense: "(t)hese expenses (have) been deducted from U.S. price as part of CEP deductions. Because we are not making a corresponding CEP offset * * * the classification of these expenses as direct or indirect is moot." Petitioners argue that in *Bicycles from the PRC*, there was no indication on the record that the expenses in question were accruals or actual expenses, or whether they involved subject merchandise. Petitioners note that there are no such questions in the instant case, and that the expenses are clearly actual and directly related to subject merchandise. Petitioners note that *Final Determination of Sales at Less Than Fair Value: Certain Fresh Cut Flowers from Columbia* ("Flowers from Columbia"), 52 FR 6842 (March 5, 1987), cited by POSCO, is also distinguishable from this investigation. In *Flowers from Columbia*, petitioners note, it was not clear from the record whether the bad debt expense was related to subject merchandise, or whether the company had written off the bad debt. In the instant case, petitioners argue, the bad debt expense is directly related to subject merchandise, and the respondent has written off the sale.

However, petitioners do not agree with the Department's statement in *Flowers from Columbia* that it "consider(s) bad debt, by its very nature, to be an indirect selling expense since, under generally accepted accounting

principles ("GAAP"), bad debt is recovered over time by future price increases." Instead, they note that GAAP is concerned with the measurement of economic activity at the time when such measurements are recorded. In addition, petitioners argue that basic accounting principles require a finding that such an expense would not have occurred but for the making of a sale. Petitioners argue that the accumulated costs incurred to generate a sale are recognized when the merchandise is sold, and that therefore, the costs associated with the bankrupt sales are directly related to the sales, since absent the sale, they would not have been recognized in POSCO's or POSAM's accounting system.

Petitioners further contend that POSAM's transfer price for the bankrupt sales is not a valid basis for determining the amount of the direct selling expense. Petitioners argue that the transfer price is a meaningless figure for dumping purposes, and that the Department should use, as it did in the *SSPC from Korea*, the more objective benchmark of the constructed value of the sales.

Respondent argues that sales for which it never received payment due to the customer's bankruptcy are atypical, and that inclusion of these sales would distort the margin calculation. POSCO notes that in the preliminary determination of this investigation, the Department did not include the sales in the margin calculation, but did include the cost of those sales (namely, the transfer price between the parent company and the U.S. affiliate) as an indirect selling expense. However, as respondent notes, the Department chose a different treatment of these sales in *SSPC from Korea*, including the sales to the bankrupt customer in the calculation of U.S. price and allocating the actual cost of producing the merchandise (rather than the transfer price) over all U.S. sales of subject merchandise as a per unit direct selling expense. Respondent claims that this treatment increased POSCO's preliminary deposit margin by over 300 percent.

POSCO argues that the Department has ample discretion to exclude U.S. sales in an investigation where it finds that the sales are atypical, not part of the respondent's ordinary business practice, and would undermine the fairness of the comparison, citing *Final Determination of Sales at Less Than Fair Value: Fresh Cut Roses from Colombia* ("Roses from Colombia"), 60 FR 6980, 7004 (February 6, 1995), and *Final Determination of Sales at Less Than Fair Value: Professional Electric Cutting and Sanding/Grinding Tools*

from Japan, 58 FR 30144, 30146 (May 26, 1993). Respondent notes that the Department has used this discretion in an investigation because the initial deposit rate is intended as an estimate of future behavior, which should not be calculated on extraordinary or unusual circumstances, citing *Koenig v. United States*, 15 F. Supp. 2d 834, 841 (CIT 1998), wherein the court distinguished between investigations, which are intended to determine an estimated margin on future sales, and a review, which is intended to assess actual duties. POSCO maintains that the unpaid sales in the instant investigation constitute less than 5 percent of total U.S. sales, while in the companion investigation of stainless steel plate in coils, the quantity was higher. POSCO notes that the Department has traditionally treated 5 percent as its threshold measure for determining significance, citing 19 CFR 351.403(d) (stating that downstream sales to affiliates in the home market accounting for less than 5 percent of total sales are excluded from the normal value calculation); and 19 CFR 351.404(b) (stating that a home market is viable if it accounts for five percent of sales to the United States). Respondent argues that petitioner's suggestion that these sales are not atypical is wrong. POSCO notes that the scenario "devised" by petitioners in which a home market customer receives a discount for high volume sales is in no way analogous with the situation involved in the instant case. POSCO points to the fact that voluntary discounts and terms of sale are negotiated by parties; in the instant case, the customer's bankruptcy was not under POSCO's control.

Respondent argues that its U.S. affiliate, POSAM, has otherwise never sold merchandise to a customer that did not eventually pay, and as the Department verified, POSAM does not have an account for bad debt in its accounting system. Accordingly, POSCO maintains that these sales must be considered atypical and should not be included in the margin calculation. In addition, respondent maintains that the inclusion of these sales would undermine the fairness of the pricing comparison and distort the margin, as they maintain occurred in *SSPC from Korea*.

Respondent contends that the Department further erred in *SSPC from Korea* when it treated sales made to a bankrupt customer as both sales for the purposes of the margin calculation and bad debt in terms of allocating the cost of the sales as a per unit direct selling expense. POSCO maintains that by treating the transactions as both sales

and bad debt, the Department would render the most distortive outcome possible, violating the United States' obligations under the WTO Antidumping Agreement to make a fair comparison between export price and the normal value, citing *Federal-Mogul Corp. v. United States*, 872 F. Supp. 1011 (CIT 1994) and *Melamine Chemicals v. United States* ("Melamine"), 732 F.2d 924, 933 (Fed. Cir. 1984). Respondent further adds that, contrary to petitioners' contention, the Department has the authority to take into account "extraordinary events" that were "infrequent in occurrence," as cited by petitioners from *Floral Trade Council v. United States*, 16 CIT 1014, 1016-17 (1992). POSCO argues that the inclusion of these sales in the margin calculation would constitute an unfair comparison between export price and normal value.

POSCO argues that it reported the transactions as sales rather than bad debt because the transactions coincide with the Department's definition of a sale and because POSCO fully expected to be paid for these sales. Respondent notes that in administrative reviews the Department normally leaves unpaid sales in the database for purposes of the margin calculation, rather than to treat them as a bad debt expense. As support for this contention, respondent cites *Brass Sheet and Strip from Sweden, Final Results of Antidumping Administrative Review*, 60 FR 3617, 3621 (January 18, 1995); *Polyethylene Terephthalate Film, Sheet and Strip from Korea: Final Results of Administrative Review*, 60 FR 42835, 42839 (August 17, 1995); and *Certain Internal-Combustion, Industrial Forklift Trucks from Japan: Final Results of Antidumping Administrative Reviews* ("Forklift Trucks"), 57 FR 3167, 3173 (January 28, 1992). Respondent maintains that in these cases the Department applied a credit period to the unpaid sales to reflect the credit expense in the final margin. POSCO notes that in *Forklift Trucks*, the Department treated the unpaid sales as subject sales since the merchandise had been sold in the normal course of trade in the period of review.

POSCO argues that the Department also erred in its reliance on *CTVs from Korea*. Respondent argues that *CTVs from Korea* was an administrative review, not an investigation. As such, POSCO contends that the Department is responsible in the instant case for calculating a cash deposit rate that can be relied on as a predictor and reasonable estimate of future duties, whereas in a review, an actual assessment is made and exclusions are

not ordinarily allowed. Respondent argues that in *CTVs from Korea*, the bad debt treated as a direct selling expense was associated with sales in a prior period and recorded in the company's bad debt expense account. Therefore, POSCO contends that the Department did not treat the unpaid sales as sales in the database and simultaneously as bad debt, instead allocating the expense amount as a direct expense to the period of review sales that were actually paid.

POSCO further contends that the Department's policy is to treat recognized bad debt as an indirect selling expense rather than a direct selling expense. As support for this contention, respondent cites to several cases: *Flowers from Columbia*, 52 FR at 6850; *SSWR from Korea*, 63 FR at 40406; and *Bicycles from the PRC*, 61 FR at 19041. Respondent further points out that the Department recognized the cost of these sales as an indirect selling expenses, based on the definition of indirect expenses as those which are incurred whether or not a sale is made. POSCO contends that the cost of these sales bear no direct relationship to any other sale on the database, and that the cost, represented by POSAM's payment to POSCO, would have been incurred even if POSAM made no other U.S. sales. POSCO argues that for these reasons, the cost of these sales is not a direct selling expense, and should not be allocated to subject merchandise alone, but to all of POSCO's U.S. sales.

Respondent argues that the Department's purpose for treating bad debt as a direct expense in *CTVs from Korea* was to avoid distortion. POSCO argues that in *Daewoo Electronics v. United States*, 712 F. Supp. 931, 938 (CIT 1989), cited in *CTVs from Korea*, the CIT remanded the Department's determination, finding that the Department's practice of disregarding selling expenses for bad debt losses, while granting adjustments for warranty expenses which were not directly related to the sales under review, was arbitrary and likely to result in distorted margin calculations. Respondent maintains that the CIT did not direct the Department to treat bad debt as a direct selling expense in all cases, but to avoid distortion in the margin.

POSCO argues that even if the Department were to treat the cost of sales as a direct selling expense, it should do so based on the transfer price from the parent company to the affiliate, rather than the constructed value of the merchandise. Respondent argues that in *CTVs from Korea*, the bad debt directly expensed was based on the amount recorded as bad debt in the respondent's normal books and records, not on the

cost of production. Respondent contends that the Department verified that POSAM records the transfer price between itself and POSTEEL as the cost of its sale, that the expense was captured in POSAM's financial statements, not POSCO's, and that POSAM does not have any accounts for bad debt in its accounting system.

Therefore, respondent argues that the cost reflected in POSAM's accounting records, which POSCO argues is the transfer price, should be the basis for any allocation of bad debt expense.

Respondent further argues that, should the Department include the cost of the bankrupt sales in its margin calculation, the cost should be allocated over all U.S. sales of stainless steel, not just restricted to sales of subject merchandise. POSCO notes that the total amount of stainless steel sales for the POI had been verified and recorded as part of the Department's verification, and that therefore, there is no reason why any recognized expense should not be allocated over sales of all stainless products.

Respondent argues that petitioner's comparison between the bankrupt sales and defective or lost merchandise is incorrect. POSCO contends that defective merchandise is generally returned to the producer and either resold or reincorporated into the production process. Likewise, POSCO argues that lost merchandise is covered by insurance and would not be accounted for in an investigation. Respondent maintains that while a producer can be held responsible for defective merchandise resulting in a warranty claim, a customer's bankruptcy is beyond the producer's control, and that therefore, these transactions should be excluded from the Department's analysis to the extent that they cause distortion to the margin.

Department's Position: We agree with petitioners in part. Although we disregarded the sales in the preliminary determination, we have reconsidered our determination and find that the sales to the bankrupt customer for which payment was not received should be included in the margin analysis. POSCO reported the bankrupt sales as U.S. sales because the material terms of sale were final, as required under the statute. Section 772(a) of the Act. There was nothing atypical about the terms of the sales at the time they were made; we agree with petitioners that there is an inherent risk, when selling to customers on a credit basis, that the customer might not make full or even partial payment. Moreover, the price of the sales themselves is not necessarily distortive because, at the time they were

made, POSCO was not aware that the customer would declare bankruptcy. Therefore, these sales must be included in the database. In addition, respondent's arguments regarding the relative significance of these sales compared to POSAM's total sales is inapposite. Although the Department employs a 5 percent threshold in regard to other issues in investigations (namely, reporting of downstream sales and home market viability), none of the instances described by respondent apply to this case.

As petitioners have noted, the Department uses the 5 percent threshold, for example, in determining whether to require a party to report home market (or U.S.) downstream sales data. Where that data, even if it constitutes less than 5 percent, has already been supplied, there is no basis for the Department to refuse to use such data. Furthermore, the Department has chosen a 5 percent benchmark to ease the administrative burden of an investigation, operating under the general assumption that there is less likelihood of introducing distortions into the margin calculation if fewer than 5 percent of a sales database is excluded. The Department, however, is not persuaded by respondent's argument that the exclusion of reported sales is necessary to eliminate distortions. As noted above, there is nothing atypical or distortive about the price of such sales because, at the time of such sales, POSCO was not aware that the customer would declare bankruptcy.

We also disagree with respondent's claim that the Department "double counted" the sales by including the sales in the margin calculation and treating the cost of the sales as a direct selling expense. As the Department noted in *SSPC from Korea*, and in *CTVs from Korea*, it is our practice to "include sales which incur bad debt in the database and treat the bad debt expense as a direct selling expense when the expense is incurred on sales of subject merchandise." See *SSPC from Korea*, 64 FR at 15448, and *CTVs from Korea*, 61 FR at 4412. In addition, in *Notice of Final Determination of Sales at Less Than Fair Value: Foam Extruded PVC and Polystyrene Framing Stock from the United Kingdom*, 61 FR 51411, 51417 (October 2, 1996), the Department treated bad debt expenses as direct selling expenses, as they were "incurred with respect to sales of the subject merchandise and to specific customers which went bankrupt during the POI." Consequently, as in *SSPC from Korea*, we have treated the bad debt expense as a direct selling expense. However, we

have not imputed a credit period for these sales, due to its distortive effect on the margin. Thus, the Department did not double-count the cost of the unpaid sales.

Furthermore, contrary to respondent's contention, the appellate court ruling in *Melamine* is not relevant to the credit expense issue in the instant case. In *Melamine*, the Court ruled that margins created solely through fluctuations in exchange rates would be unreal, unreasonable, and unfair. Unlike exchange rate fluctuations, companies can control credit expenses through negotiation and contractual agreement. In the instant case, POSAM's decision to sell to this particular customer and extend credit was solely within its control. POSAM could have chosen to insure itself against the risk that this (or any) customer would not pay, as do other companies which sell on a credit basis. Finally, POSAM could also have negotiated different terms of sale, which in fact it did when it sold subject merchandise to the same customer on a cash-on-delivery basis after the customer had declared bankruptcy.

With regard to the classification of the expense related to these sales, at verification, the Department found that POSAM reversed the sales in its books at year-end by issuing negative invoices to the customer for the unpaid merchandise in question. See *POSAM Verification Report* at 6, and Exhibit 6. Although POSAM does not maintain separate bad debt accounts, these sales have been effectively classified as a type of bad debt. As in *SSPC from Korea* and *CTVs from Korea*, this bad debt expense is directly related to sales of the subject merchandise. See *AOC International v. US*, 721 F. Supp. 314 (CIT 1989) and *Daewoo Electronics v. US*, 712 F. Supp. 931 (CIT 1989). We have determined that the bad debt expense should be treated as a direct selling expense, since but for the sale made to the bankrupt customer, the bad debt expense would not have been incurred. We agree with petitioners that the cases cited by POSCO do not support its contention that the Department has a practice of treating bad debt expense as an indirect selling expense in all instances. In all three cases, *Bicycles from the PRC*, *Flowers from Columbia*, and *SSWR from Korea*, either the bad debt expensed was an accrual versus an actual expense, or the bad debt could not be tied to sales of subject merchandise. In the instant case, there is no dispute that the expense was incurred, since POSAM's own records indicate that the sales had been written off, and that the expense was directly related to sales of subject merchandise.

We also agree with petitioners that it is most appropriate to use an objective measure of the expense incurred for these unpaid sales (namely, the constructed value of the sales), rather than an intra-company transfer price which may not accurately reflect the cost of the merchandise. The constructed value of the sales are determined based on the actual cost of the inputs to the subject merchandise, which have been verified by the Department in its Cost Verification. The transfer price's basis is unknown, and may be based on a percentage of sale price basis, or a fixed amount equally unrelated to the actual cost of the product in question. In addition, we agree with petitioners that the most appropriate allocation of the cost of the sales would be to sales of subject merchandise, as the expenses plainly resulted from subject merchandise sales. As petitioners noted, the Department is required to make a fair value comparison on a fair basis, comparing "apples to apples," citing *Smith-Corona Group v. United States*, 713 F.2d 1568, 157 (Fed. Circ. 1983), and as the bad debt directly relates only to subject merchandise sold to a U.S. customer, the appropriate calculation is to allocate the direct selling expense over the total U.S. sales of subject merchandise. For our calculation of the per unit direct selling expense, see *Analysis Memo: POSCO*.

Comment 2: POSCO—Multiple Averaging Periods

Petitioners argue that the Department should calculate weighted-average prices for multiple averaging periods to account for the devaluation of the Korean won during the POI. Noting that the Department accounted for this devaluation in the preliminary determination by using daily and modified exchange rates during the devaluation period, petitioners contend that this treatment did not adequately account for the decline in the won, because the rates were tied to the date of sale reported by respondents. Petitioners urge the Department to calculate two separate weighted-average price comparisons for each product under investigation to avoid a dilution of pre-existing dumping margins solely as the result of the severe and precipitous drop in the value of the won.

Petitioners argue that in recent investigations involving Korea (i.e. *SSPC from Korea* and *Final Determination of Sales at Less Than Fair Value: Emulsion Styrene-Butadiene Rubber from the Republic of Korea* ("Rubber from Korea")), 64 FR 14865

(March 29, 1999)), the Department has determined that multiple averaging periods are appropriate. In fact, in a review of the Department's preliminary determination, petitioners find that there are virtually no findings of sales at less than fair value during the November 1997–March 1998 period, which coincides with the period of currency devaluation. Petitioners argue that these results were directly related to the Department's failure to adequately account for the decline in the won.

Petitioners also argue that section 777A(d)(1)(A) of the Act allows the Department to employ an average-to-average comparison of U.S. sales to the relevant home market or third country sales, and, according to the Statement of Administrative Action ("SAA"), time is a factor which may affect the comparability of sales. Petitioners contend that the effect of the currency decline on POSCO's costs and prices would be "blended" together with pre-crisis costs. They cite to *Melamine*, noting that dumping margins should not be artificially eliminated because of unanticipated changes in the exchange rate. Petitioners also cite several cases supporting the Department's authority to make special adjustments to take extraordinary circumstances into account, including *Floral Trade Council v. United States*, 16 CIT 1014 (1992), and *Notice of Final Determination of Sales at Less Than Fair Value: Large Newspaper Presses and Components Thereof, Whether Assembled or Unassembled, from Japan*, 61 FR 38139, 38153 (July 23, 1996). Petitioners specifically cite to two cases involving adjustments for currency issues, *Final Determination of Sales at Less Than Fair Value: Industrial Nitrocellulose from Brazil*, 55 FR 23120 (June 6, 1990); and *Certain Fresh Cut Flowers from Columbia: Final Results and Partial Rescission of Antidumping Duty Administrative Review*, 62 FR 53287, 53297 (October 14, 1997), and refer to these cases as illustrative of the Department's authority to use a variety of methods to compare prices in determining whether sales at less than fair value exist. In addition, petitioners note that the Department's regulations allow it to employ special procedures for exchange rate conversion where foreign currencies appreciate vis-a-vis the dollar so that currency fluctuations do not "create" dumping margins. Petitioners urge the Department to adopt similar measures in this case to prevent currency fluctuations from reducing dumping margins, and cite to *Koyo Seiko*, 20 F.3d 1156, 1159 (Fed. Cir.

1994) as indicative of the Department's obligation to rely on alternative methods to calculate dumping margins to ensure a fair result.

Petitioners argue that POSCO's arguments against the use of shorter averaging periods are without merit. Petitioners contend that the fact that different product matches could result from using shorter averaging periods does not outweigh the need to employ multiple periods given the sudden and precipitous drop in the won's value. Petitioners also argue that POSCO's contention that the use of daily exchange rates is sufficient to account for the drop in the currency is invalidated by the Department's use of shorter periods in a significant inflation scenario. Petitioners also maintain that respondent's argument that use of shorter periods in the instant case will result in arguments for multiple periods in all cases involving exchange rate fluctuations is incorrect, and note that the extraordinary two-month 47 percent drop in the won's value cannot equate to a typical currency fluctuation.

Respondent POSCO argues that the Department has no basis for a decision to alter the standard price comparison period. POSCO contends that because the Department has already applied a mechanism to address the exchange rate fluctuations (namely, adjusting the exchange rates used in the calculation of export price/constructed export price and normal value) in the preliminary determination of this investigation, there is no further need to alter the comparison period in the final determination. Citing the Department's policy bulletin on this issue (*Policy Bulletin 96-1: Currency Conversions*, 61 FR 9434 (March 8, 1996)), respondent maintains that the Department's treatment of exchange rates in the preliminary determination ensured that exporters, when setting U.S. prices, would know with certainty the exchange rate the Department would use in a dumping analysis. POSCO contends that the use of averaging periods would eliminate this certainty, and allow for manipulation of the margin. Respondent further argues that the Department's own regulations under the Uruguay Round Agreements Act ("URAA") stipulate that the Department may only use weighted averages for shorter periods "when normal values, export prices or constructed export prices differ significantly over the course of the period of investigation." POSCO contends that it sold subject merchandise based on negotiated prices and whatever "macroeconomic conditions" existed in the market during the POI. POSCO argues that the

mere fact that exchange rates fluctuated during the POI does not demonstrate that its prices, pricing practices, and/or costs changed during the POI.

POSCO further argues that in recent cases, the Department has not varied the averaging period due to exchange rate fluctuations alone. Citing *Notice of Final Determination of Sales At Less Than Fair Value: Certain Mushrooms from Indonesia* ("Mushrooms"), 63 FR 72268, 72272 (December 31, 1998), respondents contend that the case reflects the Department's decision not to use two averaging periods to account for the effect of currency devaluation. POSCO also cites *Notice of Preliminary Determination of Sales at Less Than Fair Value; Postponement of Final Determination: Certain Preserved Mushrooms from Indonesia*, 63 FR 41783, 41785 (August 5, 1998) ("Preserved Mushrooms"). Although POSCO states that the Department noted in both *SSPC from Korea* and *Mushrooms* that it also considers prolonged large changes in exchange rates, respondent maintains that the changes in won during the POI were addressed by the Department's currency conversion policy. Respondent points to another case, *Final Determination of Sales at Less Than Fair Value: Polyvinyl Alcohol from Taiwan* ("Polyvinyl Alcohol"), 61 FR 14064, 14069 (March 29, 1996), which the Department distinguished in *Mushrooms* based on the facts of that case: the respondent (in *Polyvinyl Alcohol*) "changed the way it conducted business with its principal home market customers, including its price structure, while at the same time, U.S. prices and input cost trends moved in tandem (citing *Preserved Mushrooms*, 63 FR at 41785). Respondent argues that, as in *Preserved Mushrooms*, it did not change the way it conducted its business or its pricing structure during the POI.

Respondent also argues that the use of multiple periods has the potential to distort the margin for reasons wholly unrelated to the exchange rate. As an example, POSCO notes that the use of shorter averaging periods may result in U.S. sales being matched to less similar home market sales because of sales patterns wholly unrelated to currency issues. POSCO argues that the purpose of calculating margins based on POI averages is to eliminate the impact of such patterns on the overall margin. Citing *Melamine*, 732 F.2d at 932, POSCO contends that basing a margin on a factor beyond the control of the exporter would be unreal, unreasonable, and unfair.

Department's Position: We agree with petitioners. Given the economic

situation in Korea during the POI, it is most appropriate to use daily and modified exchange rates in this case, for the reasons explained in the preliminary determination, and to employ two averaging periods in calculating the dumping margin. Under section 777A(d)(1)(A) of the Act, the Department has broad authority to use a number of methodologies in calculating the average prices used to determine whether sales at less than fair value exist. More specifically, under 19 C.F.R. 351.414(d)(3), the Department may use averaging periods of less than the POI when normal value, export price, or constructed export price varies significantly over the POI. In this investigation, in the last five months of the POI, NV (in dollars) differed significantly from NV earlier in the POI, due primarily to a significant change in the underlying dollar value of the won, evidenced by the precipitous drop in the won's value that began in November 1997 and continued through December 1997. In the span of two months, the won's value decreased by more than 40 percent in relation to the dollar. Consequently, it is appropriate to use two averaging periods to avoid the possibility of a distortion in the dumping calculation. Moreover, we disagree with respondent's claim that the use of averaging periods is dependent upon a change in a respondent's selling practices. In the final determination of *Preserved Mushrooms*, the Department stated that "in addition to changes in selling practices, we believe that we should also consider other factors, such as prolonged large changes in exchange rates, in determining whether it is appropriate to use more than one averaging period." See *Notice of Final Determination of Sales at Less Than Fair Value: Certain Preserved Mushrooms from Indonesia*, 63 FR 72268, 72272 (December 31, 1998). Therefore, for both POSCO and Incheon, we have used two averaging periods for the final determination: January through October 1997 and November 1997 through March 1998.

Comment 3: POSCO—CEP vs. EP

Petitioners argue that the Department should classify sales made through POSCO's U.S. affiliate as CEP sales. Petitioners note that the Department has found that where the U.S. subsidiary: (1) was the importer of record and took title to the merchandise; (2) financed the relevant sales transactions; (3) arranged and paid for further processing; and (4) assumed the seller's risk, such sales were classified as CEP sales (citing *Certain Cold-Rolled and Corrosion-*

Resistant Carbon Steel Flat Products from Korea: Preliminary Results of Antidumping Duty Administrative Review, 61 FR 51882, 51885 (October 4, 1996); and upheld in *Final Results*, 62 FR 18404 (April 15, 1997). Petitioners argue that POSCO's U.S. affiliate meets the criteria set forth in that case. They contend that POSAM was the importer of record, financed the sales to the U.S. customer, and assumed the risk associated with these sales (as is evident with regard to the bankrupt sales). Although no further processing was reported after importation, petitioners argue that POSAM was responsible for other post-importation services, such as arranging customs clearance, U.S. freight, invoicing customers, and collecting payment.

In addition, petitioners note that in *SSPC from Korea*, the Department determined that POSAM is more than a processor of sales-related documentation, and that all sales through the affiliate were CEP sales. Petitioners contend that POSAM is the only contact for the U.S. customer, follows up initial contacts made by the Korean parent, incurs the cost of unpaid sales, and is responsible for collecting payment from customers. Petitioners also cite to several other cases wherein the Department reclassified sales as CEP transactions when the respondents' U.S. affiliates were found to have significant selling functions in the United States (e.g. following up on calls made to U.S. customers; market research for POSTEEL; receiving and preparing orders; and collecting payments from customers).

Petitioners also argue that the Department should infer from POSAM's size, both in terms of its staff and its asset value, that POSAM is involved in setting U.S. prices. Petitioners urge the Department to find as a general proposition that the mere existence of a U.S. subsidiary the size of POSAM is a strong indication that the activity of the staff must be "significant." Petitioners note that the level of sales and expenditures attributed to POSAM indicate that POSAM has a significant involvement in setting prices for the subject merchandise. In addition, petitioners contend that POSAM's selling expenses should be deducted from the starting price, and should be modified to reflect expenses for only those sales made to unaffiliated parties.

Petitioners argue that the Department has found in all recent cases, with the single exception of *SSWR from Korea*, that U.S. sales made through POSCO's affiliate warrant CEP treatment, citing *Certain Cold-Rolled and Corrosion-*

Resistant Carbon Steel Flat Products from Korea: Final Results of Antidumping Duty Administrative Reviews ("Carbon Steel from Korea-3rd Review"), 63 FR 13170, 13182-183 (March 18, 1998); and *Certain Cold-Rolled and Corrosion-Resistant Carbon Steel Flat Products from Korea: Final Results of Antidumping Duty Administrative Reviews* ("Carbon Steel from Korea-4th Review"), 64 FR 12927, 12937-38 (March 16, 1999).

POSCO argues that its sales through POSAM meet the Department's criteria for classification as EP sales. Citing *Final Results of Antidumping Duty Administrative Review and Partial Termination of Administrative Review: Circular Welded Non-Alloy Steel Pipe from Korea*, 62 FR 55574, 55579 (October 27, 1997), respondent notes that the Department considers whether (1) the merchandise was shipped directly from the manufacturer to the unaffiliated U.S. customer; (2) this was the customary commercial channel between the parties involved; and (3) the functions of the U.S. affiliates were limited to that of processors of sales-related documentation and communication links with the unaffiliated U.S. buyer. POSCO argues that the Department has classified sales as EP when all three criteria have been met, and has considered the routine functions of the exporter as merely having been relocated geographically from the country of exportation to the United States, citing *Industrial Phosphoric Acid from Belgium: Preliminary Results of Antidumping Duty Administrative Review*, 63 FR 25830, 25831 (May 11, 1998) and *AK Steel Corporation v. United States*, Slip Op. 98-159, 1998 WL 846764 (CIT, November 23, 1998).

Respondent argues that POSAM's role in U.S. sales is that of a processor of sales-related documentation. POSCO argues that POSTEEL, POSAM's Korean-based affiliate, determines the material terms of sale, and performs all sales-related activities, with the exception of arranging freight for certain delivered sales, and arranging credit for certain transactions. POSCO contends that POSAM communicates inquiries, purchase orders, and confirmations between the U.S. customer and POSTEEL, and that it has no negotiating authority, as petitioners suggest. POSCO states that, contrary to petitioners' contention, POSAM is not the first and only point of contact for the U.S. customer, noting that POSCO or POSTEEL originated all of the contacts and relationships with U.S. customers, and that the Korean affiliates maintain direct contact with these customers through marketing trips to the United

States. POSCO acknowledges that POSAM discusses the U.S. market situation and prices with its parent in order to provide insight to POSCO since POSAM is closer to the market. Respondent also contends that petitioners' claim that POSAM's size indicates the level of involvement in sales is inaccurate. POSCO argues that the Department verified that only two employees at POSAM's headquarters are responsible for sales of subject merchandise (as well as other product sales) along with two accounting personnel who are responsible for processing payment information for all customers and all products. Respondent argues that petitioners' suggestion that the extent of POSAM's involvement can be directly linked to the value of merchandise recorded in POSAM's accounting records is totally irrelevant, and points out that processing an invoice takes the same amount of time no matter what its value. POSCO contends that, contrary to petitioners' claim, the "mere existence" of a U.S. subsidiary does not dictate CEP treatment.

Citing *Final Determination of Sales at Less Than Fair Value: Coated Groundwood Paper from Belgium*, 56 FR 56359, 56362 (November 4, 1991) and *Final Determination of Sales at Less Than Fair Value: Coated Groundwood Paper from Finland*, 56 FR 56363, 56371 (November 4, 1991), POSCO contends that the Department has held that the fact that an affiliated U.S. company quotes prices to U.S. customers does not lead to CEP designations, nor does a U.S. affiliate's identifying and maintaining contact with customers. POSCO also cites to *Final Determination of Sales at Less Than Fair Value: Extruded Rubber Thread from Malaysia*, 57 FR 38465, 38469 (August 25, 1992), noting that the Department found that the role of a branch office whose functions include "receiving orders, preparing and executing order confirmations, invoices, packing lists, and other sales-related documentation, and receiving and processing payments from customers" was not sufficient to classify the affiliates' activities as beyond those of a mere processor of documents or communications link.

Respondent further argues that petitioners' suggestion that the Department segregate POSAM's indirect selling expenses by product is wholly without merit. POSCO contends that, at verification in New Jersey, the Department examined the activities of POSAM's employees, and found that the sales and support staff are responsible for all sales. Respondent notes that allocating POSAM's total indirect

selling expenses across all of its sales is the method by which the Department has calculated all other reviews and investigations with which POSCO is involved, including *SSPC from Korea*.

Department's Position: We agree with petitioners that sales through POSAM are more appropriately treated as CEP transactions. Although the facts in this investigation are similar to the facts in the stainless steel wire rod determination cited by respondent, there are several significant differences on the record of the present case which lead the Department to change its decision from the preliminary determination and conclude that POSCO's U.S. sales through POSAM warrant classification as CEP sales, as we did in *SSPC from Korea*.

The Department treats sales through an agent in the United States as CEP sales, unless the activities of the agent are merely ancillary to the sales process. Specifically, where sales are made prior to importation through a U.S. based affiliate to an unaffiliated customer in the United States, the Department examines several factors to determine whether these sales warrant classification as EP sales. As respondents have noted, these factors are: (1) whether the merchandise was shipped directly from the manufacturer to the unaffiliated U.S. customer without being introduced into the physical inventory of the affiliated selling agent; (2) whether this sale is the customary commercial channel between the parties involved; and (3) whether the function of the U.S. selling agent is limited to that of a "processor of sales-related documentation" and a "communication link" with the unrelated U.S. buyer. Where the factors indicate that the activities of the U.S. selling agent are ancillary to the sale (e.g., arranging transportation or customs clearance), we treat the transactions as EP sales. Where the U.S. selling agent is substantially involved in the sales process (e.g., negotiating prices), we treat the transactions as CEP sales. See *Certain Cut-to-Length Carbon Steel Plate from Germany: Final Results of Antidumping Administrative Review*, 62 FR 18389, 18391 (April 15, 1997); *Mitsubishi Heavy Industries v. United States*, Slip Op. 98-82 at 6 (CIT, June 23, 1998).

We note that neither party has disputed that POSCO's U.S. sales through POSAM meet the first two criterion of the Department's standard. Therefore, the determining factor in this case is the degree of involvement by POSAM in the sales process. In the preliminary determination, the Department based its EP classification of

sales through POSAM on POSCO's statement that POSTEEL determined price and terms of sale. However, in our preliminary determination, we noted that we would conduct an in-depth examination of the most appropriate classification of POSCO's U.S. sales through POSAM (i.e., CEP versus EP) at verification. See *Preliminary Determination*, 64 FR at 142.

Although POSTEEL performs many selling activities for U.S. sales through POSAM, including meeting with potential U.S. customers of the subject merchandise (see *POSCO Verification Report*, at 11-12 and Exhibit 15), the record does not support POSCO's assertion that POSAM is merely a processor of sales-related documentation. First, POSAM is the primary point of contact for the U.S. unaffiliated customer. POSAM officials explained that because of the time zone difference and the cost of long distance, it would be expensive and inconvenient for the customer to contact POSTEEL directly. See *POSCO Verification Report* at 11. In addition, POSAM also conducts, albeit informally, market research for POSTEEL, in that POSAM officials report market conditions and pricing information to POSTEEL.

Also, as demonstrated by the unpaid sales to the bankrupt customer, POSAM incurs the "seller's risk" for U.S. Channel 2 sales. The record indicates that it was POSAM, not POSTEEL, who incurred the cost of the unpaid sales, as POSAM pre-pays POSTEEL. See *POSAM Verification Report* at 6. Moreover, it is POSAM, not POSTEEL, who is responsible for collecting payment from the customer through bankruptcy proceedings. See *POSAM Verification Report*, Exhibit 9. Bearing such financial risk is indicative of a seller, not a mere facilitator. This selling arrangement between POSAM and POSTEEL differs from the one between POSAM and Changwon, addressed in *SSWR from Korea*, where the "U.S. customers remit payment to POSAM, which subsequently transfers the payment to POSTEEL, which, in turn, transfers it to Changwon." See *SSWR from Korea*, 63 FR at 40419 (emphasis added).

Therefore, because of the significant risk incurred by POSAM in addition to its other selling activities, we find that POSAM's activities are more than ancillary to the sales process and have classified POSCO's U.S. sales through POSAM as CEP transactions.

Additionally, we disagree with petitioners that the reported indirect selling expenses for POSAM should be adjusted. Petitioners have not stated that POSCO's calculation was incorrect or is

in any way distortive. We verified POSCO's calculation of POSAM's indirect selling expense at verification and noted no discrepancies. See *POSAM Verification Report* at 11-12. Thus, for CEP sales, we have deducted an amount for indirect selling expenses incurred in the United States using POSCO's reported indirect selling expense for POSAM.

Comment 4: POSCO—Local Letter of Credit Sales

Respondent argues that the Department should calculate normal value for "local" sales made in the home market based on the U.S. dollar price at which those sales were invoiced. Local sales are sales of subject merchandise to home market customers who will further process the merchandise into non-subject products for export. Respondent maintains that although POSCO is paid in Korean won, the amount of payment is based on the U.S. dollar-invoiced price. Respondent contends that because POSCO's local sales are denominated and invoiced in U.S. dollars, the invoiced prices do not require conversion to won for U.S. comparison prices, and that the conversion of the U.S. dollar price to won and then back to dollars is not only unnecessary, but would significantly distort the margin. Respondent cites to *Final Determination of Sales at Less Than Fair Value: Fresh Cut Roses from Columbia* ("Roses from Columbia"), 60 FR 6980, 7006 (February 6, 1995), noting that the Department agreed and accepted the U.S. prices for sales invoiced in U.S. dollars, notwithstanding that the respondent received payment from the customer in the home market currency. Respondent argues that in the final determination in *SSPC from Korea*, the Department's concern was that POSCO's customers paid for local sales in won, the sales amounts were recorded in won in POSCO's accounting records, and that the exchange rates utilized by POSCO to determine the won equivalents were different from those exchange rates used by the Department. Respondent contends that the fact that payment is made in won is irrelevant, since both the contract and the invoice reflect a U.S. dollar price, and that sales are converted to won for the purposes of consistency with POSCO's accounting records, which are maintained in won.

Petitioners claim that the use of the dollar value for local sales in the home market would be inappropriate, given that POSCO receives payment in won. Petitioners distinguish this case from *Roses from Columbia* by noting that in that case, the Department was factoring

in the effects of inflation in the cost-of-production analysis, costs were converted into dollars; the payments in local currencies had reflected the prevailing exchange rate, and all home market sales had been invoiced in dollars and paid in pesos. Petitioners further contend that in *Roses from Columbia*, the decision to use U.S. dollar-based prices was presumably made for convenience and consistency, as costs were also dollar-denominated. Petitioners further note that the disparity between the exchange rates reflected in the price conversion and the rates used by the Department is too great to reconcile, and is in contrast to the situation in *Roses from Columbia*. Petitioners argue that the use of a constant index such as the dollar is used by the Department in the face of currency depreciation or significant deflation, and should not be applied selectively to reduce a dumping margin.

Department's Position: We agree with petitioners. First, we believe that respondent's reliance on *Roses from Columbia* is misplaced. In that case, all prices and costs, both in the home market and in the U.S., were dollar denominated, and the exchange rates reflected in the dollar-to-peso conversion coincided with the exchange rates used by the Department. Given these facts, the use of dollar-denominated prices provided consistency throughout the Department's analysis in that case. Neither of these facts are present in the instant case. At verification, we found that local sales are the only sales made in the home market that are expressly linked to a dollar value, but that the sale is ultimately a won-denominated sale. Additionally, the vast majority of the costs incurred for home market and U.S. sales are denominated and paid by POSCO in won. See *POSCO Verification Report* at 14-18. Finally, as we note above, there is a disparity between the exchange rates reflected in POSCO's accounting records and those used by the Department (see *POSCO Verification Report*, Exhibit 17). Although the sales are linked to a dollar value, there is no question that the respondent receives payment in won, and therefore, the use of the dollar-denominated gross unit price for local letter of credit sales in the home market is unwarranted. In addition, in recent cases involving POSCO (e.g. *SSPC from Korea*, and *Carbon Steel from Korea—3rd Review*), the Department has used the won-denominated price for local letter of credit sales in the home market because we found that, as in the instant case, the local sales were paid in won and

recorded in POSCO's accounting records in won, and the exchange rates used by POSCO were dissimilar from those used by the Department. See *SSPC from Korea*, 63 FR at 15456.

Comment 5: POSCO—Date of Sale

Petitioners argue that the Department should use the order confirmation date as the date of sale for both home market and U.S. sales unless the circumstances of a particular sale indicated use of some other date. They contend that the Department "may use a date other than the date of invoice if the Secretary is satisfied that a different date better reflects the date on which the exporter or producer establishes the material terms of the sale," including price and quantity. See 19 CFR 351.401(i). Petitioners contend that the Department has the authority to treat order date as the date of sale, and has done so in the recent past, citing *Final Results of Antidumping Administrative Review: Circular Welded Non-Alloy Steel Pipe from the Republic of Korea* ("Pipe from Korea"), 63 FR 32833, 32835-36 (June 16, 1998). Petitioners argue that the documents included in the Department's verification exhibits illustrate that, with the exception of special circumstances (involving bankrupt sales) the material terms of sale are set on the order date and do not change prior to shipment and invoice. Petitioners maintain that documentation reviewed at verification indicates that POSCO knew well before actual shipment the order quantity of the invoice. Petitioners note that, with the exception of two sales involving merchandise originally intended for a bankrupt customer, the other seven sales (involving either a home market or a U.S. sale) reviewed at verification did not involve changes in quantity or price from order date to invoice date.

Petitioners argue that for U.S. sales in channel 2, the Department should use as the date of sale the date of POSAM's invoice to the U.S. customer, rather than the date of POSTEEL's invoice to POSAM. Petitioners further contend that this invoice is meaningless because it represents the transfer price on an intra-company transaction.

Respondent does not deny that the Department has the discretion to use a date other than invoice date as date of sale, but noted that in *SSPC from Korea*, the Department chose not to alter its date of sale methodology. POSCO disputes that use of invoice date requires that price and/or quantity change frequently between order date and invoice date, contending that the fact that whether material terms change after the order date does not diminish

the fact that they could and sometimes do change, so that material terms are not firmly established as of the order date. Respondent cites to recent cases as precedent for the Department's decision to use invoice date as date of sale, including *Certain Corrosion-Resistant Carbon Steel Flat Products and Certain Cut-to-Length Carbon Steel Plate from Canada*, 64 FR 2173, 2178 (January 13, 1999), wherein the Department found at verification that quantity changed between the order date and the invoice date, and determined that invoice date was the most appropriate date to use in accordance with normal practice. POSCO distinguishes the instant case from *Pipe from Korea*, wherein the material terms had been set in the U.S. contract, and that subsequent changes were immaterial in nature. Contrary to petitioners' contention, POSCO argues that the documents provided at verification support invoice date as the date of sale, rather than order date, as petitioners claim. Respondent further argues that the Department's obligation with regard to date of sale is to determine when price and quantity are normally finalized, and that the reason for a change in terms is irrelevant to the Department's analysis. Therefore, POSCO submits that there is no reason for the Department to deviate from its standard practice of using invoice date as date of sale.

Respondent believes that the Department, in its preliminary determination, properly used the date of POSTEEL's invoice to POSAM as the date of sale since the material terms of sale were finalized upon shipment to the customer from Korea (the point at which POSTEEL issues its invoice to POSAM). Moreover, POSCO maintains that the Department has a well-established rule that the date of sale must precede or be equal to the date of shipment, citing *Carbon Steel from Korea—4th Review*. Respondent further argues that petitioners' contention that the invoice between POSTEEL and POSAM is meaningless is immaterial to the determination of the date of sale. POSCO notes that use of an invoice date between a U.S. affiliate and its unaffiliated customer would only be appropriate with regard to CEP transactions.

Department's Position: We agree with respondents in part. Under the Department's regulations, we normally use date of invoice as the date of sale. 19 CFR 351.401(i). However, we may use another date, such as date of order confirmation, if that date better reflects the date on which the material terms of the sale were established. In adopting this regulation, we explained that the

purpose was, whenever possible, to establish a uniform event which could be used as the date of sale. *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27348–49 (May 19, 1997). We further explained that we do not treat an initial agreement as establishing the material terms of sale between the buyer and seller when changes to such an agreement are common, even if, for a particular sale, the terms did not actually change. Consequently, our analysis focuses on whether changes are sufficiently common to allow us to conclude that initial agreements should not be considered to finally establish the material terms of sale. As discussed in detail in the *Analysis Memo: POSCO* (at 1–2), a review of the sales documentation supports POSCO's contention that certain material terms of sale (i.e., price and quantity) are subject to change until the invoice date. Moreover, we find petitioners' contention that the record supports use of order confirmation date as date of sale to be without merit. As the Department noted in *Carbon Steel from Korea—4th Review*, "even if documentation from a few sample U.S. sales suggests that essential terms of sale did not change after initial contract date, this does not demonstrate that essential terms of sale were not subject to change after the initial contract date, or that essential terms of sale did not in fact change after the initial contract date for significant numbers of sales." See *Carbon Steel from Korea—4th Review*, 64 FR at 12935. While we note that, at verification, we discovered that POSCO's methodology in determining the frequency of pricing changes overstated the actual number of occurrences (see *Analysis Memo: POSCO*), based upon our examination of the frequency of pricing changes for home market sales, and for U.S. sales classified as EP transactions, we have determined that invoice date is the appropriate date for date of sale.

However, in keeping with the Department's practice, the date of sale cannot occur after the date of shipment. Therefore, when the date of shipment precedes the date of the invoice to the first unaffiliated purchaser in the United States, we have used shipment date as the date of sale, in accordance with recent reviews involving POSCO (see *Carbon Steel from Korea—4th Review*, 64 FR at 12935, citing *Carbon Steel from Korea—3rd Review*, 63 FR at 13172–73).

Comment 6: POSCO—Sales of Non-Prime Merchandise

POSCO argues that in the final determination, the Department should

distinguish between prime and secondary merchandise. POSCO explains that it had submitted control numbers corresponding to each product reported as subject merchandise, and assigned to each control number a suffix of either "P" for prime merchandise or "N" for non-prime merchandise. However, respondent noted that the Department truncated the suffix from the control numbers, collapsing prime and non-prime material for the purposes of the cost test. Respondent argues that the Department's methodology contradicts its practice of distinguishing between prime and secondary merchandise in its analysis. POSCO cites to *Memorandum from Roland L. MacDonald to Joseph A. Spetrini*, dated April 19, 1995 ("Carbon Steel Memorandum"), and *Certain Cold-Rolled Carbon Steel Flat Products from the Netherlands* ("Carbon Steel from the Netherlands"), 61 FR 48465 (September 13, 1996), wherein the Department segregated secondary merchandise from prime merchandise for the purposes of conducting the arm's length test, the cost test, and the margin calculation. POSCO notes that the Department also segregated secondary from prime merchandise in *SSPC from Korea* and should follow the same methodology in the instant case.

Petitioners argue that the Department should not distinguish between prime and secondary merchandise for purposes of its cost test. Petitioners contend that a respondent can selectively label merchandise as "non-prime" in order to avoid having low-priced sales tested with other sales of the same control number, and cause below-cost home market prices to artificially pass the cost test. Petitioners further contend that *Carbon Steel from the Netherlands* stands for the proposition that the Department acknowledges that prime and secondary merchandise incur identical costs. Citing *Extruded Rubber Thread from Malaysia: Final Results of Antidumping Duty Administrative Review*, 63 FR 12752 (March 16, 1998), petitioners note that the Department's practice is not to distinguish between first and second quality merchandise in conducting the cost test.

Department's Position: We agree with respondent. As noted in the *Carbon Steel Memorandum*, "separating prime and seconds for the cost test has the benefit of facilitating an untainted analysis of the majority of sales (prime merchandise)." See *Carbon Steel Memorandum* at 4. Consistent with *Carbon Steel from the Netherlands* and *IPSCO*, 965 F.2d 1056 (Fed. Cir. 1992), in this case, POSCO has reported the

same cost of production for sales of prime and non-prime merchandise. However, we do not regard prime and non-prime merchandise as identical for the purposes of our analysis, as prime and secondary products are typically fundamentally different from each other, since the latter normally possess defects resulting from errors in the production process. For this reason, the Department's model matching methodology in fact prevents any matches of prime to non-prime merchandise. In the instant case, POSCO noted that merchandise classified as non-prime does not meet any standard specification (see POSCO's November 23, 1998 supplemental response at 15), and at verification we examined POSCO's coding process for prime vis-a-vis non-prime and noted no discrepancies (see *POSCO Verification Report* at 5).

The cost test compares the price and cost of all comparison market sales, by model (identified by control number, or "CONNUM"). Pursuant to section 773(b)(2)(C) of the Act, where less than 20 percent of respondent's sales of a given product were at prices less than the COP, we do not disregard any below-cost sales of that product because we determine that the below-cost sales were not made in "substantial quantities." If we were to combine prime and non-prime sales for a given CONNUM in the cost test (thereby affecting whether the 20 percent threshold has been met), sales of prime could be disregarded in the calculation of NV or, alternatively, sales of below-cost non-prime could be the basis of NV, solely because the analysis combined prime with secondary merchandise. This result would stem from the fact that it is more likely that non-prime sales are sold below cost.

Further, we note that petitioners reliance upon *Extruded Rubber Thread from Malaysia* is misplaced. In that case, as in the *Carbon Steel Memorandum*, the Department ran separate cost tests for prime and non-prime merchandise in order to avoid distortions. Thus, for the final determination in the instant case, we have distinguished prime from non-prime merchandise using POSCO's reported control numbers for purposes of the cost test and margin analysis.

Comment 7: POSCO—Application of Facts Available for U.S. Sale

Petitioners argue that POSCO failed to report a U.S. sale to the Department and that facts available based on the highest transaction margin calculated for reported sales should be applied to this "unreported" quantity. Petitioners also contend that two invoices excluded

from the U.S. sales database based on POSTEEL's invoice date should be included as POSAM's invoice date for these sales is within the POI, and should be similarly factored into the margin calculation with the highest transaction margin.

Respondents argue that the U.S. sale to which petitioners refer had been discovered during the Department's Korean verification, and had been reported as a correction at the New Jersey verification (see *POSAM Verification Report*, at 1 and Exhibit 1). POSCO contends that the other sale to which petitioner refers as having been incorrectly excluded from the database is a sale whose shipment date is before the POI, and that therefore, the sales had been properly excluded from the U.S. sales database.

Department's Position: We agree with respondent. The U.S. sale that respondent inadvertently excluded from the sales database was accepted by the Department as a minor correction at the beginning of the New Jersey sales verification. Information relating to the sale was examined and verified. In addition, the two sales shipped prior to the POI were correctly excluded from the sales database, as the Department recognizes the date of sale as the earlier of POSAM's invoice date to the U.S. customer or the date of shipment from Korea. As such, the use of facts available for these sales is unwarranted.

Comment 8: POSCO—Correction of POSTEEL's Credit Expense for U.S. sales

Petitioners contend that the Department should correct credit for U.S. sales involving POSTEEL to reflect the revision noted in the Department's verification report (see *POSCO Verification Report*, at 2). Respondent argues that it had presented the correction to U.S. credit expense for POSTEEL for all U.S. channel 1 and 3 sales in its pre-verification corrections, that it had presented the Department with an updated sales listing incorporating the correct rate on March 8, 1999, and that no other revisions are necessary.

Department's Position: We agree with respondent. POSCO presented its pre-verification correction to POSTEEL's short-term borrowing rate for U.S. dollars and the corresponding corrections to U.S. credit expenses for sales in channels 1 and 3. In addition, POSCO had presented these corrections in an updated sales listing, and we find that no other revisions are required.

Comment 9: POSCO—POSAM's Indirect Selling Expenses

Petitioners argue that POSAM's indirect selling expenses were understated. Petitioners urge the Department to add to POSAM's indirect selling expense figure the amount of short-term interest incurred by POSAM, claiming that such offsets to indirect selling expenses have been explicitly rejected by the Department (citing *Extruded Rubber Thread from Malaysia*, 63 FR 12578). In addition, petitioners also argue that the amount of housing expenses for POSAM employees incurred in the year of consideration should be added to total indirect selling expenses.

Respondent contends that the Department's policy and practice is to deduct short-term interest expenses from indirect selling expense figures, as these short-term interest expenses relate to financing accounts receivable. Because credit expense is calculated separately, respondent argues that the inclusion of the short-term interest expense would constitute double counting credit expenses in the U.S. market, citing *SSPC from Korea and Carbon Steel from Korea—4th Review* in support of this contention. Respondent further contends that the housing expenses noted by petitioners bear no relation to POSAM's sales during the POI, and therefore, do not require inclusion. However, POSCO does note that once income derived from housing is deducted from the expense, the net expense has a negligible effect on the ratio.

Department's Position: We agree in part with respondents. It is the Department's practice to exclude short-term borrowing expenses in the calculation of indirect selling expenses when credit expense has been otherwise accounted for, and the borrowing expense is clearly related to sales, as in *SSPC from Korea and Carbon Steel from Korea—4th Review*. However, we note that the housing expenses found at verification should be included (less housing income) in the calculation of the indirect selling expense ratio, as the housing expenses related to housing provided for POSAM's employees, and no evidence presented at verification indicated that the expenses bore no relation to POSAM's sales during the POI. See *POSAM Verification Report* at 12. For this calculation, see *Analysis Memo: POSCO*.

Comment 10: POSCO—Offset to Financial Expenses

Petitioners argue that foreign exchange gains and interest income

should not be allowed because the Department's verification revealed that POSCO could not support its reported offsets to financial expenses. Petitioners state that the reported financial expense ratio should be recalculated for the final determination.

Respondent asserts that its financial expenses were correctly reported. POSCO explains that the Department verified the reasonableness of its reported short-term interest income and the foreign exchange gains and losses related to debt for the consolidated company.

Department's Position: We agree with respondent. POSCO calculated consolidated short-term interest income and consolidated foreign exchange gains and losses based on the relative percentage of these items from the unconsolidated financial statements. At verification we examined the figures used in the calculation and traced them to POSCO's unconsolidated financial statements. Since POSCO's unconsolidated financial statements comprise a significant portion of its consolidated financial statements, we consider the allocation based on the unconsolidated percentages to be a reasonable surrogate.

Comment 11: POSCO—Affiliated Party Purchases

Petitioners argue that the Department should amend POSCO's reported costs by valuing raw material inputs purchased from affiliated parties at the highest of transfer price, COP, or market price in accordance with the major input rule. Petitioners argue that the major input rule requires the Department to value purchases from affiliated parties at the highest of transfer price, the affiliate's COP, or market value, as cited in section 773(f)(3) of the Act. Petitioners note that the Department's February 4, 1999 cost verification report indicates that POSCO's weighted-average purchase price for some affiliated party inputs occurred at prices that were less than the related parties' COP. Petitioners state that POSCO failed altogether to report a market price benchmark for an additional alloy, which requires the Department to apply facts available for the alloy.

POSCO asserts that material inputs purchased from affiliated parties do not meet the statutory definition of a major input and represent arm's length transactions based on the relationship of the price paid to the affiliated supplier and the cost incurred by that supplier. POSCO claims that even if the Department were to define one or more of the inputs as a major input, there is

no basis on which to adjust the submitted costs.

Department's Position: We agree in part with respondent and in part with petitioners. POSCO obtained three inputs from both affiliated and non-affiliated suppliers. Sections 773(f)(2) and (3) of the Act allow the Department to test whether transactions between affiliated parties are at arm's length. Section 773(f)(2) allows the Department to test whether transactions between affiliated parties involving any element of value are at prices that "fairly reflect * * * the market under consideration." Section 773(f)(3) allows the Department to test whether transactions between affiliated parties involving a major input are above the affiliated supplier's cost of production. In other words, if an understatement in the value of an input would have a significant impact on the reported cost of the subject merchandise, the law allows the Department to insure that the transfer price or market price is above the affiliated suppliers' cost. The determination as to whether an input is considered major is made on a case-by-case basis. *See Antidumping Duties; Final Rule*, 62 FR 27296, 27362 (May 19, 1997). In determining whether an input is considered major, among other factors, the Department looks at both the percentage of the input obtained from affiliated suppliers (verses un-affiliated suppliers) and the percentage the individual element represents of the subject merchandise's COM (i.e. whether the value of inputs obtained from an affiliated supplier comprises a substantial portion of the total cost of production for subject merchandise).

In the instant case, we looked at these percentages for each of the three inputs. For one of the three inputs we found that section 773(f)(3) of the Act does apply to POSCO's purchases from affiliated parties. *See Memorandum to Neal Halper: Cost of Production ("COP") and Constructed Value ("CV") calculation adjustments for the Final Determination of Pohang Iron & Steel Co., Ltd. ("POSCO")*, dated May 19, 1999. For this input, we then compared the transfer price between POSCO and its affiliated supplier to that supplier's actual cost of production. Since the affiliated supplier's actual cost of production exceeded the transfer price, we have increased the COM of the subject merchandise to reflect the cost of the affiliated supplier. However, for the other two inputs we have determined that because of the limited amounts of these inputs obtained from affiliated suppliers and the relatively small percentage that the individual elements represent of the subject

merchandise's COM, section 773(f)(3) of the Act does not apply. Furthermore, for these two inputs we found that the transfer price with POSCO's affiliates are reflective of a market price. Therefore, we have accepted the transfer price from POSCO's affiliate as the cost with respect to these inputs and have not adjusted the COM of the subject merchandise, pursuant to section 773(f)(2) of the Act.

Comment 12: Inchon—Date of Sale

Petitioners argue that, based on the verified record, the appropriate date of sale for home market sales is the invoice date. Petitioners argue that Inchon does not accept the basic terms of sale until the shipment request is entered into the warehousing/shipping document which coincides with the issuance of the invoice to the customer. Petitioners cite the Department's verification findings, which state that a "sale representative enters the order into the system and awaits sales approval. Inchon's sales team explained that price and quantity terms had to be approved by sales management; once approval is gained, the sales team enters a shipment request to the warehousing/shipping department." *See Inchon Verification Report*, at 20. Petitioners argue that, based on the above verification findings, Inchon does not accept the material terms of sale until "sometime after the order is received from the customer." Also, petitioners argue that it is the Department's preference to use the invoice date unless the material terms of sale are established at a different date, citing *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27349 (May 19, 1997).

Respondent agrees with petitioners that, for home market sales, the invoice date should be used, instead of the purchase order/order confirmation date. Respondent argues that the use of the purchase order date in the preliminary determination is directly contrary to the Department's date of sale regulations, which state 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. However, the Secretary may use a date other than the date of invoice if the Secretary is satisfied that a different date better reflects the date on which the exporter or producer establishes the material terms of sale." *See 19 CFR 351.401(i)*. Inchon argues that while the vast majority of home market sales are filled from inventory on hand, and the shipping and invoicing takes place within one or two days of

the order, if Incheon does not have a requested product in inventory, it will (if the order is approved) produce the product. Respondent concludes that if Incheon produces the product, the essential terms of sale often change between the purchase order date and the invoice date; thus, the most appropriate date of sale is the invoice date.

For U.S. sales, petitioners argue that the Department should use the order date/contract date as the date of sale, and not the invoice date, as the Department preliminarily determined. Petitioners note that "once material terms and schedules are set, a firm offer is sent by Incheon to Hyundai Corporation, which sends its firm offer to Hyundai U.S.A., which finally sends a firm offer to the final customer." See *Incheon Verification Report*, at 21. Also, petitioners support their argument by citing to the verification report:

"[a]ccording to Incheon, it also sends a sales contract to the final contract [sic], which lists all terms of the sale; this contract is signed by both parties." *Id.*

Petitioners argue that the Department should use the date of contract/order as the U.S. date of sale unless there is record evidence that demonstrates that "the material terms of sale change frequently enough on U.S. sales so as to give both buyers and sellers any expectation that the final terms will differ from those agreed to in the contract", citing *SSPC from Korea* and *Circular Welded Non-Alloy Steel Pipe From the Republic of Korea*; Final Results of Antidumping Duty Administrative Review ("Circular Welded Non-Alloy Steel Pipe From the Republic of Korea"), 63 FR 32833, 32836 (June 16, 1998).

Petitioners argue that respondent's two sales examples (see Incheon's November 19, 1998 response, at 21 and Exhibit A-28) do not demonstrate a change in the material terms of sale between the date of contract/order and the invoice date. In the first example, petitioners argue that the U.S. customer asked for a split-shipment of the quantity ordered and it did not cancel the quantity. In the second example, "the customer sent a purchase order requesting multiple products; however, Incheon agreed to supply one of the products from each of the purchase orders." Petitioners argue that this example only illustrates Incheon's sales process, where Incheon only sends a firm contract to the customer after the material terms of sale are established.

Petitioners allege that the sales processes in the home market and in the U.S. market differ because home market sales are usually made from inventory and U.S. sales are made-to-order.

Petitioners argue another comparison point between the U.S. and home market sales concerning the terms of payment and invoicing; however, as this subject involves proprietary information, please see *Incheon Analysis Memorandum for the Final Results of the 1997/1998 Investigation for Stainless Steel Sheet and Strip in Coils from Korea* ("Analysis Memo: Incheon") for a more complete discussion of this issue. Petitioners argue that the Department, in a similar factual situation (*Circular Welded Non-Alloy Steel Pipe From the Republic of Korea*, 63 FR at 32835), noted differences between the U.S. and home market sales process. In the above Korean case, petitioners noted that the Department used the invoice date for home market sales from inventory and the date of contract for U.S. made-to-order sales.

Furthermore, petitioners argue that Incheon's price and quantity change chart is inaccurate. See Exhibit C-24 of Incheon's November 19, 1998 response. Petitioners note that respondent claims that this chart illustrates that the price and quantity changed between order date and the invoice date on 17% of U.S. sales, by sales volume. Petitioners argue that an accurate comparison would be to compare any price or quantity changes between Incheon's contract/order date and invoice date, and not between the customer's purchase order date and the invoice date. Petitioners argue that, based on the Hyundai U.S.A. verification exhibits, there were no changes in the material terms of sale (*i.e.*, price or quantity) between Incheon's contract/order date and the invoice date.

Finally, petitioners argue that if the Department disagrees with petitioners' above arguments to use the date of contract/order as the U.S. date of sale, the Department should use the date of invoice from Hyundai U.S.A. to the unaffiliated U.S. customer and not the date of invoice from Incheon to either unaffiliated customers (channel 3) or affiliated customers (channels 1 and 2).

Respondent argues that, for U.S. sales, the Department should continue to use Incheon's invoice date as the date of sale. Respondent argues that petitioners were incorrect in stating that Incheon's specific example of a change in quantity from the contract to the invoice was a split shipment contract. Respondent argues that in this example, the final shipment was canceled by the U.S. customer because of a failure to agree on a price and that this information was verified by the Department. Respondent argues that this is an example of how the material terms of sale (in this case, quantity) can change after the date of

contract. Respondent argues that petitioners understand that Incheon uses the terms "PO" and "contract" interchangeably and that the reference to "P/O QTY," in Exhibit C-24 of Incheon's November 19, 1998 response refers to the customer contract quantities, and that the quantities in both the purchase order and customer contract are the same. Also, respondent argues that in similar cases where there are documented changes in material terms of sale, the Department has used the invoice date as the date of sale. See *Certain Corrosion-Resistant Carbon Steel Flat Products and Certain Cut-to-Length Carbon Steel Plate from Canada*, 64 FR 2173, 2178 (January 13, 1999).

Respondent also disagrees with petitioners' argument that if the Department uses invoice date as the date of sale, the Department should use the invoice date from Hyundai U.S.A. to the unaffiliated U.S. customer. Respondent argues that using this invoice date is contrary to the Department's long-standing position that date of sale may not be after the date of shipment to the unaffiliated customer, citing *Carbon Steel from Korea—3rd Review*, 63 FR at 13172-73. Respondent notes that the Department did use the invoice date to the unaffiliated customer for U.S. sales through POSAM, the U.S. affiliate of POSCO in *SSPC from Korea*; however, the U.S. sales through POSAM were classified as CEP sales, and not EP sales. See *SSPC from Korea*, 64 FR at 15456.

Department's Position: We disagree with both parties' assertions that we should use invoice date for home market sales. For our preliminary determination, we used the purchase order/order confirmation date as the home market date of sale because, by respondents' own admission, "there would rarely be significant differences in the sales terms" between order date and invoice date. See Incheon's November 19, 1998 supplemental questionnaire response. Finally, at verification, we noted that for the home market sales traces, there were no changes in the material terms of sale between order date and invoice date.

Incheon's case brief states that when Incheon accepts an order for a product which it does not have in inventory, it produces the requested product, and, in these instances, the essential terms of sale can often change. This fact (of which, we note, we were aware at the time of our preliminary determination) does not change the fact that, for the large majority of Incheon's home market sales, the essential terms of sale do not change between order date and invoice date. As we noted in the preamble to the

governing regulations, we have established a "preference for using a single date of sale for each respondent, rather than a different date of sale for each sale." See Preamble, 62 FR at 27348. In this case, where the record assertions and evidence support the conclusion that the essential terms of sale for the "vast majority" of sales are established at order date, our preference to utilize a uniform date of sale leads to our conclusion that order date is the more appropriate date. Similarly, we note that petitioners' reference to our verification findings regarding the sales process does not contradict Incheon's statements that "the vast majority" of home market sales are made from inventory and that the terms of sale rarely change between the purchase order date and the invoice date. Hence, we disagree with both petitioners and respondent's arguments and continue to determine that the purchase order date, and not the invoice date, is the most appropriate sale date for home market sales in this case.

For U.S. sales, we disagree with petitioners' arguments to use the purchase order date instead of the invoice date from Incheon to either unaffiliated customers (channel 3) or affiliated customers (channels 1 and 2). While we agree with petitioners' argument that Incheon's home and U.S. sales process differ, it does not automatically follow that we must therefore use invoice date for home market sales and purchase order date for U.S. sales. We note that in the case cited by petitioners, *Circular Welded Non-Alloy Steel Pipe From the Republic of Korea* (63 FR at 32836), the Department considered a factual pattern in which "[t]he material terms of sale in the U.S. [were] set on the contract date and any subsequent changes [were] usually immaterial in nature or, if material, rarely [occurred]." This is not the situation for Incheon's U.S. sales, where Incheon has provided evidence that there were changes to the essential terms of sale for a significant portion of its U.S. sales. For example, we note that the two examples cited by Incheon, as well as its price and quantity change chart (see Exhibit C-24 of Incheon's November 19, 1998 response), demonstrate that the material terms of sale can and do change often enough to justify using invoice date. Therefore, for U.S. sales, we determine that Hyundai U.S.A.'s invoice date (or shipment date, if earlier) is the appropriate date of sale for Incheon's U.S. sales.

Moreover, for U.S. sales, we disagree with respondent's arguments that Incheon's invoice date should be used as the date of sale for the final

determination. For U.S. sales categorized as either EP or CEP transactions, it is the Department's practice to use the date of the invoice to the first unaffiliated purchaser in the United States. We note that for Incheon's sales made through Hyundai Corporation, respondent has provided the date of Incheon's invoice to Hyundai Corporation as the invoice date rather than the date of Hyundai Corporation's invoice to the first unaffiliated U.S. purchaser. However, as noted above in Comment 5, the date of sale cannot occur after the date of shipment. Therefore, when date of shipment to the first unaffiliated purchaser in the United States precedes the date of the invoice, we will use shipment date as the date of sale (see *Carbon Steel from Korea—4th Review*, 64 FR at 12935, citing *Carbon Steel from Korea—3rd Review*, 63 FR at 13172-73).

Comment 13: Incheon—Net Price vs. Gross Unit Price

Petitioners argue that the Department should recalculate both home market credit expenses and indirect selling expenses based on the net price (i.e., after accounting for billing adjustments) rather than the gross unit price. Petitioners argue that Incheon used incorrect formulas for its calculation of home market credit expenses and indirect selling expenses, which were listed on pages B-27 and B-31, respectively, of Incheon's September 23, 1998 response.

Respondent rebuts petitioners' argument that the Department should adjust Incheon's home market credit and indirect selling expenses based on the net price because these adjustments would be "insignificant adjustments" within the meaning of 19 CFR 351.413 (1998). Respondent argues that these adjustments do not affect the calculation of Incheon's normal value by more than 1 percent, and would be a waste of the Department's time and resources to implement.

Department's Position: We agree with petitioners and have recalculated both home market credit expenses and indirect selling expenses based upon net price. As noted in the original questionnaire in this case, the Department uses in its margin calculations a price net of adjustments, such as discounts, rebates, and post-sale price adjustments, that are reflected in the purchaser's net outlay. See 19 CFR 351.102(b) and 351.401(c). This calculation formula error was noted in petitioners' February 3, 1999 alleged deficiency comments. Respondent's argument for us to use 19 CFR 351.413 to justify not making the calculation

formula change is unfounded. As noted in the preamble to the governing regulations, "[section] 351.413 give[s] the Department the flexibility to determine, on a case-by-case basis, whether it should disregard a particular insignificant adjustment." See Preamble, 62 FR 27372. It would be more of a burden upon the Department to calculate a margin both with the adjustment and without the adjustment, compare the results, and determine whether the adjustment is "insignificant." Therefore, we have used Incheon's net price to the customer as the basis for credit and indirect selling expenses.

Comment 14: Incheon—U.S. Handling Commission Fee Adjustment

Petitioners argue that the Department should apply the highest per unit handling commission fee to all Hyundai U.S.A. sales with a particular term of payment, as partial facts available, because the Department discovered at verification that Incheon failed to disclose the handling commission fee. Because Incheon did not report the handling commission fee and because the Department discovered the fee at the Hyundai U.S.A. verification, petitioners argue that the Department should apply facts available and use the highest per unit handling commission fee for those U.S. sales with this particular term of payment.

Respondent argues that at Incheon's U.S. verification, Incheon realized that it had inadvertently excluded a handling commission fee for certain of its U.S. sales, and that the Department should apply the actual transaction-specific adjustment, based on the calculations in U.S. Verification Exhibit 12. Respondent argues that the Department should not apply facts available or adverse facts available because the Department has the information on the record to make the transaction-specific adjustments. Also, respondent argues that this is the type of minor correction that the Department normally makes after verification.

Department's Position: We agree with respondent and will apply the U.S. handling commission fee transaction-specific adjustments, where applicable. We discovered, and then calculated, the handling commission fee expenses at verification for all U.S. sales. See *Hyundai U.S.A. Verification Report*, Exhibit 12. We disagree with petitioners' argument to apply partial facts available. First, there is no missing information with respect to these minor adjustments. Second, the Department verified the accuracy of these minor adjustments for all U.S. sales. Thus, the

application of facts available is unwarranted. *See Notice of Final Results and Partial Rescission of Antidumping Duty Administration Review: Certain Pasta from Turkey*, 63 FR 68,429, 68,432 (December 11, 1998) (Department adjusted freight expenses to reflect verification findings, despite an argument that the "adjustment is negligible and may be ignored," citing 19 CFR 351.413.) Therefore, for the final determination, we have adjusted for these expenses on a transaction-specific basis. *See Analysis Memo: Inchon* for a discussion of the calculations.

Comment 15: Inchon—Converted Quantity

Petitioners argue that the Department should use the converted quantity field in the U.S. sales database, with quantities in metric tons, instead of the quantities reported in field QTYU, which, petitioners argue, contains mixed units of measurement, for the purposes of calculating an overall antidumping margin.

Respondent Inchon agrees with petitioners that the Department should use the converted quantity field in the U.S. sales database for the quantity sold.

Department's Position: We agree with both parties that we should use the converted quantity field from the U.S. sale database. Because Inchon had to convert some U.S. sales from short tons into metric tons, using the converted quantity field in the U.S. sales database assures us that the quantities used for the final determination are based upon the same measurement, which is an actual per ton basis, for each transaction.

Comment 16: Inchon—Other Freight Expenses

Petitioners argue that the Department should correct the U.S. sale database based on the discovery, at verification, of an error regarding Inchon's failure to include a standard handling fee as part of other freight expenses for a particular U.S. sales observation.

Respondent agrees with petitioners that the Department should correct the error discovered at verification. However, respondent argues that this handling fee pertains only to merchandise which Inchon exported through the ports of Pusan or Pohang. Thus, respondent argues that, in making the handling fee adjustments, the database should be adjusted only when Inchon shipped through the ports of Pusan or Pohang.

Department's Position: We agree with both parties that, based on our findings at verification, Inchon had not added a standard handling fee for all shipments

through the ports of Pohang and Pusan. This error was discovered during verification and the correct figure was calculated for the U.S. sales observation. *See Inchon Verification Report*, at 1. Additionally, we agree with respondent that the error exists only with respect to those sales which were exported through Pusan or Pohang. This conclusion is consistent with the information gathered at verification. *See Inchon Verification Report*, Exhibit 18. Therefore, for the final determination, we will adjust the expenses associated with domestic inland freight to the port of export for all applicable U.S. sales.

Comment 17: Inchon—Scrap Recovery Value

Petitioner's argue that the Department should reject Inchon's new methodology for calculating scrap recovery. Previously, Inchon valued scrap recovery based on net realizable value. However, at the start of verification, Inchon changed the valuation methodology to the actual sales value. Petitioners argue that the Department should accept Inchon's original scrap recovery rate based on net realizable value because that method is based on Inchon's normal books and records. Petitioners cite section 773(f)(1)(A) of the Act, which states that costs shall normally be calculated based on the records of the exporter or producer if those records are prepared in accordance with the home country's generally accepted accounting principles, and reasonably reflect the cost of producing the merchandise.

Petitioners claim that there is no evidence on the record to suggest that Inchon's normal accounting of scrap recovery costs recorded in its normal books and records are not reasonable. Furthermore, petitioners assert that this change in methodology and the submission of new factual information was not a minor correction; thus it was untimely filed and pursuant to section 351.302(d) of the regulations, the Department should not consider or retain in the official record of the proceeding untimely filed information. Petitioners claim that the Department only accepts new information at verification when: (1) The need for that information was not evident previously, (2) the information makes minor corrections to information already on the record, or (3) the information corroborates, supports, or clarifies information already on the record. Petitioners assert that on all points, Inchon's submission of new factual information is not a minor correction.

Inchon states that in the normal course of business it values scrap at its

net realizable value. However, to comply with the Department's policy to reduce material costs by the actual revenue received on sales of scrap during the POI, Inchon provided a revised scrap recovery calculation based on actual scrap revenue. Inchon asserts that the information used in the new scrap recovery calculation was placed on the record in its November 19, 1998 supplemental D response in exhibit D-21. Thus, petitioner's argument that the information was submitted untimely are without merit.

Department's Position: We agree with petitioners' assertion that the net realizable value scrap recovery method should be used in for this case. Inchon uses the net realizable method in its normal books and records which reasonably reflects the costs associated with the production and sale of the subject merchandise, pursuant to section 773(f)(1)(A) of the Act. We agree that the actual scrap value, as opposed to a standard or theoretical scrap value, should be used to reduce material costs. However, the costs associated with obtaining the scrap (i.e., transportation and processing costs) should be deducted from the actual sales revenue to arrive at a net value for scrap used as a reduction in material costs. Inchon has not provided sufficient evidence to demonstrate that the net realizable method does not reasonably reflect costs, and therefore, should not be relied upon in the stainless steel sheet and strip case.

Comment 18: Inchon—Depreciation

Petitioners argue that Inchon's change in useful lives and change in depreciation method was not justified nor consistent with the depreciation methodologies that it employed in prior years. Petitioner's cite *Carbon Steel from Korea—3rd Review*, where the Department denied respondent's change in useful life, even though the change was in accordance with Korean GAAP. In that case, the Department found that the respondent failed to sufficiently justify the change, and therefore, the Department calculated the depreciation expense based on the original useful lives of the assets. Petitioners assert that in the instant case, Inchon did not provide sufficient justification for the changes and the depreciation should be recalculated based on the original method and useful lives of the assets.

Inchon argues that its change in depreciation methodology is fully consistent with Korean GAAP. Inchon cites section 773(f)(1)(A) of the Act which requires the Department to base its calculation of costs on GAAP in the country of manufacture unless the result

is distortive. Inchon claims that the petitioners have not demonstrated any such distortion. Furthermore, Inchon asserts that *Carbon Steel from Korea—3rd Review* cited by petitioners is not applicable because it involves an administrative review. Inchon states that in administrative reviews, the Department must be concerned about possible distortions arising from changes in methodology from one review period to another, which could result in some costs never being captured in any review period. Additionally, in a review, the Department may have legitimate concerns about respondents making strategic changes to accounting methodologies in order to affect dumping margins. Inchon argues that in the instant case neither concern is applicable because in this initial investigation, the change in depreciation methods and change in useful lives occurred before the dumping case was filed.

Department's Position: We agree with Inchon. At verification we examined the change in depreciation method and useful lives, noting that the changes were neither unusual nor unreasonable. These changes were reflected in Inchon's December 31, 1997 audited financial statements in accordance with Korean generally accepted accounting principles. In addition, the change in depreciation method and useful lives occurred prior to the initiation of this investigation. We agree that, where changes in accounting principles and costing methodologies occur subsequent to the initiation of an antidumping proceeding, the Department has concerns about the possible distortions which could result. However, since Inchon provided evidence that its change in depreciation methods and useful lives were reasonable, and that the change occurred in a time period prior to the initiation of the investigation, we have relied on the new methodologies and have not made adjustments to Inchon's depreciation expense.

Comment 19: Inchon—CEP vs. EP

Respondent argues that the Department should determine that Inchon's channel one U.S. sales are EP sales, and not CEP sales as preliminarily determined. Respondent stated that "[i]n determining whether U.S. sales made by an affiliated U.S. importer prior to importation should be classified as EP or CEP sales, the Department considers whether: (1) The merchandise was shipped directly from the manufacturer to the unaffiliated U.S. customer; (2) this was the customary

commercial channel between the parties involved; and (3) the functions of the U.S. sales affiliates were limited to that of processors of sales-related documentation and communications links with the unaffiliated U.S. buyer," citing *Preliminary Results of Antidumping Review: Circular Welded Non-Alloy Steel Pipe from Korea*, 62 FR 55574, 55579 (October 27, 1997). Respondent also argues that when the above three criteria are met, the Department classifies the transactions as EP sales, citing, e.g., *Industrial Phosphoric Acid from Belgium*, 63 FR 25830, 25831 (May 11, 1998); *Independent Radionic Workers of America v. United States*, 19 CIT 375 (1995); and *AK Steel Corporation v. United States*, Slip Op. 98-159, WL 846764 (CIT, November 23, 1998).

Respondent argues that in this investigation, the first two criteria are met because Inchon's channel one U.S. sales through Hyundai U.S.A. were shipped directly from the manufacturer to the unaffiliated U.S. customer, which is the customary commercial channel of distribution for Inchon's channel one U.S. sales. Respondent notes that for one invoice, which covered four U.S. transactions, at the unaffiliated U.S. customer's request, Hyundai U.S.A. arranged for a brief period of warehousing at a commercial warehouse at the U.S. port of entry. Respondent argues that this post-sale warehousing does not void Inchon's claim for EP treatment because: (i) it was done at the customer's request; (ii) the goods never entered the inventory of Hyundai U.S.A.; and (iii) after warehousing, the goods were shipped directly to the unaffiliated U.S. customer.

Concerning the third criterion, respondent argues that Hyundai U.S.A. acted as a processor of sales-related documentation and a communications link with the unrelated U.S. buyer. Respondent argues that Hyundai U.S.A.'s role was therefore that of a classic sales processor and communications link: forwarding orders to Inchon for approval, serving as a contact point for customer inquiries, arranging for importation, freight, and delivery to the customer, and performing invoicing and payment collection functions on behalf of Inchon. More specifically, respondent argues that the Hyundai U.S.A. Verification Report demonstrates Hyundai U.S.A.'s limited role in these transactions. First, respondent argues that Inchon, not Hyundai U.S.A., identified U.S. channel one customers and determined which potential customers should be served through this sales channel. Respondent also argues that Inchon's own sales

personnel would travel from Korea to make joint sales calls for important U.S. customers. See *Hyundai U.S.A. Verification Report*, at 4. Second, respondent argues that it does not have a specific department or division for stainless steel sales and the U.S. sales through Hyundai U.S.A. were sold by sales personnel that are primarily responsible for other non-subject products. Third, respondent argues that Hyundai U.S.A. was not responsible for setting prices or other key terms of sale, and that, while Hyundai U.S.A. personnel were familiar with Inchon's prices and did communicate current prices to U.S. customers, Hyundai U.S.A. had no authority to accept or approve sales of subject merchandise. Respondent argues that Inchon approved all sales and Inchon, after receiving a sales inquiry from Hyundai U.S.A., would often change the material terms of sale, which the Department verified.

In addition, respondent argues that none of the following activities justify the Department's preliminary determination that Hyundai U.S.A.'s sales should be CEP sales: (i) that Hyundai U.S.A. sometimes quotes prices to unaffiliated customers, (ii) that Hyundai U.S.A. arranged for post-sale warehousing for one customer, (iii) that Hyundai U.S.A. invoices and collects payment from the U.S. customer, and (iv) that Hyundai U.S.A. extends credit to the U.S. customer.

Citing *Final Determination of Sales at Less Than Fair Value: Coated Groundwood Paper from Belgium*, 56 FR 56359, 56362 (November 4, 1991) and *Final Determination of Sales at Less Than Fair Value: Coated Groundwood Paper from Finland*, 56 FR 56363, 56371 (November 4, 1991), respondent contends that the Department has held that the fact that an affiliated U.S. company quotes prices to U.S. customers does not lead to CEP designations, nor does a U.S. affiliate's identifying and maintaining contact with customers. Respondent also cites to *Final Determination of Sales at Less Than Fair Value: Extruded Rubber Thread from Malaysia*, 57 FR 38465, 38469 (August 25, 1992), noting that the Department found that the role of a branch office whose functions include "receiving orders, preparing and executing order confirmations, invoices, packing lists, and other sales-related documentation, and receiving and processing payments from customers" was not sufficient to classify the affiliate's activities as beyond those of a mere processor of documents or communications link. Respondents also cite *E.I. DuPont de Nemours & Co. v.*

United States, 841 F. Supp. 1237, 1249–50 (CIT 1994) in support of this proposition.

Petitioners argue that the Hyundai U.S.A. sales are CEP because Hyundai U.S.A. solicits sales, negotiates contracts, and finalizes the sale. Petitioners argue that these activities are not ancillary activities in making the U.S. sale. Petitioners note that the Department has stated that, “[w]here the U.S. affiliate has more than an incidental involvement in making sales (e.g., solicits sales, negotiates contracts or prices) or provides customer support, we treat the transactions as CEP sales,” citing, e.g., *Certain Corrosion-Resistant Carbon Steel Flat Products and Certain Cut-to-Length Carbon Steel Plate from Canada: Final Results of Antidumping Duty Administrative Review* (“*Certain Corrosion-Resistant Carbon Steel Flat Products and Certain Cut-to-Length Carbon Steel Plate from Canada*”), 63 FR 12725, 12738 (March 16, 1998).

Petitioners argue that record evidence shows that Hyundai U.S.A. solicits sales. Specifically, petitioners note that the Hyundai U.S.A. Verification Report, at 4–5, states that “Hyundai U.S.A. would contact potential customers” and “(w)hen only Hyundai U.S.A. is making sales calls, company officials stated that they would know Incheon’s current steel market prices because they review a publicly available industry publication (with prices) and are in contact with Incheon concerning Incheon’s price structure.” Also, petitioners argue that the Hyundai U.S.A. Verification Report supports the conclusion that Hyundai U.S.A. negotiates contracts. Specifically, petitioners cite the Hyundai U.S.A. Verification Report, at 5, which states that “negotiations would continue between Incheon, Hyundai U.S.A., and the customer.” Petitioners argue that the above record indicates that these are not ancillary activities in making the U.S. sale, and therefore, the Department must consider sales through Hyundai U.S.A. to be CEP transactions.

Department’s Position: We agree with petitioners that Incheon’s sales through Hyundai U.S.A. should continue to be classified as CEP sales for the final determination. The Department treats sales through an agent in the United States as CEP sales, unless the activities of the agent are merely ancillary to the sales process. Specifically, where sales are made prior to importation through a U.S.-based affiliate to an unaffiliated customer in the United States, the Department examines several factors to determine whether these sales warrant classification as EP sales. These factors are: (1) Whether the merchandise was shipped directly from the manufacturer

to the unaffiliated U.S. customer without being introduced into the physical inventory of the affiliated selling agent; (2) whether this sale is the customary commercial channel between the parties involved; and (3) whether the function of the U.S. selling agent is limited to that of a “processor of sales-related documentation” and a “communication link” with the unrelated U.S. buyer. Where the factors indicate that the activities of the U.S. selling agent are ancillary to the sale (e.g., arranging transportation or customs clearance), we treat the transactions as EP sales. Where the U.S. selling agent is substantially involved in the sales process (e.g., negotiating prices), we treat the transactions as CEP sales. See *Certain Cut-to-Length Carbon Steel Plate from Germany: Final Results of Antidumping Administrative Review*, 62 FR 18389, 18391 (April 15, 1997); *Mitsubishi Heavy Industries v. United States*, Slip Op. 98–82 at 6 (CIT, June 23, 1998). The Department has stated that, “(w)here the U.S. affiliate has more than an incidental involvement in making sales (e.g., solicits sales, negotiates contracts or prices) or provides customer support, we treat the transactions as CEP sales,” citing, e.g., *Certain Corrosion-Resistant Carbon Steel Flat Products and Certain Cut-to-Length Carbon Steel Plate from Canada*, 63 FR 12725, 12738 (March 16, 1998).

In this case, we note that Hyundai U.S.A.’s level of sales activities cannot be regarded as merely ancillary. While Incheon performs many selling activities for U.S. sales through Hyundai U.S.A., including undertaking business trips to meet with potential U.S. customers of the subject merchandise (see *Hyundai U.S.A. Verification Report*, at 4), the record contradicts respondent’s assertion that Hyundai U.S.A. is merely a processor of sales-related documentation.

In this case, the facts on the record, taken together, indicate that Hyundai U.S.A. plays a significant role in the sales process. First, we note that Hyundai U.S.A. “arranged for a brief period of warehousing at a commercial warehouse at the U.S. port of entry.” *Id.*

Second, Hyundai U.S.A. solicits sales. The record shows that, as part of the normal course of business, Hyundai U.S.A.’s employees travel with Incheon employees to make U.S. sales calls. Once Incheon had provided its affiliate a list of potential customers, “Hyundai U.S.A. would contact these potential customers.” In addition, Hyundai U.S.A. employees would make sales calls without Incheon employees, because Hyundai U.S.A. employees have knowledge of Incheon’s prices. *Id.*

Third, Hyundai U.S.A. assumed the credit risk because it invoiced the U.S. customer and was responsible for collecting payment from the U.S. customer. Hyundai U.S.A. was not collecting the payment on behalf of Incheon, as respondent argues, but for itself. Bearing such financial risk is indicative of a seller, not a mere facilitator.

Fourth, Hyundai U.S.A. itself has noted that it also “conducts market research and reports to Incheon on steel market conditions.” *Id.*

All of these activities performed by Hyundai U.S.A., taken together, constitute significant selling activities, and therefore, we find that Hyundai U.S.A.’s activities are more than ancillary to the sales process and have classified Incheon’s U.S. sales through Hyundai U.S.A. as CEP transactions.

Comment 20: Incheon—Packing Expense

Respondent argues that the Department should base packing expenses on the revised figures provided as a pre-verification correction. Respondent states that the packing expenses submitted by Incheon in its September 23, 1998 response, on pages B–32 and C–40 and Exhibits B–13 and C–22, were based on a certain coil size, which, respondent claims, is the smallest coil size Incheon uses. Respondent argues that using this particular certain coil size overstated packing costs because the same amount of packing cost is incurred for each coil, regardless of coil size. In its pre-verification corrections, Incheon argues that it provided an average coil size for both U.S. and home shipments, and provided revised U.S. and home packing per-unit costs. See *Incheon Verification Report*, Exhibit 1. Hence, respondent argues that the Department should accept the modified packing expense figures.

Petitioners argue that the modified packing expense figures, presented by Incheon as a pre-verification correction, are untimely new factual information that the Department should not consider or retain as part of the official record.

Department’s Position: We agree with respondent and have accepted Incheon’s pre-verification correction to its packing expenses. We accepted this packing expense data at the beginning of verification because we determined that it was a minor correction to the U.S. and home market sales databases, rather than new factual information. We disagree with petitioners’ argument that this packing expense correction is untimely new factual information, since Incheon’s packing expense correction was made with regard to the underlying

coil size, which was the basis for its reported per unit packing expense. Therefore, for the final determination, we adjusted packing expenses in both the U.S. and home markets, based on Inchon's submitted pre-verification corrections. See *Analysis Memo: Inchon* for specific packing expense data.

Comment 21: Inchon—Payment Date

Respondent argues that the Inchon Verification Report was incorrect when it reported that for a U.S. sales trace, there was a discrepancy regarding whose payment date was reported on the record. See *Inchon Verification Report*, at 1–2. Respondent argues that the U.S. sales trace package (Home Market Verification Exhibit #18) has documentation which supports respondent's position concerning whose payment date was reported on the record. Petitioners did not comment on this issue.

Department's Position: We agree with respondent. We reviewed the documents included in the U.S. sales trace package in question, (*Inchon Verification Report*, Exhibit #18) and have determined that the report did not reflect the correct information on this issue. Although Inchon officials had reported that the document reflected payment to one affiliate, further examination of the document revealed that payment had been received by the correct affiliate, and that the corresponding payment date reported to the Department was correct.

Facts Available

Section 776(a)(2) of the Act provides that if an interested party or any other person (A) withholds information that has been requested by the administering authority; (B) fails to provide such information by the deadlines for the submission of information or in the form and manner requested, subject to subsections (c)(1) and (e) of section 782 of the Act; (C) significantly impedes a proceeding under the antidumping statute; or (D) provides such information, but the information cannot be verified as provided in section 782(i) of the Act, the Department shall, subject to section 782(d) of the Act, use facts otherwise available in reaching the applicable determination. As discussed in *Preliminary Determination*, Taihan failed to respond to the Department's questionnaire. Accordingly, we find, under section 776(a)(2)(A), that we must base our determination for that company on facts available.

Section 776(b) of the Act further provides that adverse inferences may be used for a party that has failed to

cooperate by not acting to the best of its ability to comply with a request for information (see also the Statement of Administrative Action ("SAA"), accompanying the URAA, H.R. Rep. No. 103–316 at 870). Given the company's refusal to comply with the Department's request for information, Taihan has failed to cooperate to the best of its ability in this investigation. A respondent's refusal to respond to the Department's request for information, much less provide information, is an extreme example of a party's failure to cooperate to the best of its ability. Therefore, the Department has determined that an adverse inference is warranted with respect to Taihan.

In this proceeding, we used the information from the petition, as adjusted by the Department for the purposes of initiation, to form the basis for a dumping margin for this respondent. Thus, consistent with the Department's practice (see *Notice of Preliminary Determination of Sales at Less Than Fair Value: Stainless Steel Wire Rod from Germany*, 63 FR 10847 (March 5, 1998) ("SSWR from Germany")), the Department is assigning to Taihan the highest margin alleged in the petition, as adjusted, for Korean producers, which is 58.79 percent (see June 30, 1998, "Import Administration Antidumping Investigation Initiation Checklist ("Initiation Checklist") and *Initiation of Antidumping Duty Investigations: Stainless Steel Sheet and Strip from France, Germany, Italy, Japan, Mexico, South Korea, Taiwan, and the United Kingdom*, 63 FR 37521 (July 13, 1998) for a discussion of the margin calculations in the petition).

Section 776(c) of the Act provides that when the Department relies on "secondary information" (e.g., the petition) as the facts available, the Department shall, to the extent practicable, corroborate that information with independent sources reasonably at the Department's disposal. The SAA accompanying the URAA clarifies that the petition is "secondary information." See SAA at 870. The SAA also clarifies that "corroborate" means to determine whether the information used has probative value. *Id.* See also 19 C.F.R. 351.308(c)(1) and (d).

We reviewed the accuracy and adequacy of the information in the petition during our pre-initiation analysis of the petition, to the extent appropriate information was available for this purpose (e.g., import statistics, foreign market research reports, and data from U.S. producers). See *Initiation Checklist*. Specifically, in the petition, the petitioners based both EP and NV on foreign market research, affidavits

concerning prices and freight costs, official U.S. import statistics, U.S. government sources and International Financial Statistics.

With respect to gross U.S. and home market unit prices used in the margin calculations included in the petition, which were developed based on foreign market research (see *Memorandum to the File—Re: Foreign Market Research*, dated June 20, 1998), we have compared the information provided by Inchon and POSCO with the information provided in the petition. We find that the margins provided in the petition are corroborated by the pricing and cost information provided by POSCO and Inchon. See *Memorandum to the File: Final Determination of the Sales at Less Than Fair Value Investigation of Stainless Steel Sheet and Strip in Coils ("SSSS") from Korea: Application of Total Adverse Facts Available for Taihan Electric Wire Co., Ltd. ("Facts Available Memo")*, dated May 19, 1999. We further note that the Department has, in other cases, for facts available purposes, used margins developed in a petition that are based in part on foreign market research. See, e.g., *SSWR from Germany*, and *Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Melamine Institutional Dinnerware Products from Indonesia*, 61 FR 43333 (August 22, 1996).

In addition, as certain other information included in the petition's margin calculation is from public, independent sources (e.g., international freight and insurance, U.S. harbor maintenance and U.S. merchandise processing fees, SG&A, and profit), we find that this information also has probative value. Finally, we also have examined the reliability of the other information provided in the petition (see *Memorandum to the File—Re: Foreign Market Research*, dated June 20, 1998), and find that it has probative value in light of the information provided on the record by Inchon and POSCO. For example, we determined that the price quotes for EP and NV reported in the petition fell within the range of price information reported in Inchon's and POSCO's responses. Similarly, for COP and CV data reported in the petition, we determined that such data also fell within the range of COP and CV data reported by Inchon and POSCO. See *Facts Available Memo*.

Based upon the above, we have determined that the information reported in the petition is corroborated in this case. Accordingly, the Department has relied on information provided in the petition as the basis of facts available.

The All Others Rate

Section 735(c)(5)(A) of the Act provides that the estimated all-others rate shall be an amount equal to the weighted average of the estimated dumping margins established for exporters and producers individually investigated, excluding any zero and de minimis margins, and any margins determined entirely under section 776 of the Act. As Inchon's rate has been determined to be zero, and Taihan's rate has been determined under section 776 of the Act (determinations on the basis of the facts available), for this final determination, the all-others rate is simply the calculated rate for POSCO.

Continuation of Suspension of Liquidation

In accordance with section 735(c)(1)(B) of the Act, we are directing the Customs Service to continue to suspend liquidation of all entries of subject merchandise from the Republic of Korea, except for Inchon, that are entered, or withdrawn from warehouse, for consumption on or after January 4, 1999 (the date of publication of the preliminary determination in the **Federal Register**). The Customs Service shall continue to require a cash deposit or posting of a bond equal to the estimated amount by which the normal value exceeds the U.S. price as shown below. These suspension of liquidation instructions will remain in effect until further notice. The weighted-average dumping margins are as follows:

Exporter/manufacture	Weighted-average margin percentage
Pohang Iron & Steel Co., Ltd. ..	12.12
Inchon Iron & Steel Co., Ltd.	0.00
Taihan Electric Wire Co., Ltd. ..	58.79
All Others	12.12

Since the final weighted average margin percentage for Inchon is zero, Inchon is excluded from an antidumping order on stainless steel sheet and strip in coils from the Republic of Korea as a result of this investigation.

ITC Notification

In accordance with section 735(d) of the Act, we have notified the ITC of our determination. Because our final determination is affirmative, the ITC will, within 45 days, determine whether these imports are materially injuring, or threaten material injury to, the U.S. industry. If the ITC determines that material injury, or threat of material injury does not exist, the proceeding will be terminated and all securities

posted will be refunded or canceled. If the ITC determines that such injury does exist, the Department will issue an antidumping duty order directing Customs officials to assess antidumping duties on all imports of the subject merchandise entered for consumption on or after the effective date of the suspension of liquidation.

This determination is issued and published in accordance with sections 735(d) and 777(i)(1) of the Act.

Dated: May 19, 1999.

Richard W. Moreland,

Acting Assistant Secretary for Import Administration.

[FR Doc. 99-13770 Filed 6-7-99; 8:45 am]

BILLING CODE 3510-DS-P

DEPARTMENT OF COMMERCE

International Trade Administration

[A-412-818]

Notice of Final Determination of Sales at Less Than Fair Value; Stainless Steel Sheet and Strip in Coils From the United Kingdom

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

ACTION: Notice of final determination of sales at less than fair value.

EFFECTIVE DATE: June 8, 1999.

FOR FURTHER INFORMATION CONTACT: Charles Rast at (202) 482-1324 or Nancy Decker at (202) 482-0196, Antidumping and Countervailing Duty Enforcement Group III, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230.

Applicable Statute and Regulations

Unless otherwise indicated, all citations to the Tariff Act of 1930, as amended (the Tariff Act), are to the provisions effective January 1, 1995, the effective date of the amendments made to the Tariff Act by the Uruguay Round Agreements Act (URAA). In addition, unless otherwise indicated, all citations to the Department's regulations are to the regulations codified at 19 CFR Part 351 (1998).

Final Determination

We determine that stainless steel sheet and strip in coils (SSSS) from the United Kingdom (U.K.) are being, or is likely to be, sold in the United States at less than fair value (LTFV), as provided in section 735 of the Tariff Act. The estimated margins of sales at LTFV are

shown in the "Suspension of Liquidation" section of this notice.

Case History

We published in the **Federal Register** the preliminary determination in this investigation on January 4, 1999. See Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination; Stainless Steel Sheet and Strip in Coils From the United Kingdom, 64 FR 85 (January 4, 1999) (Preliminary Determination). Since the publication of the Preliminary Determination, the following events have occurred:

On February 23, 1999, the Department published a correction to the preliminary determination, incorporating corrected scope language. See Notice of Correction: Preliminary Determinations of Sales at Less than Fair Value, Stainless Steel Sheet and Strip from France, Germany, Italy, Japan, Mexico, South Korea, and United Kingdom; and Amended Preliminary Determination of Sales at Less Than Fair Value, Stainless Steel Sheet and Strip from Taiwan, 64 FR 8799 (February 23, 1999).

The Department verified the responses of the respondent, Avesta Sheffield Ltd. and Avesta Sheffield NAD, Inc. (collectively "Avesta"), as follows: sections A (General Information), B (Home Market Sales), and C (U.S. Sales) of Avesta's responses from January 18-31, 1999, in Sheffield, Stocksbridge, and Oldbury, U.K., and from February 10-12, 1999, in Schaumburg, Illinois; and section D (Cost of Production) questionnaire responses from February 15-22, 1999, in Sheffield, U.K. See Memorandum For the Files; "Sales Verification of Sections A-C Questionnaire Responses Submitted By Avesta," April 1, 1999 (Home Market Sales Verification Report); Memorandum For the Files; "U.S. Sales Verification of Sections A & C Questionnaire Responses Submitted By Avesta," March 23, 1999 (U.S. Sales Verification Report); Memorandum to Richard Weible, Director, Office Eight, Enforcement Group Three; "Verification Report on the Cost of Production and Constructed Value Data," April 2, 1999 (Cost Verification Report). Public versions of these, and all other Departmental memoranda referred to herein, are on file in room B-099 of the main Commerce building.

On January 29, 1999, Allegheny Ludlum Corporation, Armco, Inc., J&L Specialty Steel, Inc., Washington Steel Division of Bethlehem Steel Corporation, United Steelworkers of America, AFL-CIO/CLC, Butler Armco Independent Union, and Zanesville