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MEMORANDUM TO: James J. Jochum
Assistant Secretary
for Import Administration

FROM: Jeffrey May
Deputy Assistant Secretary
for Import Administration, Group I

SUBJECT: Issues and Decision Memorandum for Final Results of the Antidumping Duty Administrative Review on Synthetic Indigo from the People's Republic of China - June 1, 2001, through May 31, 2002.

Summary

We have analyzed the comments of the interested parties in the 2001-2002 administrative review of the antidumping duty order covering synthetic indigo from the People's Republic of China (PRC). As a result of our analysis of these comments, we have made changes in the margin calculation as discussed in the "Margin Calculation" section of this memorandum. We recommend that you approve the positions we have developed in the "Discussion of the Issues" section of this memorandum. Below is the complete list of the issues in this administrative review for which we received comments from parties:

Comment 1: Valuation of Phenylglycinonitrile
Comment 2: Normal Value Based on Different Production Processes
Comment 3: Surrogate Value for Castor Oil
Comment 4: Valuation of Solid Potassium Hydroxide
Comment 5: Adjustment for Concentration Levels of Liquid Sodium Hydroxide and Liquid Potassium Hydroxide
Comment 6: Adjustment for Concentration Levels of Other Chemicals
Comment 7: Valuation of Liquid Ammonia
Comment 8: Valuation of Aniline
Comment 9: Valuation of Ocean Freight
Comment 10: Valuation of Auxiliary and Wetting Agents
Comment 11: Valuation of Plastic Bags

Background

On March 10, 2003, the Department of Commerce published the preliminary results of the 2001-2001 administrative review of the antidumping duty order on synthetic indigo from the PRC. See Synthetic Indigo from the People's Republic of China: Preliminary Results of Antidumping Duty Administrative Review, 68 FR 11371 (Preliminary Results). The products subject to this order are the deep blue synthetic vat dye known as synthetic indigo and those of its derivatives designated commercially as "Vat Blue 1." The period of review (POR) is June 1, 2001, through May 31, 2002. We invited parties to comment on our preliminary results of review. The petitioner, Buffalo Color Corporation, and the respondent, Liyang Skyblue Chemical Co., Ltd. (Liyang), filed case and rebuttal briefs on April 25 and April 30, 2003, respectively. In addition, both parties filed letters on May 29, 2002, commenting on the Department's May 19, 2003, memorandum, which placed factual information on the record concerning chemical concentrations, Indian antidumping duty orders on imported chemicals, and the source of Liyang's price quote for phenylglycinonitrile. On July 10, 2003, the Department published the postponement notice of the final results. See Synthetic Indigo from the People's Republic of China: Notice of Extension of Time Limit for Antidumping Duty Administrative Review, (68 FR 41113).

Margin Calculations: Changes from the Preliminary Results

We calculated export price and normal value (NV) using the same methodology described in the preliminary results, except as explained below:

- We corrected the valuation of the "auxiliary agent" and the "wetting agent," which Liyang obtained from market economy sources and paid for in market economy currencies, by converting the per-kilogram prices for these inputs to per-metric ton prices for purposes of calculating Liyang's NV. See Comment 10.

- We revised the valuation of solid potassium hydroxide to rely on the average of the Chemical Weekly POR average price and the Indian import weighted-average value during the POR for this chemical. See Comments 3 and 4.

- We corrected the valuation of liquid potassium hydroxide by adjusting the surrogate value for solid potassium hydroxide to reflect the concentration of the liquid input consumed by Liyang. See Comment 5.

- We revised the valuation of liquid sodium hydroxide, also known as lye, to rely on the average of the Chemical Weekly POR average price and Indian import POR average value for this chemical, adjusted for the concentration consumed by Liyang. To calculate the Indian import portion of the value, we excluded imports from countries on which India has issued an antidumping duty order. See Comments 3 and 5.

- We revised the valuation of solid sodium hydroxide, which was based on the average of the Chemical Weekly POR average price and the Indian import POR average value, to exclude imports of liquid sodium hydroxide and imports from countries on which India has issued an antidumping duty order from the import value portion of the calculation.

- We revised the surrogate value for inland freight to apply the average of Indian freight rate information derived from the February through May 2002 editions of Chemical Weekly.

- We revised the valuation of international freight to rely on the arrival notices submitted by Liyang. See Comment 9.

- We revised the valuation of the foreign brokerage and handling expense to include an amount for terminal handling charges, which were considered part of the surrogate ocean freight value applied in the preliminary results.

- We revised the valuation of marine insurance to apply the surrogate value rate on a percentage basis, rather than a per-unit basis.

Discussion of the Issues

Comment 1: *Valuation of Phenylglycinonitrile*

As discussed in the Preliminary Results and the March 3, 2003, Preliminary Results Valuation Memorandum (PRVM), we were unable to identify a surrogate value for the input phenylglycinonitrile for the preliminary results. Liyang consumes this chemical in one of two production methods used during the POR to produce the intermediate input potassium salt (i.e., the "new" production method). For purposes of the preliminary results, we valued all of Liyang's internal potassium salt production based on the values derived from the "old" production method, which does not involve the consumption of phenylglycinonitrile. That is, instead of weight-averaging the value of potassium salt based on the factors consumed for each production method, we relied on the factors from the "old" method alone. We valued all of Liyang's internal potassium salt production using the consumption factors and corresponding surrogate values applicable to the other production method, which does not involve the consumption of phenylglycinonitrile. We stated that we would reconsider this methodology for the final results if we obtained surrogate value information for phenylglycinonitrile.

On April 14, 2003, Liyang submitted additional surrogate value information, which included a price quote from an Indian company for a sale of phenylglycinonitrile to another Indian company. The Department placed additional factual information on the record in a May 19, 2003, memorandum, which included a memorandum of a telephone conversation between a Department analyst and an official of the Indian company which provided the price quote, e-mail

correspondence between the analyst and the Indian company, and printed pages of internet web sites referring to the Indian company and its product line. Both the petitioner and Liyang submitted letters on May 29, 2003, commenting on the May 19, 2003, memorandum.

Liyang contends that, as the Department now has reliable surrogate value information for phenylglycinconitrile from its April 14, 2003, submission, the Department should use that value and calculate NV relying solely on the factors of production for producing synthetic indigo from the new method. Liyang asserts that the Department has used actual Indian price quotes in the past as surrogate values where it does not have alternate surrogate values on the record or where the aggregate data from available sources are not specific enough to value the input. To support its assertion, Liyang cites Final Results of Administrative Review: Potassium Permanganate from the People's Republic of China, 66 FR 46775 (September 7, 2001) (Potassium Permanganate), Issues and Decision Memorandum at Comment 18; Final Results of Administrative Review: Manganese Metal from the People's Republic of China, 65 FR 30067 (May 10, 2000) (Manganese Metal), Issues and Decision Memorandum at Comment 7; and Final Results of Antidumping Duty Administrative Review and Determination To Revoke Order in Part: Sebacic Acid From the People's Republic of China, 67 FR 69719 (November 19, 2002), Issues and Decision Memorandum at Comment 2.

Liyang responded to the petitioner's questioning of the Indian origin of the phenylglycinonitrile price quote with a statement from the price quote source confirming that that company manufactures and sells phenylglycinonitrile on a "job work basis" to indigo manufacturers in India. Liyang adds that the information developed by the Department and placed on the record in a May 19, 2003, memorandum confirms that the Indian company in question manufactures and sells phenylglycinonitrile in India. Liyang states that any uncertainty stemming from the Department's telephone conversation with the Indian company likely results from the company's suspicions that the caller may have been attempting to gather information for a potential antidumping petition and thus Liyang contends that it should not detract from the company's confirmation.

The petitioner contended that the Department should continue to value Liyang's production based only on the "old" production method factors because the phenylglycinonitrile price quote is not an appropriate surrogate value. According to the petitioner, the information developed and placed on the record of this review does not indicate that phenylglycinonitrile is actually produced in India, and that the price quote is likely for phenylglycinonitrile produced in the PRC and sold in India.

In its May 29, 2003, submission, the petitioner further contended that the Department's contacts with the Indian company did not verify the claim that the company produces phenylglycinonitrile. The petitioner states that the company official's apparent initial confusion about the product and the company's failure to respond to e-mail requests, recorded in Attachment 1 of the May 19, 2003, memorandum, call into question the veracity of the company's claim that it produces and

sells phenylglycinonitrile. In addition, the petitioner cites the other information obtained via the internet (see May 19, 2003, memorandum at Attachment 7), which does not list phenylglycinonitrile among the products offered for sale by the Indian company, as support for its contention that this company does not produce phenylglycinonitrile but rather supplied a price quote for a product obtained from the PRC.

DOC Position:

Based on our analysis, we do not believe the phenylglycinonitrile price quote submitted by Liyang is a reliable market price for use as a surrogate value. In the absence of any other value for phenylglycinonitrile, we have continued the methodology adopted in the preliminary results and, as facts available pursuant to section 776(a)(1) of the Act, valued NV solely based on factors consumed in the "old" production process because the necessary information to value NV based also on the factors consumed in the "new" production process is not available.

As a threshold matter, we agree with Liyang that, under certain circumstances, price quotes are an acceptable source for a surrogate value. In particular, the Department has relied on price quotes obtained from surrogate country suppliers in the absence of any other surrogate value data. For example, in the less-than-fair-value (LTFV) segment of this proceeding, we relied on the simple average of price quotes submitted by the respondents and the petitioner for monochloretic acid or ferrous sulphate because no publicly-available surrogate value data were available for these inputs in that investigation. We have done the same in similar situations, such as Final Determination of Sales at Less Than Fair Value: Saccharin from the PRC, 68 FR 27530 (May 20, 2003) (Saccharin), and accompanying Issues and Decision Memorandum at Comment 1, as well as the examples noted by Liyang.

In this case, however, the record evidence strongly suggests that the phenylglycinonitrile price quote Liyang obtained in April 2003 and submitted on April 14, 2003, does not represent a market price that a consuming manufacturer would pay in the ordinary course of trade. The Indian company which supplied the price quote stated in an April 30, 2003, fax that

> ...we make phenylglycinonitrile, which is the first step to manufacture Indigo Dye. **This product we are not marketing or selling in the open market. We produce for our own consumption. We supply this product on job work basis to well known Indigo manufacturers in India and we get the finished product Indigo for our own process of Indigo Carmine**.

See Liyang's April 30, 2003, rebuttal brief at Attachment 1 (emphasis added).

That is, the price quote does not reflect the price of a good commonly traded on the open market by the Indian manufacturer. The explanation indicates that the Indian company normally produces phenylglycinonitrile and provides it to indigo manufacturers on a "tolling" basis for

conversion into indigo used in the company's manufacture of food colors and dyes. The fact that the company does not normally sell phenylglycinonitrile is further evidenced in the list of products it offers for sale via internet channels, as included in Attachment 7 of the Department's May 19, 2003, memorandum. The list identifies a variety of food colors and dyes offered for sale, but not phenylglycinonitrile. While the price quote may well be a genuine offer for the sale of a certain quantity of phenylglycinonitrile, because the seller does not normally offer the product for sale on the open market, we cannot consider the price to be a market price for surrogate value purposes. As we cannot use this price, we have no surrogate value for phenylglycinonitrile on the record of this review. Thus, as in the preliminary results, we must rely on the factors of Liyang's "old" production process as facts available to value all of Liyang's synthetic indigo production during the POR.

Comment 2: *Normal Value Based on Different Production Processes*

Liyang argues that NV should be calculated based only on the factors of production from the "new" method, in which phenylglycinonitrile is a major input, rather than the average derived from factors from both methods, because the record establishes that Liyang produced the potassium salt entirely from the "new" production process in order to manufacture synthetic indigo for the sale under review. Liyang cites several cases, including Final Determination of Sales at Less-Than-Fair Value: Bulk Aspirin from the PRC, 65 FR 33805 (May 25, 2000) (Bulk Aspirin), Issues and Decision Memorandum at Comment 11[1], which discuss the Department's practice to rely on a respondent's actual, self-produced factors of production to calculate NV.

The petitioner contends that, if the Department were to accept the phenylglycinonitrile price quote, the Department should value NV based on a weighted-average of the "new" and "old" production methods. The petitioner notes that Liyang employed both production methods during the POR and there is no evidence on the record to determine exactly from which method the subject sale was produced and sold to the United States. Moreover, the petitioner asserts that it is the Department's consistent practice to calculate a single, average NV reflective of costs incurred during the entire POR. The petitioner adds that Liyang's reliance on such determinations as Bulk Aspirin is misplaced, as those cases considered whether the Department should calculate NV based only on the factors used for producing export-quality merchandise, or also on the factors used in producing products suitable only for domestic consumption. In this review, the petitioner points out, there is nothing on the record to suggest that Liyang used one production method to produce one grade specifically for export sales, and another production method to produce a different grade for domestic consumption.

[1] Liyang cites Comment 12 in its case brief, but the correct reference is to Comment 11.

DOC Position:

Although this issue is no longer material or relevant with respect to this review, because we are unable to value the factors of production in the "new" production process without a proper surrogate value for phenylglycinonitrile, and thus must rely entirely on the factors of the "old" production process (see Comment 1 above), we note that the petitioner is correct with respect to the Department's practice to calculate a single weighted-average NV for the POR for a given product where multiple production processes or input suppliers are employed. For example, in the certain preserved mushrooms from the PRC administrative reviews, we calculated a single weighted-average NV for the preserved mushrooms based on a producer's production experience over the POR using self-grown fresh mushrooms, purchased fresh mushrooms, self-produced brined mushrooms, and/or purchased brined mushrooms. See, e.g. Final Results of First New Shipper Review and First Antidumping Duty Administrative Review: Certain Preserved Mushrooms From the People's Republic of China, 66 FR 31204 (June 11, 2001), Issues and Decision Memorandum at Comment 8. We make no attempt to link a given production method to a particular sale.

Comment 3: *Surrogate Value for Castor Oil*

In the preliminary results, we valued solid sodium hydroxide, sulphuric acid, and castor oil based on the average of the a) average unit value during the POI derived from Monthly Statistics of the Foreign Trade of India (MSFTI) and b) the average price observed in the Indian weekly publication Chemical Weekly during the POI, or, in the case of castor oil, the average price observed in the Economic Times of Bombay (Economic Times) from July 2000 to March 2001 and adjusted for the POI. As stated at pages 3-4 of the Preliminary Results Valuation Memorandum, we averaged these values from multiple sources because these sources were equally relevant in terms of specificity, contemporaneity, and reliability. The Department has applied this methodology in such cases as Preliminary Results of Antidumping Duty Administrative Review Certain Preserved Mushrooms from the People's Republic of China 67 FR 10128 (March 6, 2002).

Since the preliminary results, the Department has obtained further information that provides a similar scenario for potassium hydroxide and liquid sodium hydroxide, as MSFTI data has been provided for potassium hydroxide in addition to the Chemical Weekly value used in the preliminary results, and we have developed from the record MSFTI and Chemical Weekly data for liquid sodium hydroxide (see also Comments 4 and 5 below). Subsequent to the filing of case and rebuttal briefs, the Department placed on the record import statistics for the 2002 calendar year for five chemical inputs (i.e., liquid sodium hydroxide, solid sodium hydroxide, potassium hydroxide, sulphuric acid, and castor oil) from various countries downloaded from the World Trade Atlas (WTA) (see Memorandum to the File dated July 7, 2003, entitled Import Statistics for Chemicals from Various Countries. We invited interested parties to supplement their briefs by commenting on this information.

Both parties commented specifically in their briefs on the valuation of both forms of sodium hydroxide and potassium hydroxide. The issues raised are discussed further below in Comments 4 and 5.

With respect to castor oil, Liyang notes that the MSFTI and the Economic Times[2] values for castor oil were widely divergent, with the MSFTI value substantially higher than the Economic Times value. According to Liyang, the WTA data shows that MSFTI-derived value is aberrational when compared to the average unit value of castor oil imports in the selected countries, while the Economic Times value is at a price level consistent with the WTA data. Therefore, Liyang contends that the Department should value castor oil based on the Economic Times value alone.

The petitioners did not comment on this topic.

DOC Position:

For castor oil, we have used a surrogate value derived from an average of the MSFTI and the Economic Times data. The resulting average value is representative of a range of prices within the POR. We do not find that the MSFTI import values are aberrational, and, therefore, we have included them in the average values used.

Comment 4: *Valuation of Solid Potassium Hydroxide*

In the preliminary results, we valued Liyang's consumption of solid potassium hydroxide based on the average price for this chemical published in the Indian periodical Chemical Weekly during the POR.

Liyang contends that the Department should value this factor based on the average unit value of imports derived from MSFTI for the June 2001 - January 2002 period, as included in Liyang's April 14, 2003, submission. Liyang alleges that the Chemical Weekly price for solid potassium hydroxide appears to be unreasonably high and offers a comparison of that price to the average unit value of imports into the United States in support of its claim. Liyang adds that the comparison to the U.S. price is appropriate as a benchmark because the United States is the most open market in the world and thus illustrative of what a reasonable market economy price should be.

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[2] Liyang states in its August 14, 2003, comments that the source of the domestic price for castor oil is Chemical Weekly. However, as noted above, the Department's source was the Economic Times. We have corrected Liyang's citation of the source in this memorandum for purposes of accuracy.

In a general comment, the petitioner asserts that Chemical Weekly prices, where available, provide the most appropriate source for surrogate values in this review with respect to specificity, contemporaneity, and quality. For solid potassium hydroxide, the petitioner argues that the Department should continue to rely on the average price from Chemical Weekly during the POR, as this price is representative of the entire POR, while the MSFTI-derived price reflects only a portion of the POR. Moreover, the petitioner asserts that the Chemical Weekly price reflects a known grade or concentration percentage of material, while the same cannot be said of the MSFTI value, so that the Chemical Weekly price is more specific to the factor being valued.

Furthermore, the petitioner contends that the MSFTI-derived price offered by Liyang is flawed because Liyang has excluded from its calculation certain imports that it deems to be aberrational "outliers" due to low volumes and corresponding high prices. According to the petitioner, Liyang has failed to provide any rationale for these exclusions and therefore this methodology must be rejected.

The petitioner also objects to Liyang's attempts to corroborate its surrogate value arguments for selected surrogate values, including potassium hydroxide, by comparisons to U.S. import values, stating that there is no evidence that the data Liyang submitted in its April 14, 2003, submission is representative of prices in India. The petitioner contends that comparison of surrogate prices in India to prices in the United States is inappropriate, in part because the United States is not a surrogate country for this review.

DOC Position:

The Department's practice, as summarized in the PRVM, is, to the extent practicable, to rely on publicly available values that are non-export values, representative of a range of prices within the POR or most contemporaneous with the POR, product-specific, and tax-exclusive. In this particular case, the two options under discussion are of equal quality after the Chemical Weekly average price has been adjusted for taxes. We do not consider the fact that the MSFTI-derived value represents less than the entire POR to be material. As both this value and the Chemical Weekly value cover at least a substantial portion of the POR, we consider each to be contemporaneous with the POR.

Although the Department has considered revising MSFTI-derived data for allegedly aberrational imports (see, e.g., Saccharin, Issues and Decision Memorandum at Comment 1), we find no basis to do so in this instance. For the potassium hydroxide value in question, Liyang has appeared to identify imports from one country as an "outlier," however, that unit import value is 67% greater than the next highest unit import value, and the corresponding volume is 21% greater. In the absence of any other basis to consider the excluded value aberrational, we do not consider the import value Liyang excluded to be substantially different from the other import values to warrant its exclusion from the overall MSFTI-derived average unit value.

In instances where there are multiple values available of equal relevance in terms of specificity, contemporaneity, and quality, and no compelling basis to select one over the other, the Department has averaged these values and applied the result to the factor in question (see, e.g., Final Results of Antidumping Duty Administrative Review Certain Preserved Mushrooms from the People's Republic of China, 66 FR 31204 (June 11, 2001), Issues and Decision Memorandum at Comments 5 and 6, and the PRVM at page 3). Consistent with this approach, we have valued solid potassium hydroxide based on the simple average of the Chemical Weekly-derived value and the MSFTI-derived value. See Comment 5. In applying the MSFTI-derived value, we have revised Liyang's calculation to exclude imports from NME countries, countries which have been determined to provide broad export subsidies, and, in the instance of liquid sodium hydroxide, imports from countries on which India had an antidumping duty order, but we have not excluded imports apparently considered "outliers" by Liyang. See the FRVM for the details of the revisions.

Comment 5: *Adjustment for Concentration Levels of Liquid Sodium Hydroxide and Liquid Potassium Hydroxide*

In the preliminary results, the Department applied the same surrogate values selected for solid sodium hydroxide (also know as caustic soda) and potassium hydroxide (also known as caustic potash) to Liyang's reported consumption of liquid sodium hydroxide (also known as lye) and liquid potassium hydroxide. Liyang reported in its Section D questionnaire response that it consumed solid sodium hydroxide at 96% concentration, solid potassium hydroxide at 92% concentration, liquid sodium hydroxide at 30% concentration, and liquid potassium hydroxide at 48% concentration. While applying the same surrogate values to both the solid and liquid forms of each chemical, we made no adjustment for the difference in the chemical concentration. In a footnote to the PRVM, we stated, "{w}e have assumed that the chemical factors and the corresponding surrogate values represent usual commercial concentrations, thus no adjustment was made for the chemical concentration."

Liyang claims that the Department must correct its application of the surrogate values to these inputs by adjusting them to reflect the concentration percentage of the material consumed by Liyang. Liyang cites Sebacic Acid from the People's Republic of China, 64 FR 69503, 69504-05 (December 13, 1999) (Sebacic Acid 1999), and Bulk Aspirin, where the Department established that the surrogate value from Chemical Weekly represented 100% concentration and the Department adjusted the surrogate value to the applicable percentage of the chemical consumed. Liyang adds that the information the Department obtained from the editor of Chemical Weekly and included as Attachment 1 to the Department's May 19, 2003, memorandum, confirms that prices for chemicals in liquid form are quoted based on 100% concentration and must be adjusted when applied to Liyang's consumption of liquid potassium hydroxide and liquid sodium hydroxide.

The petitioner contends that the information obtained from Chemical Weekly regarding its prices is ambiguous and contradicts the information obtained for the Sebacic Acid 1999 results. In particular, the petitioner finds the assertion regarding liquid chemical price quotes at 100% concentration to be unsupportable. As the petitioner believes that the chemical concentration information from Chemical Weekly is based on conflicting accounts, the petitioner contends that the Department should presume that the Chemical Weekly price quotes, along with average unit values derived from Indian import statistics, represent prices for the common commercial grades of the chemicals in question, whether in liquid or solid form.

DOC Position:

We acknowledge that we erred in the preliminary results by applying the same surrogate value for the solid versions of each of these two chemicals to the liquid versions, without adjusting for the different chemical concentration percentages involved. Under the same circumstances in the LTFV investigation, we adjusted the value when applied to the liquid version by the ratio of the liquid concentration percentage to the solid concentration percentage. Consistent with that methodology, we should have followed that approach in the preliminary results of this review.

We have reviewed the surrogate value information on the record of this review and determined that separate surrogate values exist for sodium hydroxide in solid and liquid forms. Therefore, in the final results, we have assigned separate values for the solid and liquid forms of sodium hydroxide. For liquid sodium hydroxide (lye), we have calculated a surrogate value based on the average of data from Chemical Weekly and MSFTI.

Contrary to the petitioner's assertions, we find the correspondence in Attachment 1 of the May 19, 2003, memorandum from the editor of Chemical Weekly to be clear: prices of chemicals in liquid form are based on 100% concentration unless otherwise specified. Accordingly, in applying the surrogate value for lye to Liyang's consumption, we have adjusted the surrogate value to reflect the concentration of Liyang's input. That is, we have multiplied the Chemical Weekly lye value by .3.

Although the concentration percentage for liquid sodium hydroxide is not specified in the MSFTI, as discussed in Saccharin, Issues and Decision Memorandum at Comment 2, we have a reasonable basis to presume that the reported imports are of the standard commercial concentration. According to the information in Attachments 2 and 3 of the May 19, 2003, memorandum, as well as Attachment 5 of the FRVM, liquid sodium hydroxide is most commonly available at about 50% concentration. Since the Liyang material is at 30% concentration, we adjusted the value by the ratio of the two percentages, or .3/.5. As we are able to determine the concentration percentage of both the Chemical Weekly price and the MSFTI-derived average unit value for liquid sodium hydroxide, both sources are equal in terms of specificity. We also find both sources to be equally contemporaneous and of equal quality. As discussed above under Comment 4, when two or more sources are equally relevant, the

Department may average them to calculate the surrogate value. Accordingly, we have averaged the two adjusted surrogate values to arrive at a single value to apply to liquid sodium hydroxide. See the FRVM for further discussion.

With respect to liquid potassium hydroxide, we have not found a surrogate value specific to the liquid form of this chemical. Therefore, consistent with our methodology in the LTFV investigation, we have valued this factor based on the solid form surrogate value and adjusted for the concentration percentage based on the ratio of the liquid concentration percentage to the solid concentration percentage of the chemicals consumed by Liyang, or .48/.92.

Comment 6: *Adjustment for Concentration Levels of Other Chemicals*

Liyang listed the chemical concentration percentages in its September 9, 2002, Section D response for the chemicals it consumed in the production of synthetic indigo. These percentages are: chloracetic acid (95%), aniline (95%), ferric sulfate (55-60%), phenylglycinonitrile (95%), solid sodium hydroxide (96%), solid potassium hydroxide (92%), and sulfuric acid (98%). For all of these chemicals except phenylglycinonitrile, the preliminary results surrogate value was based either partly or entirely on price data from Chemical Weekly. As stated above, the Department made the assumption in the preliminary results that the reported chemical factors were of the usual chemical concentrations and thus no adjustment to the surrogate value was made to account for the chemical concentration percentage.

Liyang argues that the Department should adjust the chemicals according to concentrations provided in its section D response, consistent with the Department's practice in the cases cited under Comment 5. For chemical values obtained from Chemical Weekly, Liyang states that the prices are set at 100% concentration. (Liyang did not revise this position following the placement on the record of the May 19, 2003, memorandum, which included the e-mail correspondence from the publisher of Chemical Weekly concerning the concentration percentages of price quotes in the publication.)

As noted with respect to the previous comment, the petitioner contends that the Department should presume that all prices from Chemical Weekly represent the standard commercial grade for the chemical to be valued.

DOC Position:

As the information from the editor of Chemical Weekly in Attachment 1 of the May 19, 2003, memorandum indicates, the prices of chemicals in solid form reflect standard commercial grades and not 100% concentration. We have no information on the record of this review that any of the chemicals named by Liyang are not consumed in standard commercial grades. Accordingly, we have made no adjustment to the surrogate values corresponding to these factors.

Comment 7: *Valuation of Liquid Ammonia*

In the preliminary results, the Department valued liquid ammonia based on the weighted-average unit value derived from MSFTI.

Liyang contends that the Department should value liquid ammonia on the basis of the Indian price quote it obtained and placed on the record in its April 14, 2003, submission. Liyang asserts that, although the price quote is outside the POR, it is a reliable source for this surrogate value.

The petitioner responds that the MSFTI is clearly superior to a single price quote because the former represents a country-wide price over an extended period of time, while the latter represents a single, statistically-questionable price point. The petitioner notes the Department's established preference for a surrogate value that is broadly available, as indicated in the Departments' Antidumping Manual at Chapter 8, page 88 (accessible at http://ia.ita.doc.gov/admanual/admanual_ch08.pdf). Moreover, the petitioner points out that Liyang's price quote is outside the POR and thus less contemporaneous to the POR than the MSFTI POR value.

DOC Position:

The Department's practice, as summarized in the PRVM, is to select "the publicly available value for material and energy factors which is: (1) an average non-export value; (2) representative of a range of prices within the period of review (POR) or most contemporaneous with the POR; (3) product-specific; and (4) tax-exclusive." In this instance, we agree with the petitioner that the value from the MSFTI for liquid ammonia is superior to a single price quote, according to our criteria, because it is a publicly-available, product-specific, non-export, and tax-exclusive price that is representative of a range of prices within the POR (see also, Potassium Permanganate, Issues and Decision Memorandum at Comment 19). While Liyang's price quote may be equally product-specific and also a non-export tax-exclusive price, it is representative only of a single price point outside of the POR. As such, it is inferior to the MSFTI-derived value. Accordingly, we have continued to value liquid ammonia based on MSFTI.

Comment 8: *Valuation of Aniline*

In the preliminary results, the Department valued aniline based on the POR average unit price quoted in Chemical Weekly, as adjusted to deduct the applicable excise and state taxes.

Liyang contends that the Chemical Weekly price for aniline appears aberrationally high, particularly when compared to the prices for aniline imports into the United States for the same period. In place of the Chemical Weekly price, Liyang argues that the Department should value aniline based on the

MSFTI-derived average unit value for the June 2001 - January 2002 period, as provided in Liyang's April 14, 2003, submission.

As noted above, the petitioner states that, in general, Chemical Weekly prices, where available, provide the most appropriate source for surrogate values in this review with respect to specificity, contemporaneity, and quality. With regard to aniline, the petitioner notes that the Chemical Weekly average price covers the entire POR while the MSFTI value is only for a portion of the POR. As discussed under Comment 4 with respect to solid sodium hydroxide, the petitioner objects to the use of U.S. import values as the basis for comparing Indian surrogate values, and to the exclusion of alleged "outliers" from the MSFTI-based calculation.

Further, the petitioner asserts that the MSFTI value is unusable because all of the imports are either from countries where an Indian antidumping duty order on aniline is in place, or from the PRC (i.e., a non-market economy). The petitioner contends that it is the Department's practice to disregard market economy prices for imported inputs when the importing country has an antidumping duty order in effect for the products in question, as articulated in such cases as Notice of Final Determination of Sales at Less Than Fair Value: Folding Metal Tables and Chairs From the People's Republic of China, 67 FR 20090 (April 24, 2002), Issues and Decision Memorandum at Comment 4[3].

DOC Position:

We agree with the petitioner that Department practice is to exclude a market economy import price if it has reason to believe or suspect that the import price was dumped (see Final Results of the 1999-2000 Administrative Review,Partial Rescission of Review, and Determination Not to Revoke Order in Part: Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, from the People's Republic of China, 66 FR 57420 (November 15, 2001), Issues and Decision Memorandum at Comment 1). As the petitioner notes, all of the aniline imports into India recorded in MSFTI are either under an Indian antidumping duty order (see May 19, 2003, memorandum at Attachment 4) or are from an NME. Therefore, we are unable to consider a MSFTI-derived value as a surrogate value for aniline in this review.

Other than the observation that the Chemical Weekly price for aniline is higher than the average unit value of aniline imports into the United States, Liyang has offered no evidence that the Chemical Weekly aniline price is aberrationally high or distorted. Although comparison to a U.S. import value may be useful at times as a benchmark, as Liyang suggests, the comparison is not relevant in this instance with respect to rejecting the Chemical Weekly price. Among other factors, we note there are differences between the Indian and U.S. economies and industrial sectors which will impact any

[3] The petitioner cites Comment 5 in its rebuttal brief, but the correct reference is to Comment 4.

comparisons. Liyang has failed to demonstrate that a difference between the Chemical Weekly price and the U.S. import value is sufficient to render the value unusable. As all non-NME imports in the MSFTI data in question are from countries covered by

an Indian antidumping duty order, the issue of excluding "outliers" is no longer material or relevant. Consequently, we continue to rely on the POR average of prices published in Chemical Weekly to value aniline in the final results.

Comment 9: *Valuation of Ocean Freight*

Liyang reported in its Section C questionnaire response that, to ship the sale under review to the United States, it used a market-economy vessel but paid for the transportation in PRC currency. To value the ocean freight transportation, the Department obtained an online price quote from a market-economy shipper for shipping a 20-foot container of cargo from Shanghai to a U.S. east coast port. In making our calculation, we assumed that a container has a capacity of ten metric tons based on information from the LTFV segment of this proceeding which was placed on the record of this segment (see Exhibit 12 of the petitioner's November 18, 2002, surrogate value submission, and page 8 of the PRVM).

Liyang argues that the Department should value its ocean freight expense based on the per-metric ton price derived from the large number of ocean freight arrival notices provided in the April 14, 2003, submission. According to Liyang, these arrival notices, which are from the same carrier as the source of the Department's online price quote and represent transportation for a chemical product between PRC ports and east coast ports in the United States, are more accurate than the price quote used in the preliminary results, which does not reflect the substantial discounts that customers negotiate with shippers. In addition, Liyang states that, in applying a surrogate value from these price quotes, the Department should calculate the per-metric-ton price based on a container holding 17 tons of product, and exclude the stated "diversion fee" which Liyang claims is not applicable to shipments of the subject merchandise.

The petitioner did not comment on this issue.

DOC Position:

We have revised the valuation of international freight to rely on the ocean freight arrival notices submitted by Liyang. We consider the arrival notices information to be more representative of a market-economy value for transporting the subject merchandise as the data includes multiple observations of actual market-economy transportation costs on market-economy vessels to ship a solid chemical product during the POR along a shipping route similar to that followed by the sale under review. In contrast, the online quote represents a single, spot post-POR offer to ship "bulk chemicals." As such, we agree with Liyang that the arrival notices it submitted are a superior source to value ocean freight in this instance.

As discussed further in the FRVM, we compiled the arrival notices from the POR which reflect transportation from a PRC ocean port to the U.S. east coast to arrive at an average per-container charge. We included the "diversion fee" in this calculation as Liyang provided no information to support its claim that it does not apply to shipments of the subject merchandise. To arrive at the per-metric-ton value, we divided the average per-container value by 10, rather than 17 as advocated by Liyang. As noted in Exhibit 12 of the PRVM, the information developed in the LTFV investigation phase of this proceeding indicates that a container holds 10 tons of synthetic indigo. Liyang has not provided any information in this review to suggest that this fact has changed, and has not challenged this assumption in the application of the brokerage and handling surrogate value, which relies on the same methodology.

Comment 10: *Correct Valuation of Auxiliary and Wetting Agents*

Liyang reported consumption of two inputs, an "auxiliary agent" and a "wetting agent," obtained from market economy sources and paid for in market economy currencies. We used the actual prices of these purchases to value these inputs in our preliminary results.

The petitioner noted that the Department's calculations did not properly convert the values for these agents from kilograms to metric tons.

Liyang did not comment on this issue.

DOC Position:

We agree with the petitioner and have made the appropriate corrections in our calculation of NV.

Comment 11: *Valuation of Plastic Bags*

In the preliminary results, we valued Liyang's consumption of polyethylene plastic bags, used as packing materials, based on data from MSFTI for "Sacks & Bags of Polyethylene (Incl. Cones)."

Liyang contends that the Department should value plastic bags based on Indian price quotes obtained by Liyang and submitted in its April 14, 2003, submission. Liyang states that these price quotes represent the specific type of plastic bag consumed by Liyang, while the MSFTI data is a "basket" category that includes cones, which Liyang does not use.

The petitioner did not comment on this issue.

DOC Position:

Consistent with our practice in such cases as Potassium Permanganate at Comment 16, we have found that the MSFTI-derived value constitutes the best available information on the record because it is 1) contemporaneous with the POR, 2) representative of a range of prices during the POR, and 3) sufficiently specific to the input being valued. We find the import category of "sacks and bags of polyethylene (including cones)" to be sufficiently specific for valuing plastic bags in this review. We have no information on the record that the polyethylene cones included in this import value are so different from plastic bags as to render the value unusable for surrogate value purposes.

While we acknowledge that this import category is not as specific to the factor to be valued, plastic bags, as the price quotes submitted by Liyang, we note that the price quotes are not contemporaneous with the POR as they are dated from seven to ten months after the end of the POR. Moreover, of the four sets of price quotes submitted by Liyang, two are from the same supplier, and one appears to be for export transactions. We cannot determine, based solely on two sources of Indian domestic price quotes and no other evidence on the record, that the price quotes from these sources are representative of the range of Indian plastic bag prices during the POR. Accordingly, we have continued to value the polyethylene plastic bags used for packing based on the MSFTI data in the final results.

Recommendation

Based on our analysis of the comments received, we recommend adopting all of the above positions. If these recommendations are accepted, we will publish the final results of review and the final weighted-average dumping margin for the reviewed firm in the Federal Register.

Agree ___ Disagree ____

_____

James J. Jochum
Assistant Secretary
for Import Administration

_____

(Date)