

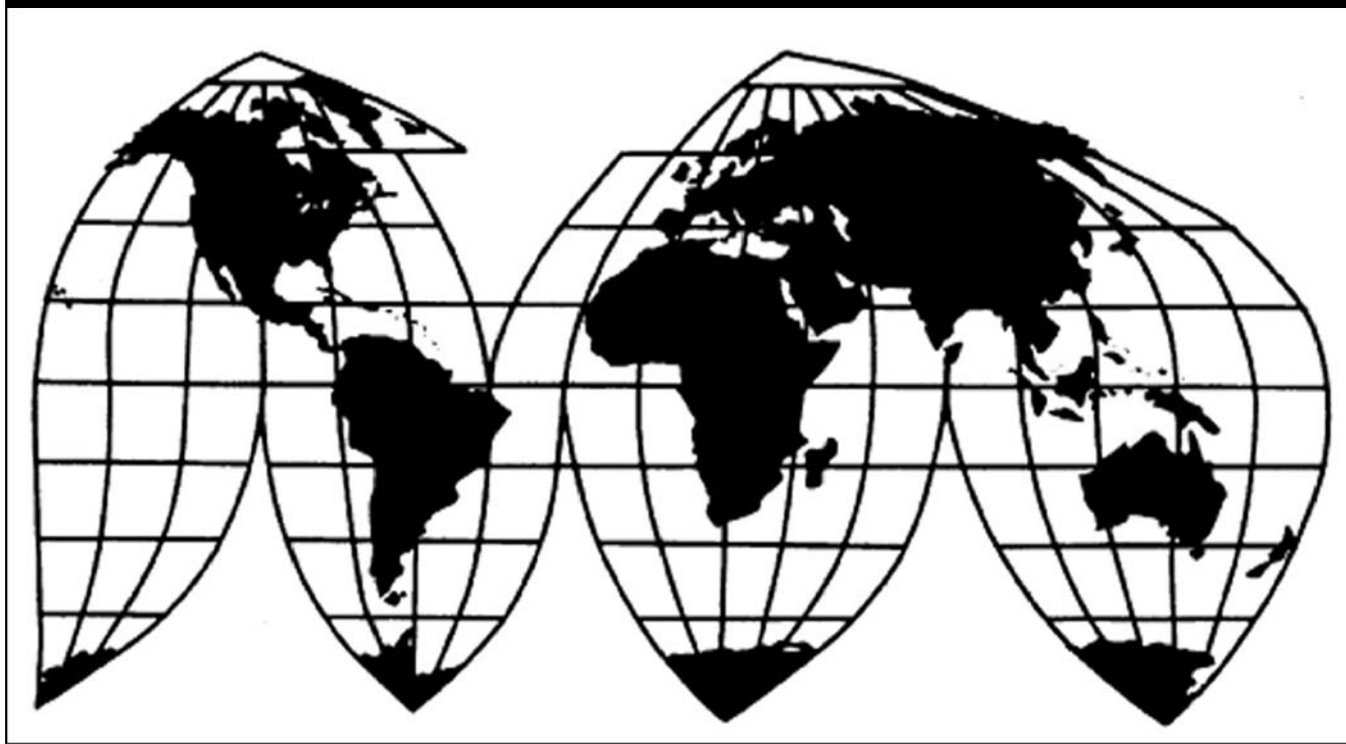
Frontseating Service Valves from China

Investigation No. 731-TA-1148 (Final)

Publication 4073

April 2009

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

COMMISSIONERS

Shara L. Aranoff, Chairman
Daniel R. Pearson, Vice Chairman
Deanna Tanner Okun
Charlotte R. Lane
Irving A. Williamson
Dean A. Pinkert

Robert A. Rogowsky
Director of Operations

Staff assigned

Edward Petronzio, Investigator
Ruben Mata, Industry Analyst
Mihir Torsekar, Industry Analyst
Nancy Bryan, Economist
Charles Yost, Accountant
Rhonda Hughes, Attorney
Lemuel Shields, Statistician
George Deyman, Supervisory Investigator

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436
www.usitc.gov

Frontseating Service Valves from China

Investigation No. 731-TA-1148 (Final)

Publication 4073



April 2009

CONTENTS

	<i>Page</i>
Determination	1
Views of the Commission	3
Part I: Introduction	I-1
Background	I-1
Statutory criteria and organization of the report	I-1
Statutory criteria	I-1
Organization of the report	I-2
U.S. market summary	I-2
Summary data and data sources	I-3
Previous and related investigations	I-3
Nature and extent of sales at LTFV	I-3
The subject merchandise	I-4
Commerce's scope	I-4
Tariff treatment	I-5
The product	I-5
Descriptions and applications	I-5
Manufacturing processes	I-7
Domestic like product issues	I-8
Part II: Conditions of competition in the U.S. market	II-1
U.S. market segments/channels of distribution	II-1
Supply and demand considerations	II-3
U.S. supply	II-3
U.S. demand	II-5
Substitutability issues	II-8
Factors affecting purchasing decisions	II-8
Comparisons of domestic product and subject imports	II-10
Other country comparisons	II-14
Elasticity estimates	II-14
U.S. supply elasticity	II-14
U.S. demand elasticity	II-14
Substitution elasticity	II-14
Part III: U.S. producer's production, shipments, and employment	III-1
U.S. producers	III-1
U.S. capacity, production, and capacity utilization	III-1
U.S. producer's shipments	III-2
U.S. producer's inventories	III-3
U.S. producer's imports and purchases	III-3
U.S. employment, wages, and productivity	III-3

CONTENTS

	<i>Page</i>
Part IV: U.S. imports, apparent U.S. consumption, and market shares	IV-1
U.S. importers	IV-1
U.S. imports	IV-2
Negligibility	IV-2
Apparent U.S. consumption	IV-2
U.S. market shares	IV-3
Ratio of imports to U.S. production	IV-3
Part V: Pricing and related information	V-1
Factors affecting prices	V-1
Raw material costs	V-1
Transportation costs to the U.S. market	V-2
U.S. inland transportation costs	V-2
Exchange rate	V-2
Pricing practices	V-3
Pricing methods	V-3
Sales terms and discounts	V-4
Price data	V-4
Price trends	V-5
Price comparisons	V-7
Lost sales and lost revenues	V-7
Part VI: Financial experience of the U.S. producer	VI-1
Background	VI-1
Operations on FSVs	VI-1
Capital expenditures and research and development expenses	VI-3
Assets and return on investment	VI-3
Capital and investment	VI-4
Actual negative effects	VI-4
Anticipated negative effects	VI-4
Part VII: Threat considerations and information on nonsubject countries	VII-1
The industry in China	VII-1
Overview	VII-1
FSV operations	VII-2
U.S. imports subsequent to September 30, 2008	VII-4
U.S. importers' inventories	VII-4
Dumping in third-country markets	VII-5
Information on nonsubject countries	VII-5
Nonsubject source information	VII-5
Overview	VII-6

CONTENTS

	<i>Page</i>
Appendixes	
A. <i>Federal Register</i> notices	A-1
B. List of hearing witnesses	B-1
C. Summary data	C-1
D. Purchasers' reported purchases by source	D-1

Note.—Information that would reveal confidential operations of individual concerns may not be published and has been replaced with asterisks in this report.

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-1148 (Final)

FRONTSEATING SERVICE VALVES FROM CHINA

DETERMINATION

On the basis of the record¹ developed in the subject investigation, the United States International Trade Commission (Commission) determines, pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act), that an industry in the United States is materially injured by reason of imports from China of frontseating service valves, provided for principally in subheading 8481.80.10 of the Harmonized Tariff Schedule of the United States, that have been found by the Department of Commerce (Commerce) to be sold in the United States at less than fair value (LTFV).

BACKGROUND

The Commission instituted this investigation effective March 19, 2008 (73 F.R. 16059) following receipt of a petition filed with the Commission and Commerce by Parker-Hannifin Corp. of Cleveland, OH. The final phase of the investigation was scheduled by the Commission following notification of a preliminary determination by Commerce that imports of frontseating service valves from China were being sold at LTFV within the meaning of section 733(b) of the Act (19 U.S.C. § 1673b(b)). Notice of the scheduling of the final phase of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of November 21, 2008 (73 F.R. 70672). The hearing was held in Washington, DC, on March 10, 2009, and all persons who requested the opportunity were permitted to appear in person or by counsel.

¹ The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).

VIEWS OF THE COMMISSION

Based on the record in the final phase of this investigation, we find that an industry in the United States is materially injured by reason of imports of frontseating service valves (“FSVs”) from the People’s Republic of China (“China”) that have been found by the U.S. Department of Commerce (“Commerce”) to be sold in the United States at less than fair value.

I. BACKGROUND

The petition in this investigation was filed on March 19, 2008, by Parker-Hannifin Corp. (“Parker”), the sole current domestic producer of FSVs. Parker filed questionnaire responses, appeared at the staff conference and hearing, and filed briefs. Two Chinese producers/exporters of the subject merchandise, Zhejiang DunAn Hetian Metal Co., Ltd. (“DunAn”) and Zhejiang Sanhua Co., Ltd. (“Sanhua”) also filed questionnaire responses, appeared at the staff conference and hearing, and submitted briefs.

II. DOMESTIC LIKE PRODUCT

A. In General

In determining whether an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the “domestic like product” and the “industry.”¹ Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Tariff Act”), defines the relevant domestic industry as the “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”² In turn, the Tariff Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation.”³

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.⁴ No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.⁵ The

¹ 19 U.S.C. § 1677(4)(A).

² 19 U.S.C. § 1677(4)(A).

³ 19 U.S.C. § 1677(10).

⁴ See, e.g., Cleo, Inc. v. United States, 501 F.3d 1291, 1299 (Fed. Cir. 2007); NEC Corp. v. Department of Commerce, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Torrington Co. v. United States, 747 F. Supp. 744, 749 n.3 (Ct. Int’l Trade 1990), aff’d, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See Nippon, 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

⁵ See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

Commission looks for clear dividing lines among possible like products and disregards minor variations.⁶ Although the Commission must accept Commerce's determination as to the scope of the imported merchandise that is subsidized or sold at less than fair value,⁷ the Commission determines what domestic product is like the imported articles Commerce has identified.⁸

B. Product Description

Commerce defined the imported merchandise within the scope of this investigation as follows: [F]rontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof. Frontseating service valves contain a sealing surface on the front side of the valve stem that allows the indoor unit or outdoor unit to be isolated from the refrigerant stream when the air conditioning or refrigeration unit is being serviced. Frontseating service valves rely on an elastomer seal when the stem cap is removed for servicing and the stem cap metal to metal seat to create this seal to the atmosphere during normal operation.⁹

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

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

⁶ Nippon, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49; see also S. Rep. No. 96-249 at 90-91 (1979) (Congress has indicated that the like product standard should not be interpreted in "such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.").

⁷ See, e.g., USEC, Inc. v. United States, 34 Fed. Appx. 725, 730 (Fed. Cir. 2002) ("The ITC may not modify the class or kind of imported merchandise examined by Commerce."); Algoma Steel Corp. v. United States, 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), aff'd, 865 F.3d 240 (Fed. Cir.), cert. denied, 492 U.S. 919 (1989).

⁸ Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (the Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); Cleo, 501 F.3d at 1298 n.1 ("Commerce's [scope] finding does not control the Commission's [like product] determination."); Torrington, 747 F. Supp. at 748-52 (affirming the Commission's determination defining six like products in investigations in which Commerce found five classes or kinds).

⁹ The frontseating service valve differs from a backseating service valve in that a backseating service valve has two sealing surfaces on the valve stem. This difference typically incorporates a valve stem on a backseating service valve to be machined of steel, where a frontseating service valve has a brass stem. The backseating service valve dual stem seal (on the back side of the stem), creates a metal to metal seal when the valve is in the open position, thus sealing the stem from the atmosphere.

is a service port via which a hose connection can be used to charge or evacuate the refrigerant medium or to monitor the system pressure for diagnostic purposes.

The scope includes frontseating service valves of any size, configuration, material composition or connection type. Frontseating service valves are classified under subheading 8481.80.1095, and also have been classified under subheading 8415.90.80.85, of the Harmonized Tariff Schedule of the United States (“HTSUS”). It is possible for frontseating service valves to be manufactured out of primary materials other than copper and brass, in which case they would be classified under HTSUS subheadings 8481.80.3040, 8481.80.3090, or 8481.80.5090. In addition, if unassembled or incomplete frontseating service valves are imported, the various parts or components would be classified under HTSUS subheadings 8481.90.1000, 8481.90.3000, or 8481.90.5000. The HTSUS subheadings are provided for convenience and customs purposes, but the written description of the scope of this proceeding is dispositive.¹⁰

FSVs are designed to be used in residential air conditioning and heating systems such as split air conditioning equipment and heat pumps.¹¹ The production of FSVs is capital intensive and FSVs are exclusively produced for the North American market primarily for the purpose of meeting environmental regulations. FSVs are used to isolate sections of an air conditioning system during diagnostic servicing, installation, repair, and to permit technicians to provide refrigerant charging and evacuating capabilities. FSVs contain one sealing surface on the front side of the valve stem. Every split air conditioning and heat pump unit makes use of two FSVs. One FSV is a larger diameter valve used for outgoing refrigerant gas and the other is a smaller diameter suction valve used for incoming compressed liquid.¹² FSVs are produced to order for original equipment manufacturers (“OEMs”) of residential split air conditioning units, and typically range in size from 3/4-inch to 7/8-inch in diameter.¹³

FSVs perform essentially three primary functions in split air conditioning units and heat pumps: (1) contain the refrigerant in the condensing unit prior to the installation; (2) provide shut-off capability that enables the unit to be serviced once installed; and (3) provide a service port by which a hose connection can be used to evacuate the refrigerant medium or monitor the system pressure for diagnostic purposes.¹⁴

C. Analysis

In the preliminary phase of the investigation, the Commission found that there was a single domestic like product that is coextensive with the scope of the investigation and consisting of FSVs,

¹⁰ 74 Fed. Reg. 10,886, 10,887-88 (Mar. 13, 2009).

¹¹ Split air conditioning systems have separate heating and cooling components inside and outside a house. FSVs can be found outside a residence on the pipes that connect the air conditioner or heat pump compressor and fan to the unit equipment inside the home. This two-part air conditioning system typically consists of a condenser, condenser coil, fan, electric motor, and compressor located outside the house. The indoor unit comprises an evaporator coil mounted on a furnace with a blower and filter. CR at I-8, PR at I-6.

¹² Confidential Report (“CR”) at I-6 - I-7. Public Report (“PR”) at I-6. The CR includes amended Table D-1 as contained in Memorandum OINV-GG-029 (Apr. 1, 2009).

¹³ CR/PR at II-1.

¹⁴ CR at I-7 - I-8, PR at I-6.

regardless of size, but not including backseating valves (“BSVs”) or ball valves.¹⁵ The Commission based its decision not to include BSVs and ball valves in the domestic like product on differences among FSVs, BSVs and ball valves in terms of physical characteristics and end uses, manufacturing facilities, customers’ and producers’ perceptions, and price, in addition to limited practical interchangeability among the products.¹⁶ The Commission based its finding with respect to the different sizes of FSVs on the similarity in physical characteristics and general uses among the various sizes; the fact that all are sold in the same channel of distribution, *i.e.* to OEMs; the fact that all are made on the same machinery and equipment using the same manufacturing process; and the fact that customers and producers view the different sizes of FSVs as similar. In addition, respondents presented no argument to the contrary.¹⁷

There is no evidence in the record of this final phase of the investigation calling into question the domestic like product as defined in the preliminary determination and no party has challenged this definition. We again find a single domestic like product coextensive with the scope of the investigation and consisting of FSVs, regardless of size, but not including BSVs or ball valves.

III. DOMESTIC INDUSTRY

The domestic industry is defined as the domestic “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”¹⁸ In defining the domestic industry, the Commission’s general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

Consistent with our definition of the domestic like product, we define the domestic industry as consisting of all domestic producers of FSVs,¹⁹ regardless of size, but not including producers of BSVs or ball valves.

IV. MATERIAL INJURY BY REASON OF SUBJECT IMPORTS FROM CHINA²⁰

A. Legal Standards

In the final phase of antidumping or countervailing duty investigations, the Commission determines whether an industry in the United States is materially injured or threatened with material injury by reason of the imports under investigation.²¹ In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their

¹⁵ Frontseating Service Valves from China, Inv. No. 731-TA-1148 (Preliminary), USITC Pub. 3999 (May 2008), at 8.

¹⁶ USITC Pub. 3999 at 7.

¹⁷ USITC Pub. 3999 at 8.

¹⁸ 19 U.S.C. § 1677(4)(A).

¹⁹ The domestic industry consisted of Parker, the sole remaining producer, as well as Chatleff Controls, Inc. (“Chatleff”), a domestic producer during the early part of the period of investigation, as discussed further below. Chatleff submitted a partial questionnaire response that only included capacity and production data; consequently, its data are not included in certain computations. See CR/PR at III-1 & n.2.

²⁰ Negligibility is not an issue in this investigation under 19 U.S.C. § 1677(24). The petition was filed on March 19, 2008. Subject imports from China accounted for all known U.S. imports of FSVs for the most recent 12-month period for which data were available that preceded the filing of the petition (March 2007 through February 2008). CR at IV-5, PR at IV-2.

²¹ 19 U.S.C. §§ 1671d(b), 1673d(b).

impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.²² The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”²³ In assessing whether the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.²⁴ No single factor is dispositive, and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”²⁵

Although the statute requires the Commission to determine whether the domestic industry is “materially injured by reason of” unfairly traded imports,²⁶ it does not define the phrase “by reason of,” indicating that this aspect of the injury analysis is left to the Commission’s reasonable exercise of its discretion.²⁷ In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation under the “by reason of” standard must ensure that subject imports are more than a minimal or tangential cause of injury and that there is a sufficient causal, not merely a temporal, nexus between subject imports and material injury.²⁸

In many investigations, there are other economic factors at work, some or all of which may also be having adverse effects on the domestic industry. Such economic factors might include non-subject imports; changes in technology, demand, or consumer tastes; competition among domestic producers; or management decisions by domestic producers. The legislative history explains that the Commission must examine factors other than subject imports to ensure that it is not attributing injury from other factors to the subject imports, thereby inflating an otherwise tangential cause of injury into one that satisfies the statutory material injury threshold.²⁹ In performing its examination, however, the Commission need not

²² 19 U.S.C. § 1677(7)(B)(i). The Commission “may consider such other economic factors as are relevant to the determination” but shall “identify each [such] factor . . . [and explain in full its relevance to the determination.]” 19 U.S.C. § 1677(7)(B).

²³ 19 U.S.C. § 1677(7)(A).

²⁴ 19 U.S.C. § 1677(7)(C)(iii).

²⁵ 19 U.S.C. § 1677(7)(C)(iii).

²⁶ 19 U.S.C. §§ 1671d(a), 1673d(a).

²⁷ Angus Chemical Co. v. United States, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) (“[T]he statute does not ‘compel the commissioners’ to employ [a particular methodology].”), aff’g 944 F. Supp. 943, 951 (Ct. Int’l Trade 1996).

²⁸ The Federal Circuit, in addressing the causation standard of the statute, observed that “[a]s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement.” Nippon Steel Corp. v. USITC, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was further ratified in Mittal Steel Point Lisas Ltd. v. United States, 542 F.3d 867, 873 (Fed. Cir. 2008), where the Federal Circuit, quoting Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997), stated that “this court requires evidence in the record ‘to show that the harm occurred “by reason of” the LTFV imports, not by reason of a minimal or tangential contribution to material harm caused by LTFV goods.’” See also Nippon Steel Corp. v. United States, 458 F.3d 1345, 1357 (Fed. Cir. 2006); Taiwan Semiconductor Industry Ass’n v. USITC, 266 F.3d 1339, 1345 (Fed. Cir. 2001).

²⁹ Statement of Administrative Action (“SAA”) on Uruguay Round Agreements Act (“URAA”), H.R. Rep. 103-316, Vol. I at 851-52 (1994) (“[T]he Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.”); S. Rep. 96-249 at 75 (1979) (the Commission “will consider information which indicates that harm is caused by factors other than less-than-fair-value imports.”); H.R. Rep. 96-317 at 47 (1979) (“in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or
(continued...)

isolate the injury caused by other factors from injury caused by unfairly traded imports.³⁰ Nor does the “by reason of” standard require that unfairly traded imports be the “principal” cause of injury or contemplate that injury from unfairly traded imports be weighed against other factors, such as non-subject imports, which may be contributing to overall injury to an industry.³¹ It is clear that the existence of injury caused by other factors does not compel a negative determination.³²

Assessment of whether material injury to the domestic industry is “by reason of” subject imports “does not require the Commission to address the causation issue in any particular way” as long as “the injury to the domestic industry can reasonably be attributed to the subject imports” and the Commission “ensure[s] that it is not attributing injury from other sources to the subject imports.”^{33 34} Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed “rigid

²⁹ (...continued)

dumped imports is attributable to such other factors;” those factors include “the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry”); accord *Mittal Steel*, 542 F.3d at 877.

³⁰ SAA at 851-52 (“[T]he Commission need not isolate the injury caused by other factors from injury caused by unfair imports.”); *Taiwan Semiconductor Industry Ass’n v. USITC*, 266 F.3d 1339, 1345 (Fed. Cir. 2001) (“[T]he Commission need not isolate the injury caused by other factors from injury caused by unfair imports. . . . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.” (emphasis in original)); *Asociacion de Productores de Salmon y Trucha de Chile AG v. United States*, 180 F. Supp. 2d 1360, 1375 (Ct. Int’l Trade 2002) (“[t]he Commission is not required to isolate the effects of subject imports from other factors contributing to injury” or make “bright-line distinctions” between the effects of subject imports and other causes.); see also *Softwood Lumber from Canada*, Inv. Nos. 701-TA-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that “[i]f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, i.e., it is not an ‘other causal factor,’ then there is nothing to further examine regarding attribution to injury”), citing *Gerald Metals, Inc. v. United States*, 132 F.3d 716, 722 (Fed. Cir. 1997) (the statute “does not suggest that an importer of LTFV goods can escape countervailing duties by finding some tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.”).

³¹ S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47.

³² See *Nippon Steel Corp.*, 345 F.3d at 1381 (“an affirmative material-injury determination under the statute requires no more than a substantial-factor showing. That is, the ‘dumping’ need not be the sole or principal cause of injury.”).

³³ *Mittal Steel*, 542 F.3d at 877-78; see also id. at 873 (“While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured ‘by reason of’ subject imports, the Commission is not required to follow a single methodology for making that determination . . . [and has] broad discretion with respect to its choice of methodology.”) citing *United States Steel Group v. United States*, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75.

³⁴ Commissioner Pinkert does not join this paragraph or the following four paragraphs. He points out that the Federal Circuit, in *Bratsk*, 444 F.3d 1369, and *Mittal*, held that the Commission is required, in certain circumstances, to undertake a particular kind of analysis of non-subject imports. *Mittal* explains as follows:

What *Bratsk* held is that “where commodity products are at issue and fairly traded, price-competitive, non-subject imports are in the market,” the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether non-subject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1369. Under those circumstances, *Bratsk* requires the Commission to consider whether replacement of the LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.

542 F.3d at 878.

adherence to a specific formula.”³⁵

The Federal Circuit’s decisions in Gerald Metals, Bratsk, and Mittal Steel all involved cases where the relevant “other factor” was the presence in the market of significant volumes of price-competitive non-subject imports. The Commission interpreted the Federal Circuit’s guidance in Bratsk as requiring it to apply a particular additional methodology following its finding of material injury in cases involving commodity products and a significant market presence of price-competitive non-subject imports.³⁶ The additional “replacement/benefit” test looked at whether non-subject imports might have replaced subject imports without any benefit to the U.S. industry. The Commission applied that specific additional test in subsequent cases, including the Carbon and Certain Alloy Steel Wire Rod from Trinidad and Tobago determination that underlies the Mittal Steel litigation.

Mittal Steel clarifies that the Commission’s interpretation of Bratsk was too rigid and makes clear that the Federal Circuit does not require the Commission to apply an additional test nor any one specific methodology; instead, the court requires the Commission to have “evidence in the record to show that the harm occurred ‘by reason of’ the LTFV imports,” and requires that the Commission not attribute injury from non-subject imports or other factors to subject imports.³⁷ Accordingly, we do not consider ourselves required to apply the replacement/benefit test that was included in Commission opinions subsequent to Bratsk.

The progression of Gerald Metals, Bratsk, and Mittal Steel clarifies that, in cases involving commodity products where price-competitive non-subject imports are a significant factor in the U.S. market, the Court will require the Commission to give full consideration, with adequate explanation, to non-attribution issues when it performs its causation analysis.^{38 39}

The question of whether the material injury threshold for subject imports is satisfied notwithstanding any injury from other factors is factual, subject to review under the substantial evidence standard.⁴⁰ Congress has delegated this factual finding to the Commission because of the agency’s institutional expertise in resolving injury issues.⁴¹

³⁵ Nucor Corp. v. United States, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005); see also Mittal Steel, 542 F.3d at 879 (“Bratsk did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was ‘by reason’ of subject imports.”).

³⁶ Mittal Steel, 542 F.3d at 875-79.

³⁷ Mittal Steel, 542 F.3d at 873 (quoting from Gerald Metals, 132 F.3d at 722), 875-79 & n.2 (recognizing the Commission’s alternative interpretation of Bratsk as a reminder to conduct a non-attribution analysis).

³⁸ Commissioner Lane also refers to her dissenting views in Polyethylene Terephthalate Film, Sheet, and Strip from Brazil, China, Thailand, and the United Arab Emirates, Inv. Nos. 731-TA-1131-1134 (Final), USITC Pub. 4040 (Oct. 2008), for further discussion of Mittal Steel.

³⁹ To that end, after the Federal Circuit issued its decision in Bratsk, the Commission began to present published information or send out information requests in final phase investigations to producers in non-subject countries that accounted for substantial shares of U.S. imports of subject merchandise (if, in fact, there were large non-subject import suppliers). In order to provide a more complete record for the Commission’s causation analysis, these requests typically seek information on capacity, production, and shipments of the product under investigation in the major source countries that export to the United States. The Commission plans to continue utilizing published or requested information in final phase investigations in which there are substantial levels of non-subject imports.

⁴⁰ We provide in the discussion of impact in section IV.E. below a full analysis of other factors alleged to have caused any material injury experienced by the domestic industry.

⁴¹ Mittal Steel, 542 F.3d at 873; Nippon Steel Corp., 458 F.3d at 1350, citing U.S. Steel Group, 96 F.3d at 1357; S. Rep. 96-249 at 75 (“The determination of the ITC with respect to causation is . . . complex and difficult, and is a matter for the judgment of the ITC.”).

B. Conditions of Competition and the Business Cycle

The following conditions of competition inform our analysis of whether there is material injury or threat of material injury by reason of subject imports from China.

1. Demand Conditions

As explained above, FSVs are primarily used in residential air conditioning units. The FSVs subject to this investigation are used only in the North American market.⁴² The demand for FSVs is determined by the demand for new and replacement residential split air conditioning units, with replacement units reportedly accounting for approximately 70 percent of the total U.S. market.⁴³ Demand for new residential split air conditioning units is largely dependent on demand for single-family housing construction, which is subject to changes in interest rates, housing prices and population growth, among other factors. According to the U.S. Census Bureau, new privately owned housing units completed in the United States decreased by 42.2 percent from 2005 to 2008, with all of the decrease occurring in 2007 and 2008.⁴⁴ U.S. demand for replacements of air conditioning systems is partly driven by the number of older houses and weather events that damage property, such as floods and hurricanes.⁴⁵ Demand for replacements decreased during the period of investigation.⁴⁶

The questionnaire data show that demand for FSVs decreased in each year from 2005 to 2008. Apparent U.S. consumption steadily decreased over the period of investigation from *** units in 2005 to *** units in 2008.⁴⁷

The record indicates that there was a spike in demand in 2005 due to a buildup of inventory of residential split air conditioning units in anticipation of the change in the U.S. Department of Energy's mandated seasonal energy efficiency ratio ("SEER") requirements that took effect in January 2006.

⁴² Tr. at 47 (Mr. Nelson), 85 (Mr. Nelson), 112 (Mr. Hudgens), 116 (Mr. Hudgens), 206 (Mr. Dinan).

⁴³ CR at II-9 - II-10, PR at II-5; Tr. at 92 (Mr. Miller) (decreased demand in housing market reported for September/October 2008).

⁴⁴ CR at II-9 - II-10, PR at II-5. The Commission's normal practice is to consider data for the three most recent calendar years, plus interim periods when applicable. This achieves a balance between the burden on questionnaire recipients and the Commission's need for sufficient information for making its determinations. See Silicon Metal from Russia, Inv. No. 731-TA-991 (Final), USITC Pub. 3584 (March 2003) at 11, n. 68, citing, inter alia, Kenda Rubber Industrial Co. v. United States, 630 F. Supp. 354, 359 (Ct. Int'l Trade 1986), aff'd on this point, Bratsk Smelter v. United States, Slip Op. 04-75 (Ct. Int'l Trade June 22, 2004). However, we have expanded the period of investigation when we found it was appropriate to do so under the unique facts of a particular industry or investigation. See e.g., Sodium Hexametaphosphate from China, Inv. No. 731-TA-1110 (Final), USITC Pub. 3984 (March 2008) at 8-9; Certain Orange Juice from Brazil, Inv. No. 731-TA-1089 (Final), USITC Pub. 3838 (March 2006) at 18, n. 133; Purified Carboxymethylcellulose from Finland, Mexico, Netherlands, and Sweden, Inv. Nos. 731-TA-1084-1087 (Final), USITC Pub. 3787 (June 2005) at 14; Certain Aluminum Plate from South Africa, Inv. No. 731-TA-1056 (Final), USITC Pub. 3734 (November 2004) at 19 n. 156. Here, given new environmental regulations that took effect in January 2006, affecting the entire customer base for FSVs, we have gathered data for four years rather than three so as to analyze the industry and market before and after these new regulations were implemented. We also note that respondents requested that we gather full-year 2008 data and petitioner did not object. See Letter from Ned H. Marshak to Marilyn R. Abbott (Nov. 13, 2008).

⁴⁵ CR at II-10, PR at II-5.

⁴⁶ See CR/PR at Table IV-4; see also CR at II-11, Tr. at 92 & 105 (Mr. Miller) (because of economic downturn homeowners repair air conditioning units, which does not necessitate replacing existing FSVs).

⁴⁷ Apparent U.S. consumption decreased from *** units in 2005 to *** units in 2006, to *** units in 2007, and further to *** units in 2008. CR/PR at Table IV-3.

Parker reported that the growth rate of consumption of residential split air conditioning units averaged roughly *** to *** percent per year prior to 2004 and rose to *** percent in 2005, due mostly to the demand spike caused by the new SEER requirements, before returning to more normal levels of growth in 2006 and 2007. Long-term demand is expected to be relatively flat, due to a strong replacement market and the fact that air conditioning systems are now virtually standard equipment in residential units.⁴⁸ Seasonality exists in the market, with reportedly 60 percent of annual sales occurring between January and May. Parker reported, however, that this seasonality does not have an effect on prices, as they are negotiated mostly on a long-term contract basis.⁴⁹

2. Supply Conditions

There are two sources of supply in the U.S. market: imports of the subject merchandise and domestic production. There were no nonsubject imports of FSVs during the period of investigation.

The petition identified two importers of FSVs, DunAn Precision Inc. (“DunAn Precision”) and Sanhua International, Inc. (“Sanhua International”). Both importers submitted complete questionnaire responses. The questionnaire coverage is believed to be 100 percent because ***. Prior to 2006, ***, which also submitted a complete U.S. importer questionnaire. The combined questionnaire responses of *** are believed to account for all U.S. imports of FSVs from China, by quantity, in the period examined. The responding importers reported *** from other sources during the period examined.⁵⁰

The petition identified the current U.S. producer of FSVs, Parker, as the sole domestic producer, but subsequent to the filing of the petition, Chatleff was also identified as a producer. Chatleff produced *** FSVs from *** until *** when it ceased production for reasons unrelated to competition with domestic or international suppliers. The Commission received a completed questionnaire response from Parker and a partial response from Chatleff.⁵¹

The domestic industry’s FSV production capacity decreased from *** to ***, then was steady for the remainder of the period of investigation.⁵² As measured by quantity, however, its market share decreased steadily throughout the period from *** percent in 2005 to *** percent in 2008.⁵³ Both the domestic industry and the Chinese producers have *** excess capacity.⁵⁴

3. Raw Material Costs

Brass and copper are the principal raw materials used in producing FSVs, with brass reportedly accounting for *** percent of total raw material costs and copper accounting for *** percent. Parker reported that prices for brass and copper have increased by *** percent since 2005. Monthly brass prices increased by 164.3 percent from January 2005 to September 2008, after which they decreased by 63.8 percent to November 2008, the last month for which data are available. London Metal Exchange monthly copper prices increased by 165.4 percent from January 2005 to July 2008, after which they decreased by

⁴⁸ CR at II-11, PR at II-6.

⁴⁹ CR at II-12, PR at II-7.

⁵⁰ CR/PR at IV-1.

⁵¹ CR/PR at III-1 & n.3.

⁵² CR/PR at Table III-2.

⁵³ CR/PR at Table IV-4.

⁵⁴ The domestic industry’s capacity utilization decreased steadily over the period, from *** percent in 2005 to *** percent in 2008. CR/PR at Table III-2. The subject Chinese producers’ capacity utilization decreased from *** percent in 2005 to *** percent in 2008. CR/PR at Table VII-1.

63.1 percent to December 2008.⁵⁵

4. Substitutability

The record indicates that there is a high degree of interchangeability between FSVs produced in the United States and subject imports from China. The domestic producer, along with most importers and purchasers, reported that the products are “always” or “frequently” interchangeable.⁵⁶ Price was always identified as one of the top three factors in making purchasing decisions, although it was not identified as the most important factor.⁵⁷ Additionally, all six responding purchasers reported that price is a “very important” factor.⁵⁸

In terms of substitute products, BSVs, ball valves and aluminum service valves may technically be used in place of FSVs, but are more expensive and are not functional economic substitutes.⁵⁹ In the United States, *** FSVs are produced by the bar stock method, while in China some FSVs are produced using the forged body method.⁶⁰ FSVs produced using the forged body method may be substituted for those produced using the bar stock method.⁶¹

5. Other Factors

We note that qualification of a manufacturer is important in obtaining contracts. All six responding purchasers⁶² reported that they require suppliers to become certified. Qualification times may last from three months to three years. Once a producer is qualified, field performance of the FSVs is monitored, but there is no further testing. When asked if any suppliers failed in attempting to become certified, one purchaser cited *** and another cited ***.⁶³

Record evidence also shows that service is important in obtaining and maintaining contracts. Service includes matters such as quick and consistent delivery, inventory management and customer service.⁶⁴ Thus, most purchasers rated non-price factors such as availability, product consistency, quality, and reliability of supply as “very important.”⁶⁵

⁵⁵ CR/PR at V-1.

⁵⁶ Parker reported that the U.S. and Chinese products are *** interchangeable; two importers reported that the products are frequently interchangeable and one reported that they are never interchangeable; and four purchasers reported that the products are always interchangeable while two reported that they are frequently interchangeable. CR/PR at Table II-3.

⁵⁷ CR/PR at Table II-1.

⁵⁸ CR/PR at Table II-2.

⁵⁹ CR at II-12 - II-13, PR at II-7-8.

⁶⁰ CR at I-9, I-10, PR at I-7. Production of FSVs starts by ***. CR at I-9, PR at I-7. ***. CR at I-9, PR at I-7.

⁶¹ See CR/PR at II-1; see also Tr. at 149-50 (Mr. Craven) (Sanhua sells bar stock valves in the U.S. market, while DunAn sells forged).

⁶² There are seven OEMs in the market, six of which responded to the Commission’s questionnaires. CR at II-3, PR at II-1.

⁶³ CR at II-15 - II-16, PR at II-10.

⁶⁴ See CR/PR at Table II-2.

⁶⁵ CR/PR at Table II-2.

C. Volume of the Subject Imports

In evaluating the volume of subject imports, section 771(7)(C)(i) of the Tariff Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”⁶⁶

Apparent U.S. consumption decreased significantly over the period of investigation, from *** units in 2005 to *** units in 2008.⁶⁷ Notwithstanding this decrease, subject imports increased steadily from 2005 to 2007, before decreasing in 2008.⁶⁸ As measured by quantity, subject import market share rose steadily throughout the period as well and, in terms of percentage points, it more than *** between 2005 and 2008.⁶⁹ The ratio of subject imports to U.S. production increased *** over the period of investigation from *** percent in 2005 to *** percent in 2008.⁷⁰

Because there is no other source of FSVs, all subject import gains in volume and market share occurred directly at the expense of the domestic industry. The domestic industry’s quantity of U.S. shipments decreased steadily over the period commensurate with the increase in subject imports, falling by *** percent between 2005 and 2008.⁷¹ This decline in the domestic industry’s shipments translated to a loss of *** percentage points of its market share over the period.⁷² In contrast, the market share of subject imports rose by *** percentage points over the same period.⁷³

In view of the foregoing, we find that the volume of subject imports and the increase in that volume are significant, both in absolute terms and relative to consumption and production in the United States.

D. Price Effects of Subject Imports

In evaluating the price effects of the subject imports, section 771(7)(C)(ii) of the Tariff Act provides that the Commission shall consider whether –

(I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and

(II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant

⁶⁶ 19 U.S.C. § 1677(7)(C)(i).

⁶⁷ CR/PR at Table IV-3.

⁶⁸ Subject imports rose from *** units in 2005 to *** units in 2006, then to *** units in 2007, and fell to *** units in 2008. CR/PR at Table IV-2. U.S. shipments of subject imports increased from *** units in 2005 to *** units in 2006, to *** units in 2007, then decreased to *** units in 2008. CR/PR at Table IV-3.

⁶⁹ As measured by quantity, subject import market share climbed from *** percent in 2005 to *** percent in 2006, to *** percent in 2007, then to *** percent in 2008. CR/PR at Table IV-4.

⁷⁰ CR/PR at Table III-3.

⁷¹ The domestic industry’s U.S. shipments decreased from *** units in 2005 to *** units in 2006, to *** units in 2007, then to *** units in 2008. CR/PR at Table III-3.

⁷² As measured by quantity, the domestic industry’s market share fell from *** percent in 2005 to *** percent in 2006, to *** percent in 2007, then to *** percent in 2008. CR/PR at Table IV-4.

⁷³ CR/PR at Table IV-4.

degree.⁷⁴

As indicated above, there is a high degree of substitutability between the domestic like product and the subject imports; price is an important factor in purchasing decisions, although certain non-price factors are important in purchasing decisions as well.

The Commission sought quarterly pricing data for three products.⁷⁵ The pricing data obtained accounted for approximately *** percent of Parker's U.S. commercial shipments during the period of investigation and for *** percent of subject imports from China during the period.⁷⁶ The data show underselling in all 48 quarterly comparisons, ranging from 11.0 percent to 45.9 percent.⁷⁷ Pervasive underselling of the domestic like product by highly substitutable subject imports from China in a market in which price is a very important factor in purchasing decisions resulted in subject imports taking substantial market share from the domestic industry. This conclusion is buttressed by extensive evidence of lost sales,⁷⁸ demonstrating that OEM purchasers shifted their contracts from Parker to subject producers in order to take advantage of lower prices. Accordingly, given the clear relationship between the pervasive underselling and sales lost by the domestic industry, we find the underselling to be significant.

Consistent with the global rise in costs of brass and copper, prices generally increased for both the domestic product and subject merchandise during the period, although there were some fluctuations for each of the three pricing products, most notably declines for certain products in 2006 and in the fourth quarter of 2008.⁷⁹ Given the general increases in the domestic industry's prices over the entire period of investigation, we do not find that subject imports from China significantly depressed prices of the domestic like product in the U.S. market.

We have also considered whether subject imports from China suppressed prices of the domestic like product to a significant degree. As explained above, the cost of raw materials increased substantially over the period. While prices also increased, they were not sufficient to cover the increase in these costs. The domestic industry's average unit cost of goods sold ("COGS") increased, from \$*** per unit in 2005 to \$*** per unit in 2008, an increase of \$*** per unit.⁸⁰ The domestic industry's average unit sales value increased from \$*** per unit in 2005 to \$*** per unit in 2008, an increase of \$*** per unit.⁸¹ Consequently, the industry experienced a cost-price squeeze through 2008 as is also shown by trends in the ratio of COGS to net sales, which increased overall from *** percent in 2005 to *** percent in 2007,

⁷⁴ 19 U.S.C. § 1677(7)(C)(ii).

⁷⁵ These products are as follows: frontseating service valves that have brass bodies with copper tube extensions, double 90-degree flow pattern, metal-to-metal seating, with Schrader Bridgeport access valves and captivated stem with OD solder connection of (1) 3/8 inch – SAE – 6 size; (2) 3/4 inch – SAE – 12 size; and (3) 7/8 inch – SAE – 14 size. CR at V-6 - V-7, PR at V-4-5.

⁷⁶ CR at V-7, PR at V-5.

⁷⁷ CR at V-14, PR at V-7.

⁷⁸ Confirmed lost sales are valued at \$***. CR at V-16, PR at V-7. Although ***, CR at V-16 n.19, PR at V-7 n.19.

⁷⁹ See CR/PR at Tables V-1 - V-3.

⁸⁰ CR/PR at Table VI-1.

⁸¹ CR/PR at Table VI-1. The domestic industry was able to increase its average unit sales value from \$*** in 2007 to \$*** in 2008, while its average unit COGS decreased from \$*** in 2007 to \$*** in 2008. In 2006 and 2007, the domestic industry was not able to increase its average unit sales values sufficiently to cover the large increases in average unit COGS in those years. The increase in average unit sales values relative to COGS in 2008, however, did not offset the cost-price squeeze experienced in 2006 and 2007. As a result, there was a cost-price squeeze over the period of investigation, as average unit COGS increased by \$*** more than the increase in average unit sales values over the period of investigation.

and declined *** to *** percent in 2008.⁸² Although demand for the product is decreasing,⁸³ there are no economically viable substitutes for FSVs. FSVs are essential components of a finished air conditioning unit and account for a small share of the total price.⁸⁴ Demand for FSVs, therefore, has a relatively low sensitivity to changes in price.⁸⁵ Based on evidence of the market conditions in this industry, Parker should have been able to pass on cost increases to purchasers by way of higher prices. Accordingly, we find that the large volume of lower-priced subject imports prevented price increases for domestic FSVs, sufficient to cover costs, which otherwise would have occurred, to a significant degree.

In light of the foregoing, we find that subject imports have had significant adverse effects on domestic prices.

E. Impact of the Subject Imports on the Domestic Industry⁸⁶

In examining the impact of subject imports, section 771(7)(C)(iii) of the Tariff Act provides that the Commission “shall evaluate all relevant economic factors which have a bearing on the state of the industry.”⁸⁷ These factors include output, sales, inventories, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”⁸⁸

We have examined the performance indicators in the trade and financial data for the domestic industry producing FSVs, all of which indicate *** declines during the period of investigation. Production declined by *** percent during that time frame⁸⁹ and the domestic producers’ U.S. shipments shrank by *** percent,⁹⁰ causing capacity utilization to decline by *** percentage points.⁹¹ While, as explained above, Parker makes *** its product to order, we note that inventories fell by *** percent over

⁸² CR/PR at Table VI-1. Production declined from *** units in 2005 to *** units in 2008. CR/PR at Table III-2. Thus, the increase in costs was spread over substantially fewer units over the course of the period.

⁸³ Commissioners Lane, Williamson and Pinkert find that decreased demand typically causes intensified competition among suppliers that may lower prices as they attempt to maintain their level of sales and market share in a shrinking market. In this investigation, there is a single source of U.S.-produced FSVs and there are no nonsubject imports. As such, the effect of declining demand was to intensify price competition between the sole domestic producer and subject imports (rather than other sources of supply).

⁸⁴ The cost of the FSVs approximates between *** and *** percent of the cost of the air conditioning unit. CR at II-13, PR at II-8.

⁸⁵ CR at II-22 - II-23, PR at II-15.

⁸⁶ In its final determination, Commerce found dumping margins of 28.44 for Sanhua, 12.95 percent for DunAn and 55.62 percent for the country-wide margin. 74 Fed. Reg. at 10,890.

⁸⁷ 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 (“In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.”).

⁸⁸ 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Prelim.), USITC Pub. 3155 at 25 n.148 (Feb. 1999).

⁸⁹ Production decreased from *** units in 2005, to *** units in 2006, to *** units in 2007 and 2008. CR/PR at Table III-2.

⁹⁰ U.S. shipments fell from *** units in 2005 to *** units in 2006, to *** units in 2007, and then to *** units in 2008. CR/PR at Table III-3.

⁹¹ Capacity utilization declined from *** percent in 2005 to *** percent in 2006, to *** percent in 2007, then to *** percent in 2008. CR/PR at Table III-2.

the period as Parker lost customers.⁹² Thus, the ratio of inventories to total shipments declined *** between 2005 and 2008.⁹³

The employment indicators also exhibited substantial downward trends. The number of production and related workers declined steadily ***,⁹⁴ as did hours worked⁹⁵ and wages paid.⁹⁶ In 2008, productivity was *** above its 2005 level, after steady declines between 2005 and 2007.⁹⁷

Total net sales, as measured by quantity, decreased by *** percent over the entire period of investigation⁹⁸ and fell by *** percent over the period, as measured by value.⁹⁹ Operating income declined *** in 2007, and *** in 2008.¹⁰⁰ The operating income margins exhibited the same trends.¹⁰¹

We conclude that subject imports had a material adverse impact on the condition of the domestic industry during the period of investigation. In particular, we find that both the absolute and relative volumes of subject imports were significant. In addition, subject imports gained market share at the expense of the domestic industry, undersold the domestic product to a significant degree, and suppressed domestic prices to a significant degree. As the domestic industry's costs increased and significant volumes of lower-priced subject imports entered the U.S. market, the domestic industry was caught in a cost-price squeeze. The increase in subject imports and their adverse effects on U.S. prices caused declines in the domestic industry's trade, employment, and financial performance over the period of investigation.

We find that there is a causal nexus between the subject imports and the trade, employment and financial difficulties Parker experienced during the period of investigation. As explained above, although demand decreased during the period of investigation, the market share of subject imports increased *** at the expense of the domestic industry. The significant and increasing volumes of subject imports were priced significantly lower than the domestic like product and undersold it in every quarterly comparison. The record supports a finding that the lower prices caused purchasers to reduce, or in some cases cease altogether, their purchases of the domestic like product in favor of the subject imports. Whereas all six of the reporting purchasers obtained their product from the domestic industry at the beginning of the period of investigation, by the end of the period four of the six purchasers were obtaining their product

⁹² End-of-period inventories increased from *** units in 2005 to *** units in 2006, and then decreased to *** units in 2007 and to *** units in 2008. CR/PR at Table III-4.

⁹³ The ratio of end-of-period inventories to total shipments rose from *** percent in 2005 to *** percent in 2006, then fell to *** percent in 2007 and to *** percent in 2008. CR/PR at Table III-4.

⁹⁴ The number of production and related workers decreased from *** in 2005 to *** in 2006, to *** in 2007, and then to *** in 2008. CR/PR at Table III-5.

⁹⁵ Hours worked declined from *** hours in 2005 to *** hours in 2006, to *** hours in 2007, then to *** hours in 2008. CR/PR at Table III-5.

⁹⁶ Wages paid fell from \$*** in 2005 to \$*** in 2006, to \$*** in 2007, then to \$*** in 2008. CR/PR at Table III-5.

⁹⁷ Productivity fell from *** units per hour in 2005 to *** units per hour in 2006, to *** units per hour in 2007, then rose to *** units per hour in 2008. CR/PR at Table III-5.

⁹⁸ As measured by quantity, total net sales fell from *** units in 2005 to *** units in 2006, to *** units in 2007, then to *** units in 2008. CR/PR at Table VI-1.

⁹⁹ As measured by value, total net sales fell from \$*** in 2005 to \$*** in 2006, to \$*** in 2007, then to \$*** in 2008. CR/PR at Table VI-1.

¹⁰⁰ Operating income declined from \$*** in 2005 to \$*** in 2006, to *** in 2007, and *** in 2008. CR/PR at Table VI-1.

¹⁰¹ The ratio of operating income to net sales fell from *** percent in 2005 to *** percent in 2006, then to *** percent in 2007, and *** percent in 2008. CR/PR at Table VI-1.

exclusively from Chinese producers.¹⁰² Between 2005 and 2007, the number of units purchased from Chinese producers effectively ***.¹⁰³ The number of shipments of subject merchandise from Chinese producers *** as well during this period.¹⁰⁴

We have considered whether there are other factors that have an impact on the domestic industry. As there were no imports of FSVs from any country other than China during the period of investigation, the injury we have found cannot be attributed to nonsubject imports.¹⁰⁵

We recognize that apparent U.S. consumption has decreased steadily over the period under examination, and that long-term demand is expected to be relatively flat. In this investigation, in which there is a single source of U.S.-produced merchandise and there are no nonsubject imports, declining demand resulted in intensified competition between low-priced subject imports and U.S.-produced merchandise. As the low-priced subject imports increased (both in terms of absolute volume and market share), the domestic industry's share of the shrinking U.S. market declined ***.

Respondent Sanhua argues that the loss of customers by the domestic industry has been due to issues related to the quality of the domestic industry's product as well as the service it provides, rather than to price considerations. Sanhua argues that the domestic industry cannot compete on quality and service with subject imports because it cannot "shed the years of sloth built up" during the period when Parker had "nearly unlimited market power."¹⁰⁶ Ample evidence in the record, however, indicates that this is not the case. While Sanhua argues that the defect rate of Parker's FSVs (*i.e.* defective parts per million ("DPPM")) was high, exceeding the rate for the Chinese producers, there is evidence in the record that indicates that Parker's defect rate was far below the industry standard for each OEM.¹⁰⁷ Further, ***, continues to purchase *** quantities of FSVs from Parker and has done so in every year of the period of investigation.¹⁰⁸

Although the record is mixed as to whether purchasers had significant concerns with the quality of the domestic industry's product, there is sufficient evidence on the record showing that purchasers switched to subject imports on the basis of price. As noted above, four of the six responding purchasers indicated that the subject FSVs and the domestic like product are always interchangeable and the remaining two reported that they are frequently interchangeable. None reported that they are only sometimes or never interchangeable.¹⁰⁹ Moreover, there is evidence in the record indicating that at the time they ceased purchasing FSVs from Parker and began obtaining them from subject Chinese

¹⁰² See CR/PR at VI-1 n.3, Table D-1 (amended). In fact, five of the seven OEMs (***) purchased exclusively from Chinese producers at the end of the period of investigation. ***.

¹⁰³ In 2005, the six purchasers bought a total of *** units from China; this number rose to *** in 2007. It was *** in January-September 2007 and *** in Jan.-Sept. 2008. CR/PR at Table D-1 (amended).

¹⁰⁴ In 2005, subject import shipments totaled *** units; they totaled *** units in 2007. CR/PR at Table IV-3.

¹⁰⁵ For this reason, Commissioner Pinkert finds that the second Bratsk triggering factor – regarding the presence of price-competitive nonsubject imports in the U.S. market – is not satisfied in this case.

¹⁰⁶ Sanhua's Prehearing Brief at 7. As discussed *infra*, we do not agree with Sanhua's assertion that Parker was ever a monopolist during the period of investigation or that our own analysis should be different even if it were.

¹⁰⁷ See Sanhua's Prehearing Brief at 18-21; Petitioner's Posthearing Brief at 5 & Exh. 3; Tr. at 21 (Mr. Nelson). Four of the six responding purchasers indicated that Parker and the Chinese producers were equal in meeting quality requirements. One of the remaining two was a verified lost sale, showing that the switch to the Chinese product was made on the basis of price, not quality. See *** Response to Lost Sales Allegation; CR at V-20. We note that while purchaser ***, CR at V-19, PR at V-8. We note that ***. CR at V-19 nn.23-24, PR at V-8 nn.23-24.

¹⁰⁸ *** purchased *** units from the domestic industry in 2005, *** units in 2006 and *** units in 2007. It purchased *** units in January-September 2007 and *** units in January-September 2008. CR/PR at Table D-1 (amended).

¹⁰⁹ CR/PR at Table II-3.

producers, three purchasers paid a lower price for the Chinese product than for the domestic like product.¹¹⁰

Sanhua also claims that longer lead times and poor service were the causes of the domestic industry's problems.¹¹¹ With respect to Sanhua's allegations regarding the domestic industry's on-time delivery performance,¹¹² we note that lead times vary widely among the producers, with Parker providing FSVs on a rolling three-day basis and importers providing their products in *** to ***.¹¹³ Parker provided evidence that its on-time delivery rates ranged from *** percent to *** percent in 2006, and were essentially all *** percent in 2007, the two years of the period in which it lost customers to the Chinese producers.¹¹⁴

Sanhua argues that the Commission should not determine that there is a causal link between the presence of subject imports and Parker's performance because any declines in Parker's performance are the expected result of Parker losing its alleged status as a monopolist in the U.S. market.¹¹⁵ We disagree. First, Parker was not the only significant supplier of the market during any part of the period of investigation.¹¹⁶ Even had it been, a loss of one customer in an industry in which there are only seven customers is significant; the loss of over *** has serious consequences.¹¹⁷

Second, Parker was *** in 2005 and 2006, notwithstanding the presence of substantial volumes

¹¹⁰ In 2006, the average unit value ("AUV") of ***. See Purchaser Questionnaire Responses of ***. We note that because this information is based in part on AUVs, we are mindful of product mix issues in this regard. See also Purchaser Questionnaire Response of *** (stating that ***); Purchaser Questionnaire Response of *** (stating that ***).

¹¹¹ See Sanhua's Prehearing Brief at 20-21.

¹¹² See Sanhua's Prehearing Brief at 21.

¹¹³ CR at II-5, PR at II-5.

¹¹⁴ Petitioner's Posthearing Brief at 6 & Exh. 4. Although respondents refer to the issue of providing consigned inventory as a service issue, see, e.g., Tr. at 175 (Mr. Jin), we find it relates to price and volume effects inasmuch as it is ***. See CR at II-6 n.15, PR at II-3 n.15; see also Tr. at 176 (Mr. Jin) (price customer pays includes price for consignment warehouse). Providing "consigned inventories" involves maintaining inventories for one or several weeks in a customer's, or third party's, warehouse, from which the purchaser draws upon them when needed. See CR at II-5, PR at II-2. *** maintain inventories for *** in their customers' warehouses or designated third-party warehouses. CR at II-5, PR at II-2. The ratio of U.S. importers' end-of-period inventories to U.S. shipments of imports was *** percent in 2005, *** percent in 2006, *** percent in 2007, and *** percent in 2008. CR/PR at Table VII-4. Three of six purchasers reported purchasing FSVs on a consigned inventory basis. CR at II-5, PR at II-2. Further, Parker indicates that it does not offer consigned inventory because it is too expensive to offer at no cost. CR at II-6, PR at II-3. Sanhua counters that when it sells products on consignment, the price the customer pays is the price that is in effect at the time the goods are taken from the warehouse and that Parker could receive the same consideration. Sanhua's Posthearing Brief at 12. Parker maintains that it has not been able to recover the holding, handling and warehousing costs associated with the service given the high pricing pressure on the FSV market. Tr. at 22 (Mr. Nelson). While providing consigned inventory is important to some purchasers, unlike price it is not among the top three factors in purchasing decisions to all purchasers. We note that Parker has been able to achieve high just-in-time delivery rates, which mitigates the need for consigned inventory.

¹¹⁵ See Sanhua's Prehearing Brief at 5-8.

¹¹⁶ As explained above, Chatleff produced FSVs until ***. In addition, importer ***, along with respondents' affiliates, imported subject merchandise during the period. CR/PR at IV-1.

¹¹⁷ *** purchasers reported that they prefer to have dual sourcing. CR at II-3, PR at II-2. By the end of the period of investigation five of the OEMs purchased product solely from one Chinese producer. See CR/PR at Table D-1 (amended); Tr. at 23, 98 (Mr. Nelson), 28 (Mr. Magrath); Parker's U.S. Producer Questionnaire Response at IV-22 (customer list).

of subject imports in the U.S. market.¹¹⁸ As the volume of low-priced subject imports increased, however, its financial performance swiftly deteriorated.¹¹⁹

Third, even if Parker held monopoly power during the period of investigation, respondent's arguments seem predicated on the notion that the Commission should ignore any adverse effects or impact by the subject imports on the domestic industry because any negative impact is directly related to the domestic industry's loss of its alleged monopoly position. The Commission is not empowered to enforce the antitrust laws, and to the extent Sanhua's argument is that, as a matter of "policy," the Commission should make a negative determination so that U.S. purchasers might have an alternative to the domestic producer's alleged "monopoly," such a determination would not be in accordance with the statute.¹²⁰ Based on the foregoing analysis, the injury we have found from subject imports cannot be attributed to other factors.

Consequently, the record in this investigation indicates a causal nexus between the subject imports and the condition of the domestic industry and thus demonstrates material injury by reason of subject imports. We therefore conclude that subject imports have had a significant adverse impact on the domestic industry.¹²¹

CONCLUSION

For the reasons stated above, we find that an industry in the United States is materially injured by reason of imports of frontseating service valves from China that have been found by Commerce to be sold at less than fair value.

¹¹⁸ See CR/PR at Table VI-1.

¹¹⁹ Compare CR/PR at Table VI-1 with CR/PR at Table IV-3.

¹²⁰ USITC Pub. 3999 at 11-12 n.64. See generally, e.g., USX Corp. v. United States, 682 F. Supp. 60, 67 (Ct. Int'l Trade 1988) (disapproving former Commissioner Liebler's "predatory pricing" analysis as not being consistent with the statute's focus on injury to the industry, not injury to competition); Maverick Tube Corp. v. United States, 687 F. Supp. 1569, 1573-74 (Ct. Int'l Trade 1988). See also Elkem Metals Co. v. United States, 342 F. Supp. 2d 1207 (Ct. Int'l Trade 2004) at 1213-14 ("ITC did not commit legal error by failing to apply the civil antitrust law standard of causation;" "[n]owhere in the statutory scheme governing the ITC's material injury determination did Congress provide for the application of antitrust law standards of causation;" "[t]hat one of the factors [ITC] found relevant was a price fixing conspiracy did not, as CCMA contends, trigger any obligation . . . to examine the individual motives of the Conspirators.") (citing USX)).

¹²¹ On March 19, 2008, petitioner alleged that there was a reasonable basis to believe or suspect that critical circumstances exist with respect to imports of FSVs from China. Commerce found in its final determination that critical circumstances do not exist with respect to subject imports. 74 Fed. Reg. at 10,889. Thus, the Commission makes no finding as to critical circumstances in this investigation. See 19 U.S.C. §1673d(b)(4)(A)(i).

PART I: INTRODUCTION

BACKGROUND

This investigation results from a petition filed by Parker-Hannifin Corp. (“Parker”) of Cleveland, OH, the sole current domestic producer of frontseating service valves (“FSVs”),¹ on March 19, 2008, alleging that an industry in the United States is materially injured or threatened with material injury by reason of less-than-fair-value (“LTFV”) imports of FSVs from China. Information relating to the background of the investigation is provided below.²

Effective date	Action
March 19, 2008	Petition filed with Commerce and the Commission; institution of the Commission’s investigation (73 FR 16059, March 26, 2008)
April 15, 2008	Commerce’s notice of initiation (73 FR 20250)
May 12, 2008	Commission’s preliminary determination (73 FR 28507, May 16, 2008)
October 22, 2008	Commerce’s preliminary determination (73 FR 62952)
November 17, 2008	Commission’s scheduling of its final phase investigation (73 FR 70672, November 21, 2008)
March 10, 2009	Commission’s hearing ¹
March 13, 2009	Commerce’s final determination (74 FR 10886)
April 8, 2009	Commission’s vote
April 20, 2009	Commission’s determination and views transmitted to Commerce

¹ A list of witnesses that appeared at the hearing is presented in app. B.

STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

Statutory Criteria

Section 771(7)(B) of the Tariff Act of 1930 (the “Act”) (19 U.S.C. § 1677(7)(B)) provides that in making its determination of injury to an industry in the United States, the Commission—

shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and . . .

¹ A complete description of the imported product subject to this investigation is presented in the section entitled *The Subject Merchandise* in Part I of this report.

² *Federal Register* notices cited in the tabulation are presented in app. A.

may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.

...

In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether . . . (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.

...

In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to

...

(I) actual and potential declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.

Organization of the Report

Part I of this report presents information on the subject merchandise, the dumping margins, and the domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV and V* present the volume and pricing of imports of the subject merchandise, respectively. *Part VI* presents information on the financial experience of the U.S. producer. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury and on any production of FSVs in countries other than China.

U.S. MARKET SUMMARY

FSVs are used as service valves in split air conditioning systems. Generally, FSVs isolate sections of the system for servicing and provide a means of charging refrigerant into an air conditioning unit. Consumption of FSVs totaled approximately *** units (\$***) in the U.S. market in 2008.

Currently only one firm, Parker, produces FSVs in the United States.³ The U.S. producer's reported U.S. shipments of FSVs totaled *** units (\$***) in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value. U.S. shipments of imports from China totaled *** units (\$***) in 2008 and accounted for *** percent of apparent U.S. consumption by quantity and *** percent by value. There were no known U.S. imports from nonsubject sources during the period for which data were collected in the investigation, i.e., 2005-2008.

SUMMARY DATA AND DATA SOURCES

A summary of data collected in the investigation is presented in appendix C, table C-1. U.S. industry data are based on the questionnaire response of Parker, which accounts for all current U.S. production of FSVs. U.S. imports are based on questionnaire responses and not on official statistics of the Department of Commerce ("Commerce"), as FSVs are believed to enter the United States under one or more Harmonized Tariff Schedule of the United States ("HTS") "basket" categories and data on FSVs cannot be obtained from the aggregate Commerce information. Data regarding the industry in China are based on Chinese producers' questionnaire responses, which are believed to account for *** percent of 2008 FSV production in China and *** percent of Chinese export shipments to the United States.⁴

PREVIOUS AND RELATED INVESTIGATIONS

The Commission has not previously conducted an investigation on FSVs. However, the Commission did conduct a preliminary investigation on pneumatic directional control valves from Japan in 2002 that was filed by a trade association, the Pneumatics Group, that included Parker. The Commission found that there was no reasonable indication that an industry in the United States was materially injured or threatened with material injury, or that the establishment of an industry in the United States was materially retarded, by reason of imports of pneumatic directional valves from Japan.

NATURE AND EXTENT OF SALES AT LTFV

On March 13, 2009, Commerce published a notice in the *Federal Register* setting forth its final determination with regard to its antidumping investigation on FSVs from China.⁵ Commerce determined that imports from China are being sold, or likely to be sold, in the United States at less than fair value. The weighted-average dumping margins (in percent *ad valorem*), as reported by Commerce, are presented in the following tabulation:

³ Danfoss Chatleff LLC ("Chatleff") ceased production in ***. Chatleff's domestic producer questionnaire response.

⁴ Zhejiang DunAn Hetian Metal Co., Ltd. ("DunAn") and Zhejiang Sanhua Co., Ltd. ("Sanhua") foreign producer questionnaire responses. DunAn is affiliated with U.S. importer DunAn Precision Inc. ("DunAn Precision"). Sanhua is affiliated with U.S. importer Sanhua International, Inc. ("Sanhua International").

⁵ *Frontseating Service Valves from the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Negative Determination of Critical Circumstances*, 74 FR 10886, March 13, 2009.

Foreign producer/exporter	Margin (percent ad valorem)
Zhejiang Sanhua Co., Ltd.	28.44
Zhejiang DunAn Hetian Metal Co., Ltd.	12.95
China-wide entity ¹	55.62
¹ Including Anhui Tianda Group, Ltd.	
Source: <i>Frontseating Service Valves from the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Negative Determination of Critical Circumstances</i> , 74 FR 10886, March 13, 2009.	

THE SUBJECT MERCHANDISE

Commerce's Scope

Commerce has defined the imported product subject to this investigation as:

Frontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof.⁶ Frontseating service valves contain a sealing surface on the front side of the valve stem that allows the indoor unit or outdoor unit to be isolated from the refrigerant stream when the air conditioning or refrigeration unit is being serviced. Frontseating service valves rely on an elastomer seal when the stem cap is removed for servicing and the stem cap metal to metal seat to create this seal to the atmosphere during normal operation.⁷ The scope includes frontseating service valves of any size, configuration, material composition or connection type.⁸

⁶ For purposes of the scope, the Department of Commerce has determined that the term “unassembled” FSV means a brazed subassembly requiring any one or more of the following processes: the insertion of a valve core pin, the insertion of a valve stem and/or O ring, the application or installation of a stem cap, charge port cap or tube dust cap. The term “complete” FSV means a product sold ready for installation into an air conditioning or refrigeration unit. The term “incomplete” FSV means a product that when sold is in multiple pieces, sections, subassemblies or components and is incapable of being installed into an air conditioning or refrigeration unit as a single, unified valve without further assembly. Department of Commerce definitions differ somewhat from those in the general rules of interpretation.

The major parts or components of FSVs intended to be covered by the scope under the term “certain parts thereof” are any brazed subassembly consisting of any two or more of the following components: a valve body, field connection tube, factory connection tube or valve charge port. The valve body is a rectangular block, or brass forging, machined to be hollow in the interior, with a generally square shaped seat (bottom of body). The field connection tube and factory connection tube consist of copper or other metallic tubing, cut to length, shaped and brazed to the valve body in order to create two ports, the factory connection tube and the field connection tube, each on opposite sides of the valve assembly body. The valve charge port is a service port via which a hose connection can be used to charge or evacuate the refrigerant medium or to monitor the system pressure for diagnostic purposes. *Frontseating Service Valves from the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Determination of Critical Circumstances*, 74 FR 10886, March 13, 2009.

⁷ The frontseating service valve differs from a backseating service valve in that a backseating service valve has two sealing surfaces on the valve stem. This difference typically incorporates a valve stem on a backseating service valve to be machined of steel, where a frontseating service valve has a brass stem. The backseating service valve dual stem seal (on the back side of the stem) creates a metal-to-metal seal when the valve is in the open position, thus sealing the stem from the atmosphere. Ibid.

⁸ In its comments to the Department of Commerce relating to the scope of the investigation, respondent Sanhua requested that the scope not include forged products with integrated feet and be limited to FSVs made of brass or copper. Sanhua argued that the scope as written covers too broad a range of service valves and that service valves
(continued...)

Tariff Treatment

Commerce indicated in its final determination that FSVs are classified (imported) under HTS subheadings (statistical reporting numbers) 8481.80.10 (8481.80.1095) or 8415.90.80 (8415.90.8085), but (if manufactured out of primary materials other than copper or brass) subject product can also be imported under HTS statistical reporting numbers 8481.80.3040, 8481.80.3090, or 8481.80.5090 and (for parts and components if the FSVs are imported unassembled or incomplete) HTS subheadings 8481.90.10, 8481.90.30, and 8481.90.50;⁹ the column 1-general *ad valorem* rates of duty (applicable to product imported from China) for those subheadings and statistical reporting numbers range from 1.4 to 5.6 percent. However, *** indicated that FSVs, when imported as finished products, are properly classified under HTS subheading 8481.80.10,¹⁰ which has a column 1-general *ad valorem* rate of duty of 4.0 percent.¹¹

THE PRODUCT

Description and Applications

FSVs are designed to be used in residential air conditioning and heating systems such as split air conditioning equipment and heat pumps.¹² The production of FSVs is capital intensive and FSVs are exclusively produced for the North American market primarily for the purpose of meeting environmental regulations.¹³ FSVs are used to isolate sections of an air conditioning system during diagnostic servicing,

⁸ (...continued)

may be erroneously classified as FSVs when they enter the United States under the current scope description. Additionally, Sanhua argued that FSVs must stand up to certain operating conditions and brass FSVs are the only product that meet those conditions and demands. In its rebuttal comments, petitioner Parker argued that the Department should not consider any changes that would limit the scope to specific material composition or mounting type or that would attempt to remove all forged valve bodies from the scope. In its determination, the Department of Commerce found that the scope of the merchandise under consideration, as it is currently written, clearly describes the scope of the merchandise under consideration. *Ibid.*

⁹ *Frontseating Service Valves from the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Determination of Critical Circumstances*, 74 FR 10886, March 13, 2009. For purposes of the scope of this investigation, the narrative description is dispositive, not the tariff classifications, which are provided for convenience and customs purposes only. *Ibid.*

¹⁰ E-mail from ***, March 17, 2008.

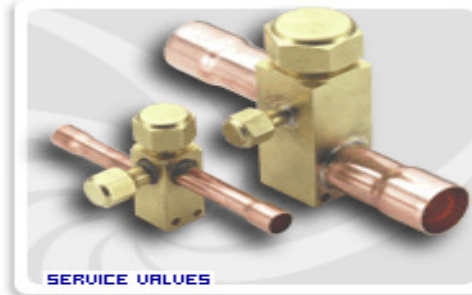
¹¹ In fact, ***. ***.

¹² FSVs are neither pneumatic nor hydraulic valves, but are refrigeration isolation valves. They are used primarily in residential air conditioning systems.

¹³ Hearing transcript, p. 24 (Nelson). In 1987 the Montreal Protocol, an international environmental agreement, established requirements that began the worldwide phase out of ozone-depleting CFCs (chlorofluorocarbons). Under the terms of the Montreal Protocol, the U.S. agreed to meet certain obligations by specific dates and that affected all residential production of the heat pumps and air conditioning industry. After 2010, chemical manufacturers may still produce CFC R-22 to service existing equipment, but not for use in new equipment. As a result, air conditioning system manufacturers will only be able to use pre-existing supplies of R-22 to produce new air conditioning equipment and heat pumps. These existing supplies include R-22 recovered from existing equipment and recycled. In response to the need to replace R-22, the U.S. air conditioning industry developed a more energy-efficient and non-ozone depleting refrigerant gas, R-410A. For more information see, U.S. Environmental Protection Agency, "What You Should Know about Refrigerants When Purchasing or Repairing a Residential A/C System or Heat Pump," <http://www.epa.gov/ozone/title6/phaseout/22phaseout.html> (accessed March 13, 2009). Flare valves made in China do not comply with U.S. environmental regulations due to potential refrigerant leakage into the ozone layer. FSVs are produced to prohibit hydrofluorocarbon (HCFC) refrigerant gases from being vented into the atmosphere.

installation, repair, and to permit technicians to provide refrigerant charging and evacuating capabilities. FSVs contain one sealing surface on the front side of the valve stem. Every split air conditioning and heat pump unit makes use of two FSVs. One FSV is a larger diameter valve used for outgoing refrigerant gas and the other is a smaller diameter suction valve used for incoming compressed liquid.¹⁴ Figure I-1 illustrates typical FSVs. The angles, size, and diameters can be customized for their final use in a unit.

Figure I-1
FSVs: Large and small diameter FSVs



Source: WilspecTechnologies, *Service Valves*, found at http://www.wilspec.com/products/service_valves.asp, retrieved April 18, 2008.

FSVs perform essentially three primary functions in split air conditioning units and heat pumps: (1) contain the refrigerant in the condensing unit prior to the installation;¹⁵ (2) provide a shut-off capability which enables the unit to be serviced once installed; and (3) provide a service port by which a hose connection can be used to evacuate the refrigerant medium or monitor the system pressure for diagnostic purposes.¹⁶

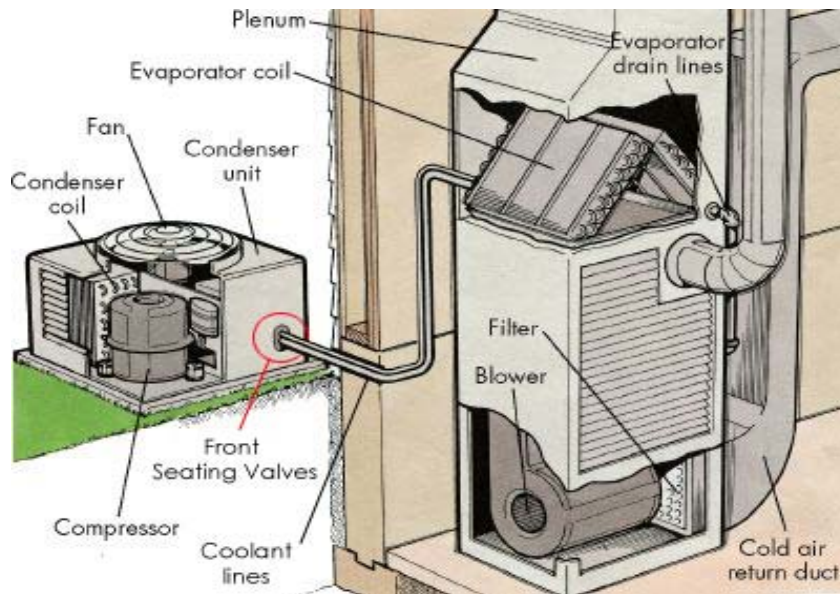
Split air conditioning systems have separate heating and cooling components inside and outside of a house (figure I-2). FSVs can be found outside of a residence on the pipes that connect the air conditioner or heat pump compressor and fan to the unit equipment inside the home. This two-part air conditioning system typically consists of a condenser, condenser coil, fan, electric motor, and compressor located outside the house. The indoor unit comprises an evaporator coil mounted on a furnace with a blower and filter.

¹⁴ Transcript of the Commission's April 18, 2008 conference ("conference transcript"), p. 12 (Miller).

¹⁵ Conference transcript, p. 11 (Miller).

¹⁶ Conference transcript, p. 12 (Miller).

Figure I-2: Residential split air conditioning unit



Source: Air-Conditioning, Heating, and Refrigeration Institute, *How Central Air Conditioning Works*, found at http://ari.org/Content/HowCentralAirConditioningWorks_305.aspx, retrieved April 16, 2008.

FSV customers purchase the domestically produced product directly from the manufacturer while imported FSVs are sold through importers that are affiliates of the foreign producers. Distributors are not commonly used in the FSV market; in fact, over the period for which data were collected, *** U.S. producer's and importers' shipments were to end users, and there were ***. Additional information on channels of distribution can be found in Part II of this report, entitled *Conditions of Competition in the U.S. Market*; Part II also discusses the interchangeability and customer and producer perceptions of domestically produced and imported FSVs. Pricing practices and prices reported for FSVs in response to the Commission's questionnaires are presented in Part V of this report, entitled *Pricing and Related Information*.

Manufacturing Processes

The production of FSVs incorporates a variety of manufacturing processes, including cutting, machining, washing, brazing, and assembly. The major components of FSVs are made on dedicated machinery and equipment.¹⁷ FSVs are manufactured to Original Equipment Manufacture ("OEM") and air conditioning industry specifications.¹⁸ FSVs are sold directly to all seven OEM manufacturers of air conditioning units in the United States.¹⁹

Production of the FSV starts by ***.²⁰ All FSV manufacture also includes the production of refrigerant copper connection tubing.

In the United States *** FSVs are produced by the bar stock method.²¹ ***.²² High-quality brass bars are machined to form the brass bodies and brass stems of the FSVs. After machining the brass valve

¹⁷ Petitioner's postconference brief, p. 6.

¹⁸ Hearing transcript, p. 20 (Nelson).

¹⁹ Hearing transcript, p. 19 (Nelson).

²⁰ E-mail from ***, April 9, 2008.

²¹ ***. Ibid.

²² E-mail from ***, March 27, 2009.

bodies, the product is deburred to remove rough edges and washed to dislodge any dirt or materials that could interfere with proper functioning. Brass stems are machined to precise shape, size, and threading in order to fit these components into the interior of the valve body. Copper connection tubes are formed by cutting copper tubes to length and by machining tube ends as necessary.²³

In China some FSVs are produced using the forged body method ***.²⁴ When asked if production of FSVs in China differs from domestic production, a Parker official stated that production in the United States is highly automated, but in China a significant amount of labor is used, particularly for brazing, testing, and assembly.²⁵

Unlike the United States where FSVs are used exclusively in split air conditioning systems and heat pump applications, China relies largely on the use of forged flare valves. The production of forged flare valves used in the residential air conditioning industry is widespread throughout Asia, parts of Europe, and other developing countries. There is no interchangeability between FSVs and forged flare valves.²⁶ Flare valves use a threaded connection that eliminates the need to make a brazed sealed joint during air conditioning installation. The use of a threaded joint in flare valves in the United States is not environmentally acceptable as a result of HCFC refrigerant leakage that erodes the ozone layer.²⁷

***²⁸ ***.²⁹ The entire FSV assembly is subjected to a battery of tests to ensure that the components function and meet or exceed manufacturing specifications. Following the completion of tests on the valve components, the charge port caps are installed as well as tube dust caps when necessary.³⁰

DOMESTIC LIKE PRODUCT ISSUES

In the preliminary phase of this investigation, the Commission defined a single domestic like product that is coextensive with the scope of the investigation and consists of all FSVs, regardless of size, configuration, material composition, or connection type, but does not include backseating service valves (“BSVs”) or ball valves. The Commission did not include BSVs or ball valves in the domestic like product because of differences among FSVs, BSVs, and ball valves in physical characteristics and end uses, manufacturing facilities, customers’ and producers’ perceptions, and price, in addition to limited practical interchangeability among products. Moreover, the Commission found that all sizes of FSVs have similar physical characteristics and general uses, are sold through the same channels of distribution, are made on the same dedicated machinery using the same manufacturing process, and are perceived by customers and producers as the same product, and therefore included all sizes of FSVs in the single domestic like product.³¹

²³ Petition, p. 6.

²⁴ E-mail from ***, April 9, 2008.

²⁵ Conference transcript, p. 47 (Miller).

²⁶ Transcript of the Commission’s March 10, 2009 hearing (“hearing transcript”), p. 207 (Dinan).

²⁷ Ibid.

²⁸ Brazing is a process for joining metals using a filler metal that typically includes a base of copper combined with silver, nickel, zinc, or phosphorous. Brazing covers a temperature range of 900°F- 2,200°F (470°C- 1,190°C). Brazing differs from welding in that brazing does not melt the base metals. Aufhauser, *Brazing Technical Guide*, found at http://www.brazing.com/techguide/popup/definition_brazing.htm, retrieved April 28, 2008.

²⁹ E-mail from ***, April 9, 2008.

³⁰ Conference transcript, p. 76 (Miller).

³¹ *Frontseating Service Valves from China, Investigation No. 731-TA-1148 (Preliminary)*, USITC Publication 3999, May 2008, pp. 7-8.

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

U.S. MARKET SEGMENTS/CHANNELS OF DISTRIBUTION

FSVs are typically used to isolate sections of residential split air conditioning units during installation and servicing. The demand for FSVs is thus determined by the demand for new and replacement residential split air conditioning units. The replacement market reportedly accounts for approximately 70 percent of the total U.S. market for FSVs.¹ FSVs are produced to order for original equipment manufacturers (“OEMs”) of residential split air conditioning units, and typically range in size from 3/4-inch to 7/8-inch in diameter. Each residential split air conditioning unit requires two FSVs, typically both a small and a large valve.²

FSVs may be produced by either the bar stock method or the forged body method. Parker produces bar-stock FSVs ***, ***, ***, ***, forged FSVs only and *** reported that it only sells bar-stock FSVs.³

. Another purchaser () reported that it is ***. Purchaser *** reported that it does not currently purchase forged FSVs, but that ***. This purchaser also reported that ***. Purchaser *** reported that it does not currently purchase forged FSVs because ***. Purchaser *** reported that it does not currently purchase forged FSVs ***.

Parker sells FSVs directly to its OEM customers. FSVs imported from China are sold directly to OEM customers through importers that are affiliates of the foreign manufacturers. *** U.S. producer’s and *** importers’ shipments were to end users over the period for which data were collected. There are seven major OEM air conditioner manufacturers in the United States.⁴ Based on questionnaire responses, there is some customer overlap for U.S. producers and importers. *** listed *** customers in ***, ***, which reportedly accounted for *** percent of ***’s shipments by value in ***, and ***, which accounted for the remainder.⁵ Importer *** listed ***.⁶ Importer *** listed *** customers in the United States, with *** accounting for the majority of its shipments in ***. It also listed *** as smaller customers.⁷

The Commission received purchasers’ questionnaire responses from 6 purchasers: ***.⁸ Purchasers were asked how many suppliers they generally contact before making a purchase. Three purchasers reported that they contact two to three suppliers, one reported that it contacts three or more, one reported that it contacts one to two, and one reported that it uses only one supplier. Two purchasers (***) reported that they have purchased from ***. Purchaser (***) reported that it purchases from ***. Two purchasers (***) reported that they *** only purchase FSVs from China. One purchaser (***) reported that it buys *** from the U.S. producer and another (***) reported that it *** purchases *** imports from China. Two purchasers stated that they prefer to have dual sourcing in order to foster competition.

¹ Residential split air conditioning units typically last 10 to 15 years. Conference transcript, p. 44 (Nelson).

² Conference transcript, pp. 11-12 (Miller).

³ U.S. importer DunAn Precision Inc. (“DunAn Precision”) is affiliated with FSV producer Zhejiang DunAn Hetian Metal Co., Ltd., (“DunAn”). U.S. importer Sanhua International, Inc. (“Sanhua International”) is affiliated with FSV producer Zhejiang Sanhua Co., Ltd., (“Sanhua”).

⁴ Petitioner’s postconference brief, p. 3.

⁵ ***.

⁶ ***’s importer questionnaire, question III-21.

⁷ ***’s importer questionnaire, question III-21.

⁸ See app. D for purchases, by source, as reported by purchasers, from January 2005 to September 2008. As shown in app. D, ***.

When purchasers were asked if they had changed the amount of their purchases of FSVs from China due to the filing of the petition or due to the Department of Commerce's preliminary determination of sales at less than fair value, *** of the responding purchasers reported that they had not changed the amount. When purchasers were asked if the relative shares of their total purchases of FSVs from different sources had changed since 2005, three (***) reported that their share of purchases from U.S. producers had decreased and that they had increased purchases of imports from China. *** cited the poor quality, high cost, and slow delivery of the U.S. producer. *** and *** reported that their total purchases of FSVs had decreased due to slowing demand; *** increased its relative share of purchases from China, while *** maintained its relative shares ***. *** reported that its relative share of purchases from different sources had remained constant.

When purchasers were asked the reasons they may have changed suppliers since 2005, ***⁹ ***.

When purchasers were asked what they believe have been the principal reasons for increases in imports of FSVs from China since 2005, *** cited price; *** cited quality, improved design and technology, price, delivery, and inventory management; *** cited quality, sales terms, price, and availability of consigned inventory; *** cited delivery reliability, quality, customer and technical service, and price; and *** cited price, with consistent quality and delivery.

When firms were asked to list market areas in the United States where they sell FSVs, Parker *** nationwide, *** importers listed geographic regions including the Southwest, the Midwest, the Southeast, and the mid-Atlantic.

U.S. inland shipping distances for U.S.-produced FSVs were compared with those for imports from China. For the U.S. producer, *** percent of its U.S. sales in 2007 occurred within distances of *** miles from its facility. For importers from China, *** percent of ***'s sales occurred within *** miles of its storage facilities, *** percent of ***'s sales occurred within *** miles of its storage facilities, and *** percent of ***'s sales in *** occurred within *** miles of its storage facilities.

*** of Parker's sales were produced to order, whereas *** percent of ***'s sales, *** percent of ***'s sales, and *** percent of ***'s sales of imports from China were sold from inventory. Lead times for delivery of FSVs ranged widely. For Parker, lead times were *** for sales of product produced to order. Parker also reported that its purchasers send it manufacturing forecast requirements for the next few months, as well as daily requirements for the next three days, allowing Parker to supply FSVs on a rolling three-day basis.¹⁰ For importers, lead times were *** for ***'s sales from inventory and *** for ***'s sales produced to order and *** for ***'s sales from inventory and *** for ***'s sales produced to order. ***.

Parker ***. *** importers reported that they offer consigned inventories. Specifically, *** Sanhua International reported that it keeps consignments ***, and that it typically keeps non-consigned inventory stocked in its own warehouse *** based on its customers' forecasts.¹¹

Three of 6 purchasers reported purchasing FSVs on a consigned inventory basis. Two purchasers reported that importer *** maintains *** of inventory in consignment as well as ***. Sanhua International reported that the cost of offering consigned inventory services is included in its quoted prices.¹² Purchaser *** reported that importer *** offers it consigned inventory, while ***. Parker reported that it had provided consigned inventory to purchaser Trane in a third-party warehouse, at Trane's request, before Trane switched its purchases to Sanhua.¹³ Parker reported that it maintained on-

⁹ ***.

¹⁰ Hearing transcript, p. 62 (Miller). Petitioner's posthearing brief, p. 7.

¹¹ Sanhua's April 14, 2008 responses to questions of staff, p. 4.

¹² Hearing transcript, p. 176 (Jin). Sanhua International's posthearing brief, responses to Commission questions, p. 3.

¹³ Hearing transcript, p. 21 (Nelson) and p. 66 (Miller).

time deliveries at *** to 100 percent of customer request dates and that it did not consider that adding consignment was providing “anything beneficial” to its customers.¹⁴ Parker also reported that it is “too expensive” to offer consigned inventory “at no cost,” citing costs such as leasing or purchasing warehouse space, the operating costs associated with the warehouse, additional truckloads, and the cost of capital of holding inventory.¹⁵ Sanhua International, however, noted that if raw material costs are rising, the sales price (including the monthly raw material surcharge) of FSVs may rise from the time of production to the time the purchaser purchases the product from the consigned warehouse, thereby increasing the profit the supplier can obtain from such consignment sales.¹⁶

SUPPLY AND DEMAND CONSIDERATIONS

U.S. Supply

Domestic Production

The supply response of Parker to changes in price depends on such factors as the level of excess capacity, the availability of alternate markets for U.S.-produced FSVs, inventory levels, and the ability to shift to the manufacture of other products. The evidence indicates that the U.S. supply is likely to be relatively elastic, due primarily to the ***.

Industry capacity

The U.S. industry’s annual capacity utilization rates for FSVs decreased over the period of investigation, falling from *** percent in 2005 to *** percent in 2008. This level of capacity utilization indicates that the U.S. producer *** unused capacity with which it could increase production of FSVs in the event of a price change.

Alternative markets

Parker’s exports, as a share of its total shipments, decreased from *** percent in 2005 to *** percent in 2007 before increasing to *** percent in 2008.¹⁷ These data indicate that the U.S. producer has *** ability to divert shipments to or from alternative markets in response to changes in the price of FSVs.

Inventory levels

Parker’s ratio of end-of-period inventories to its total shipments decreased from *** percent in 2005 to *** percent in 2008. These data indicate that the U.S. producer has *** ability to use inventories as a means of increasing shipments of FSVs to the U.S. market.

Production alternatives

Parker ***. Therefore, Parker is believed to *** the ability to produce alternative products.

¹⁴ Hearing transcript, p. 61 (Nelson). Petitioner’s posthearing brief, p. 6 and exh. 4.

¹⁵ Hearing transcript, p. 22 (Nelson) and p. 49 (Miller). Parker estimated its cost of capital at 10 percent. Hearing transcript, p. 68 (Miller). Parker also reported that ***. Petitioner’s posthearing brief, exh. 1, p. 9 and exh. 7.

¹⁶ Sanhua International’s posthearing brief, p. 13.

¹⁷ These exports were ***.

Subject Imports

The responsiveness of the supply of imports from China to changes in price in the U.S. market is affected by such factors as capacity utilization rates and the availability of home markets and other export markets. Based on available information, producers in China have the capability to respond to changes in demand with moderate changes in the quantity of shipments of FSVs to the U.S. market. The main contributing factors to the moderate degree of responsiveness of supply are the *** capacity and *** inventory levels.

Industry capacity

During the period of investigation, the capacity utilization rate for reporting Chinese producers of FSVs decreased irregularly over the period, from *** percent in 2005 to *** percent in 2008; it was projected to be *** percent in 2009.

Alternative markets

Available data indicate that producers in China have *** ability to divert shipments to or from alternative markets in response to changes in the price of FSVs. The share of China's shipments going to the United States increased *** from *** percent of total shipments in 2005 to *** percent in 2008; it was projected to be *** percent in 2009. The share of China's shipments to export markets other than the United States increased from *** percent of total shipments in 2005 to *** percent in 2008; it was projected to be *** percent in 2009.¹⁸ The share of China's shipments going to the home market decreased from *** percent of total shipments in 2005 to *** percent in 2008; it was projected to be *** percent in 2009.

Inventory levels

Responding Chinese producers' inventories, as a share of total shipments, increased from *** percent in 2005 to *** percent in 2008; they were projected to be *** percent in 2009. These data indicate that producers in China have *** ability to use inventories as a means of increasing shipments of FSVs to the U.S. market.

Production alternatives

***. It also reported that it ***.¹⁹ Therefore, ***. ***.²⁰ Therefore, ***.

¹⁸ China provides a rebate on exports of FSVs of the value-added tax that was 13 percent through December 1, 2008, after which it increased to 14 percent. Sanhua International's supplement to response to Commission questions, p. 1.

¹⁹ ***'s posthearing brief, p. 5.

²⁰ ***'s foreign producer questionnaire response, question II-7, "Explanation to the response."

Nonsubject Imports

There are no known U.S. imports of FSVs from nonsubject sources.²¹

U.S. Demand

Demand Characteristics

U.S. apparent consumption decreased by *** percent from 2005 to 2008. The lack of competitively priced substitutes for FSVs discussed below indicates that the demand for this product is likely to be relatively price inelastic. The demand for FSVs is determined by the demand for new and replacement residential split air conditioning units. The replacement market reportedly accounts for approximately 70 percent of the total U.S. market for such FSVs.²² Demand for new residential split air conditioning units is largely dependent on the demand for single-family housing construction, which is subject to changes in interest rates, housing prices, and population growth, among other factors. According to the Census Bureau, new privately owned housing units completed in the United States decreased by 42.2 percent from 2005 to 2008, with all of the decrease occurring in 2007 and 2008.²³ Demand for replacements of air conditioning systems is partly driven by aging buildings and weather events, such as floods and hurricanes, that damage property.²⁴

As shown in figure II-1, according to the U.S. Census Bureau, U.S. shipments of split system air conditioning units increased by 18.3 percent from 2004 to 2005 before decreasing by 24.1 percent from 2005 to 2006, and decreasing by 12.6 percent from 2006 to 2007.²⁵ In the years preceding the period of investigation, annual growth rates in shipments of split system air conditioning units were approximately 8.7 percent in 2002, 8.8 percent in 2003, and 13.3 percent in 2004. According to industry sources, demand for heating and air conditioning equipment in the United States grew at *** percent in 2005 and at *** percent in 2006, followed by an *** and an ***.²⁶

²¹ FSV producers in Japan, Korea, and Thailand reportedly produce FSVs that are within the scope of this investigation, but there have been no known imports in the United States of FSVs from these nonsubject countries. Parker reports that China is likely to remain the only foreign source of FSVs in the foreseeable future, due partly to the lengthy qualification processes of OEM customers. Petitioner's postconference brief, p. 13.

²² Conference transcript, p. 44 (Nelson).

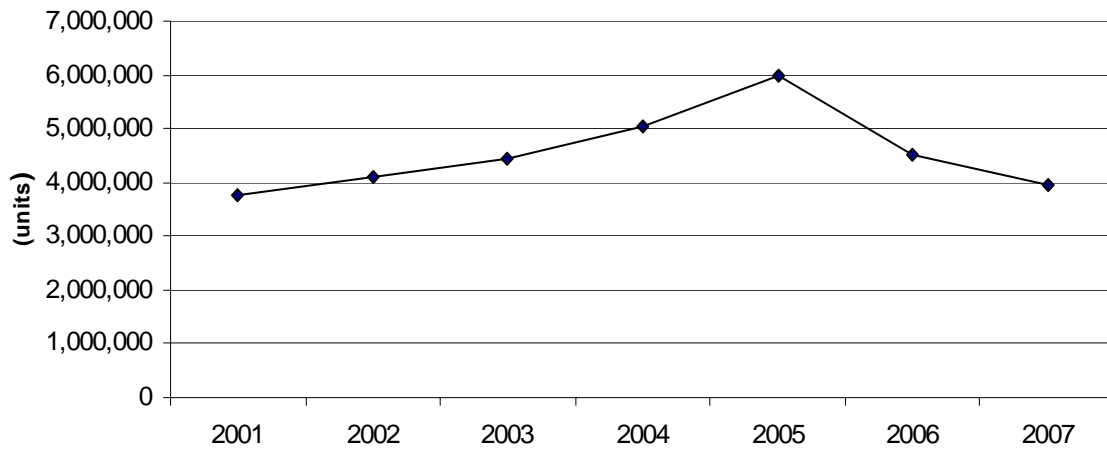
²³ U.S. Census Bureau, <http://www.census.gov/const/compann.pdf>.

²⁴ IBISWorld Inc. *Heating and Air Conditioning Equipment Manufacturing in the U.S.*, November 5, 2008, p. 17. Advances in energy conservation technology are also expected to lead to future increased demand in the replacement market as consumers choose to upgrade existing air conditioning units. *Ibid.*, p. 51.

²⁵ *Current Industrial Reports: Refrigeration, Air-Conditioning, and Warm Air Heating Equipment: 2007, 2006, 2005, 2004, 2003, and 2002*. U.S. Census Bureau. <http://www.census.gov/cir/www/333/ma333m.html>.

²⁶ IBISWorld Inc. *Heating and Air Conditioning Equipment Manufacturing in the U.S.*, November 5, 2008, p. 7. The demand figures cited for 2007 and 2008 are ***. ***.

Figure II-1
FSVs: Historical perspective of U.S. shipments of split system air conditioning units, 2001-2007



Source: U.S. Census Bureau, Current Industrial Reports.

When asked how the overall demand for FSVs has changed since January 2005, Parker reported that ***.²⁷ Parker also reported that there was a spike in demand in 2005 due to a build-up of inventory of residential split air conditioning units in anticipation of the change in the U.S. Department of Energy’s mandated seasonal energy efficiency ratio (“SEER”) requirements that took effect in January 2006.²⁸ Parker reported that the growth rate of consumption of residential split air conditioning units averaged roughly *** to *** percent per year prior to 2004 and rose to *** percent in 2005, due mostly to the demand spike caused by the new SEER requirements, before returning to more normal levels of growth in 2006 and 2007.²⁹ Parker reported that it expects the long-term trend in future demand to be relatively flat, due to a strong replacement market and the fact that air conditioning systems are now virtually standard equipment in residential units.³⁰ Parker reported that there will be a sharp downturn in sales of FSVs in 2009 relative to previous years.³¹ Parker also reported that, due to the current economic downturn, it

²⁷ Parker’s producer questionnaire response, question IV-14.

²⁸ Conference transcript, p. 45 (Nelson). Petitioner’s postconference brief, p. 9. U.S. Department of Energy, “Stronger Manufacturers’ Energy Efficiency Standards for Residential Air Conditioners Go Into Effect Today,” January 23, 2006. <http://www.energy.gov/news/3097.htm>.

²⁹ Parker reported that consumption of air conditioning units is typically approximately six to seven million units per year and increased to over eight million in 2005. Conference transcript, p. 45 (Nelson). Petitioner’s postconference brief, pp. 9-10. Staff telephone interview with ***. However, these figures cited by petitioner are based on data from the Air-Conditioning, Heating, and Refrigeration Institute (“AHRI”) on shipments of units that include heat pumps that do not use FSVs. When these data are adjusted to exclude heat pumps, they are very similar to the Census data on shipments of split-system air conditioning units presented in figure II-1.

³⁰ Conference transcript, p. 44 (Magrath) and p. 45 (Nelson). According to Appliance Magazine, the share of U.S. households with one air conditioner unit has increased from *** percent in 1999 to *** percent in 2006. *30th Annual Portrait of the U.S. Appliance Industry*, Appliance Magazine, September 2007, p. 6.

³¹ Hearing transcript, p. 93 (Miller). Petitioner cited AHRI forecasts that shipments of air conditioning condensing units and heat pump condensing units will decrease from 6 million units in 2008 to 5.6 million units in 2009, a decrease of approximately 6.7 percent. Petitioner’s posthearing brief, exh. 1, p. 2.

expects that homeowners will repair rather than replace existing residential air conditioning units, which may negatively affect the demand for FSVs in the future.³²

*** reported that demand for FSVs has increased since January 2005, due to new housing construction over the period and the growth of the middle class. *** reported that demand has followed the trend of the U.S. housing market and new housing construction in particular, being strong in 2005 and 2006 and declining in 2007 and 2008.

Five of six responding purchasers reported that demand for FSVs decreased since January 2005.³³ The other responding purchaser reported that demand increased in 2006 due to the new SEER requirements and decreased in 2007 and 2008 due to the downturn in the housing market. Four of six responding purchasers reported that the new SEER requirements had minimal or no effect on demand, one reported that it resulted in an increase in demand in 2005, and the other reported that it resulted in increased demand in 2006. Five purchasers reported that the downturn in the housing market has negatively impacted demand, with one citing that the decline began in July 2007 and another citing the fourth quarter of 2007.

Seasonality exists in the market, with reportedly 60 percent of annual sales occurring between January and May. Parker reported that this seasonality does not have an effect on prices, as they are negotiated mostly on a long-term contract basis.³⁴

Substitute Products

Parker *** reported that there are no substitutes for FSVs.³⁵ *** cited some possible substitute products, including backseating service valves (BSVs), ball valves, and aluminum service valves. One importer reported that these substitutes are more expensive than FSVs. Two of six responding purchasers cited ball valves as substitutes, but also stated that they are not functional economic substitutes for FSVs. The prices of these alternate products have reportedly been consistently higher than the prices of FSVs.³⁶ Parker reported that BSVs and ball valves are not substitutes for FSVs because they have different performance requirements, different customer specifications, and different physical characteristics.³⁷ BSVs and ball valves are reportedly mostly used in high-end, premium residential air conditioning units that have accounted for, and will reportedly continue to account for, a very small share of the total residential air conditioning market.³⁸ BSVs and ball valves can reportedly also be used in residential split

³² Hearing transcript, p. 92 (Miller).

³³ One of these purchasers reported that its share of the U.S. market increased over the period, but that overall demand for FSVs decreased. ***'s purchaser questionnaire, question III-5.

³⁴ Conference transcript, p. 70 (Miller).

³⁵ Parker was issued a patent in May 2006 for a plug style air conditioning valve called a "Genesis" valve that was developed to improve efficiencies, but it was never launched into production. Parker reported that this valve was significantly more expensive than a FSV. Hearing transcript, p. 43 (Miller).

³⁶ Conference transcript, pp. 37-38 (Dinan) and p. 73 (Nelson). Parker reported that in 2007, the price of BSVs was *** percent higher than the price of FSVs and the price of ball valves was *** percent higher than the price of comparatively sized FSVs. Petitioner's postconference brief, exh. 1, question 2.

³⁷ Conference transcript, p. 13 (Miller). Petitioner's postconference brief, p. 5.

³⁸ Conference transcript, p. 78 (Nelson). BSVs are primarily used in refrigeration applications, whereas FSVs are primarily used for residential air conditioning applications. Petitioner's postconference brief, p. 5. Parker reported that only one OEM uses a backseating valve for a high-end residential air conditioning system, and *** OEMs use ball valves. Petitioner's postconference brief, p. 6. Conference transcript, p. 72 (Magrath).

air conditioning systems in place of FSVs, but only after redesign of the air conditioning unit, which is reportedly cost-prohibitive.³⁹

Cost Share

Parker and OEM purchaser Goodman Global, Inc. (“Goodman”) reported that FSVs account for between *** and *** percent of the value of the typical residential split air conditioning unit.⁴⁰

SUBSTITUTABILITY ISSUES

The extent of substitutability between domestic products and subject and nonsubject imports and between subject and nonsubject imports is examined in this section. Information is based primarily on questionnaire responses from producers, importers, and purchasers.

Factors Affecting Purchasing Decisions

Available information indicates that a variety of factors are considered important in the purchasing decision for FSVs. While quality and price were mentioned as being important factors in the sale of the product, other factors such as availability and delivery are also important considerations. Purchasers were asked to list the top three factors that they consider when choosing a supplier of FSVs. Table II-1 summarizes the responses.

Table II-1

FSVs: Ranking of factors used in purchasing decisions, as reported by U.S. purchasers

Factor	Number of purchasers		
	Number one factor	Number two factor	Number three factor
Quality	4	2	0
Price	0	1	5
Availability	0	1	0
Other ¹	2	2	1

¹ Other factors include one firm reporting “delivery reliability” for the number one factor; one firm reporting “compliance to engineering requirements” for the number one factor; one firm reporting “reliability” for the number two factor; one firm reporting “reliable supply” for the number two factor; and one firm reporting “delivery” for the number three factor. Other factors cited as the number four factor include one firm reporting “consigned inventory;” one firm reporting “logistics/pipeline costs;” one firm reporting “existing relationship with supplier;” and one firm reporting “technology and growth potential.”

Source: Compiled from data submitted in response to Commission questionnaires.

Quality was named by 4 purchasers as the number one factor generally considered in deciding from whom to purchase FSVs, while 2 purchasers indicated that it was the number two factor. As indicated in table II-2, all 6 responding purchasers indicated that product consistency was a “very important” factor in their purchasing decisions and 5 of 6 purchasers indicated that quality meeting industry standards was a “very important” factor.

³⁹ Conference transcript, p. 58 (Dinan).

⁴⁰ Parker’s producer questionnaire, question IV-12. Goodman’s postconference brief, p. 9.

Table II-2
FSVs: Importance of factors used in purchasing decisions, as reported by U.S. purchasers

Factor	Number of firms reporting		
	Very important	Somewhat Important	Not important
Availability	6	0	0
Delivery terms	5	1	0
Delivery time	6	0	0
Discounts and rebates	1	5	0
Extension of credit	0	4	2
Price	6	0	0
Minimum quantity requirements	0	4	2
Packaging	2	4	0
Product consistency	6	0	0
Quality meets industry standards	5	1	0
Quality exceeds industry standards	4	2	0
Product range	0	5	1
Reliability of supply	6	0	0
Technical support/service	5	1	0
U.S. transportation costs	1	5	0
Availability of consigned inventory	2	3	1
Frequency of price changes	5	1	0
Willingness to negotiate price or price terms	5	1	0
Willingness of supplier to accept raw material cost increase risk	4	2	0
Other ¹	4	0	0
¹ Other factor include one instance of "speed to market," one instance of "new technology," one instance of "improved cost-reduced design," and one instance of "ability to grow to meet customer demands."			
Source: Compiled from data submitted in response to Commission questionnaires.			

Price was not named by any purchasers as the number one factor generally considered in deciding from whom to purchase FSVs, while one purchaser indicated that it was the number two factor, and 5 purchasers responded that it was the number three factor. All 6 responding purchasers indicated that price was a "very important" factor in their purchasing decisions.

Availability was not named by any purchasers as the number one factor generally considered in deciding from whom to purchase FSVs, while 1 purchaser indicated that it was the number two factor. All 6 responding purchasers indicated that availability was a "very important" factor in their purchasing decisions. All 6 responding purchasers also reported that "reliability of supply" was a very important factor.

Two of 6 responding purchasers indicated that availability of consigned inventory was a “very important” factor in their purchasing decisions. Five of 6 responding purchasers indicated that frequency of price changes and willingness to negotiate price or price terms were “very important” factors.

All 6 responding purchasers reported that they require suppliers for all of their purchasers to become certified. Qualification times can reportedly last anywhere from three months to 3 years. When asked if any suppliers have failed in their attempts at certification, one purchaser cited importer *** for poor quality and delivery and one purchaser cited *** for process failures and poor quality. Parker reported that there are qualification processes with each OEM customer that could take anywhere from six months up to two years during which producers work to meet the OEM customer’s specifications, undergo repeated product testing, and submit samples.⁴¹ Parker reported that once a producer is qualified, field performance of the FSVs is monitored but there is no further testing.⁴² Parker also reported that its OEM customer *** has a qualification process for new FSVs that is ***, which is reportedly shorter than ***’s previous qualification processes due to current difficult market conditions.⁴³ Goodman reported that the qualification process takes 10 to 14 weeks.⁴⁴ Sanhua International reported that certification process times can vary depending on the OEM.⁴⁵

When asked what characteristics they generally consider when determining the quality of FSVs, purchasers cited leakage, pressure drops, how valves open and close, accuracy meeting specifications, meeting or exceeding warranty and reliability expectations, and achieving a target rating of zero defective parts per million (DPPM). When asked for their DPPM ratings of suppliers of their purchases in 2007, one purchaser (***) reported that it gave Parker a DPPM rating of *** and Sanhua International a rating of ***; another purchaser (***) reported that it gave Sanhua International a DPPM rating of ***; another purchaser (***) reported that it gave Sanhua International a DPPM rating of *** in ***; and one purchaser (***) reported that it gave DunAn Precision a DPPM rating of ***. The other two responding purchasers (***) reported that their DPPM ratings ***.

***.⁴⁶

Comparisons of Domestic Product and Subject Imports

In order to determine whether U.S.-produced FSVs can generally be used in the same applications as imports from China, producers, importers, and purchasers were asked whether the products can “always,” “frequently,” “sometimes,” or “never” be used interchangeably. Parker reported that they are *** interchangeable, as shown in table II-3. The majority of importers that compared China with the United States reported that they are frequently interchangeable, and a majority of purchasers reported that they are always interchangeable.

⁴¹ Hearing transcript, pp. 86-88 (Miller).

⁴² Hearing transcript, p. 88 (Miller).

⁴³ Petitioner’s postconference brief, p. 24 and exh. 11 and 12.

⁴⁴ Conference transcript, pp. 110, 117 (Knights). Parker disagrees with Goodman’s reported qualification time frame.

⁴⁵ Sanhua’s April 14, 2008 responses to questions of staff, p. 3.

⁴⁶ Petitioner’s posthearing brief, exh. 3.

Table II-3

FSVs: Perceived degree of interchangeability of product produced in the United States and in other countries

Country comparison	U.S. producers				U.S. importers				U.S. purchasers			
	A	F	S	N	A	F	S	N	A	F	S	N
U.S. vs. China	***	***	***	***	***	***	***	***	4	2	0	0
U.S. vs. Nonsubject	***	***	***	***	***	***	***	***	0	0	0	0
China vs. Nonsubject	***	***	***	***	***	***	***	***	0	0	0	0

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

Importer *** reported that U.S.-produced FSVs utilize Schrader valve ports to check the pressure, whereas FSVs produced in China do not. This importer also reported that U.S.-produced FSVs can function not only with the typical refrigerant used in most residential air conditioning units, but also with refrigerants that operate at higher pressures, whereas the FSVs from China can only operate with low-pressure refrigerant.

All 6 responding purchasers reported that they "always" know whether the FSVs they purchase is imported or produced domestically and that they "always" know the manufacturer. Three of 6 responding purchasers reported that FSVs produced in the United States always meet minimum quality specifications and 5 of 6 responding purchasers reported that FSVs produced in China always meet minimum quality specifications.

As indicated in table II-4, Parker reported that differences other than price are *** significant. The importers that compared the United States with China said that the differences are frequently or sometimes significant.

Table II-4

FSVs: Differences other than price between products from different sources¹

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
U.S. vs. China	***	***	***	***	***	***	***	***
U.S. vs. Nonsubject	***	***	***	***	***	***	***	***
China vs. Nonsubject	***	***	***	***	***	***	***	***

¹ Producers and importers were asked if differences other than price between FSVs produced in the United States and in other countries are a significant factor in their firms' sales of FSVs.

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchaser Goodman reported that importers DunAn Precision and Sanhua International offer superior *** delivery times than Parker.⁴⁷ It reported that it can take seven to ten days to receive FSVs from Parker, whereas consigned inventory from alternative suppliers makes FSVs available virtually immediately.⁴⁸ Goodman also reported that importers Sanhua International and DunAn Precision are more collaborative regarding product design and sales terms.⁴⁹

Parker objects to Goodman's claims about its poor quality and late delivery. Specifically, Parker contends that its quality was superior to the industry standard and Goodman's standard of 200 DPPM and that its share of on-time delivery shipments for Goodman was *** percent over the period.⁵⁰

Sanhua International reported that its products have consistent and improving high quality and defect levels that are well under the target for the industry.⁵¹ Importer *** reported that it had quality problems in ***; however, *** began purchasing FSVs from *** in 2007 and reported that the quality of product produced by *** is superior to product produced by ***.⁵² *** also reports that the *** FSVs that it purchases from *** reduce the chance for leaking by *** percent over *** FSVs that are produced by ***.⁵³

Three OEM purchasers, ***, ***, and ***, were contacted by staff in the preliminary phase of this investigation to report on differences other than price between U.S.-produced FSVs and imports from China. *** reported that ***. It also reported that ***.⁵⁴ *** reported that it ***.⁵⁵ *** reported that there were ***.⁵⁶ Additionally, purchaser *** reported that ***.⁵⁷ This purchaser also reported that Sanhua International's FSVs are of reliable, high quality and ***.

For some factors that all or almost all responding purchasers indicated were "very important" in their purchasing decisions (see table II-2), purchaser comparisons as shown in table II-5 indicate that responding purchasers are split as to whether the U.S. product is comparable or inferior to the product from China with respect to availability, delivery time and terms, product consistency, and reliability of supply. A majority of responding purchasers indicated that the U.S. product is inferior to the product from China with respect to price (i.e., the U.S. product is generally higher in price), frequency of price changes, willingness to negotiate price reductions, and willingness to offer more favorable sales terms. A majority of purchasers reported that the U.S. product is comparable to the product from China with respect to discounts offered, extension of credit, minimum quantity requirements, packaging, quality meeting or exceeding industry standards, product range, and technical support/service.

⁴⁷ Goodman's postconference brief, p. 2, app. 2 and 3 and ***. See Part V for more detailed discussion.

⁴⁸ Conference transcript, p. 120 (Knights).

⁴⁹ Goodman's postconference brief, p. 3. Goodman also cites to Parker reporting that it uses "standard components {which} have been used for several years." Conference transcript, p. 74 (Miller).

⁵⁰ Hearing transcript, p. 21 (Nelson). Petitioner's postconference brief, p. 23 and exh. 8.

⁵¹ Sanhua's April 14, 2008 responses to questions of staff, p. 1 and exh. Q-1.

⁵² ***, ***, p. 4.

⁵³ ***.

⁵⁴ ***.

⁵⁵ ***.

⁵⁶ ***.

⁵⁷ ***. ***.

Table II-5
FSVs: Comparisons between U.S.-produced and subject imported product, as reported by U.S. purchasers

Factor	China		
	S	C	I
Availability	0	3	3
Delivery terms	0	3	3
Delivery time	0	3	3
Discounts offered	0	4	2
Extension of credit	0	4	2
Lower price ¹	1	1	4
Minimum quantity requirements	0	5	1
Packaging	0	6	0
Product consistency	0	3	3
Quality meets industry standards	0	4	2
Quality exceeds industry standards	0	4	2
Product range	1	5	0
Reliability of supply	0	3	3
Technical support/service	1	4	1
Availability of consigned inventory ²	1	2	3
Frequency of price changes	0	2	4
Willingness to negotiate price reductions	0	2	4
Willingness to offer more favorable sales terms	0	1	5
Willingness to assume foreign exchange risk	1	2	2
Other ³	0	0	4

¹ A rating of superior means that the price is generally lower. For example, if a firm reports "U.S. superior," this means that it rates the U.S. price generally lower than the subject import price.

² Note that the U.S. producer ***.

³ Other factors include one instance of "commitment to year over year productivity improvements;" one instance of "technology and cost-reduced designs;" one instance of "growth potential;" and one instance of "speed to market."

Note.--S=U.S. product is superior, C=U.S. product is comparable, I=U.S. product is inferior.

Source: Compiled from data submitted in response to Commission questionnaires.

Other Country Comparisons

In addition to comparisons between the U.S. product and imports from the subject country, U.S. producer and importer comparisons between the United States and imports from nonsubject countries and between subject imports and nonsubject imports are also shown in tables II-3 and II-4.

Importer *** reported that manufacturers in *** produce FSVs that are *** interchangeable with U.S.-produced FSVs and are *** interchangeable with FSVs imported from China. This importer also reported that differences other than price between U.S.-produced FSVs and FSVs produced in *** are *** a significant factor and that such differences between FSVs imported from China and FSVs produced in *** are *** a significant factor.

ELASTICITY ESTIMATES

U.S. Supply Elasticity⁵⁸

The domestic supply elasticity for FSVs measures the sensitivity of the quantity supplied by U.S. producers to changes in the U.S. market price of FSVs. The elasticity of domestic supply depends on several factors including the level of excess capacity, the ease with which producers can alter capacity, producers' ability to shift to production of other products, the existence of inventories, and the availability of alternate markets for U.S.-produced FSVs. Analysis of these factors above indicates that the U.S. industry is likely to be able to increase or decrease shipments to the U.S. market; an estimate in the range of 4 to 6 is suggested.

U.S. Demand Elasticity

The U.S. demand elasticity for FSVs measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of FSVs. This estimate depends on factors discussed above such as the existence, availability, and commercial viability of substitute products, as well as the component share of FSVs in the production of downstream products. Based on the available information, the aggregate demand elasticity for FSVs is likely to be in the range of -0.5 to -0.75.

Substitution Elasticity

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported products.⁵⁹ Product differentiation, in turn, depends upon such factors as quality and conditions of sale (availability, sales terms/discounts, etc.). Based on available information, the elasticity of substitution between U.S.-produced FSVs and FSVs from China is likely to be in the range of 2 to 4.

⁵⁸ A supply function is not defined in the case of a non-competitive market.

⁵⁹ The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject products (or vice versa) when prices change.

PART III: U.S. PRODUCER'S PRODUCTION, SHIPMENTS, AND EMPLOYMENT

U.S. PRODUCERS

The petition identified the current U.S. producer of FSVs, Parker, as the sole domestic producer of FSVs, but subsequent to the filing of the petition, Chatleff Controls, Inc. ("Chatleff"), was also identified as a producer.¹ The Commission received a completed questionnaire response from Parker.² Parker's headquarters are located in Cleveland, OH, and its FSV plant is located in New Haven, IN. Parker accounted for all reported U.S. production in *** and Chatleff accounted for *** percent of total reported U.S. production in ***, the year that it ceased FSV production.³ Table III-1 presents the U.S. producers' positions on the petition, ownership, plant locations, and shares of total reported U.S. production in 2008.

Table III-1

FSVs: U.S. producers, positions on the petition, ownership, plant locations, and shares of total reported 2008 U.S. production

* * * * *

The Parker Appliance Company was founded in 1918 as an automobile brake company, later expanding into aviation parts. In 1957, Parker acquired the Hannifin Corp., a manufacturer of hydraulic and air-power cylinders and of presses, and changed its name to the Parker-Hannifin Corp. In the mid-1970s, Parker entered the FSV market by designing, testing, and becoming a qualified supplier of FSVs. During the 1990s, Parker expanded through acquisitions. In 2001, Parker acquired the New Haven, IN plant of Aeroquip and broadened its FSV business. Today, Parker is divided into nine technology segments supporting 1,200 markets worldwide. Some of Parker's key markets include aerospace, hydraulics, seals, filtration, and climate controls. The Climate Systems Division produces valves and other controls for a number of climate control applications using residential and commercial air conditioning, refrigeration, and transport cooling.

U.S. CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION

Table III-2 presents data on the U.S. producers' capacity, production, and capacity utilization during 2005-2008. U.S. producers' capacity *** apparent U.S. consumption of FSVs ***. Domestic FSV capacity decreased by ***.⁴

Capacity remained stable from ***. Parker attributed its decrease in capacity *** to ***.⁵

¹ Staff telephone interview with ***. The petitioner confirmed that it is not aware of any U.S. production of FSVs in recent years by integrated U.S. producers of air conditioning systems. Conference transcript, p. 82 (Miller).

² Chatleff submitted an incomplete response and therefore data for Chatleff are not included in the tables and figures of this report except for capacity, production, and capacity utilization data in tables III-2, IV-5, and C-1.

³ Chatleff produced *** FSV units from *** until *** when it ceased production. In its domestic producer questionnaire response, Chatleff stated ***. Chatleff's domestic producer questionnaire response.

⁴ Chatleff produced FSVs domestically ***. Parker reported production capacity for its operations based on operating *** hours per week, *** weeks per year, operating *** shifts per day.

⁵ E-mail from ***, April 14, 2008.

However, ***.⁶ The machinery was not moved to the production of other types of valves or other products.⁷ U.S. production of FSVs decreased between 2005 and 2008, for an overall decrease of *** percent. The average capacity utilization for the U.S. producers fell from *** percent in 2005 to *** in 2008.

**Table III-2
FSVs: U.S. capacity, production, and capacity utilization, 2005-2008**

* * * * *

Parker reported one constraint on its production capacity: the ***. According to Parker, the ***.⁸ However, the changeover time to switch between FSVs for different customers is relatively short, about 10 minutes or less.⁹ Parker’s New Haven plant equipment is ***. However, the ***.¹⁰ Parker ***.¹¹ Since January 1, 2005, Parker ***.¹²

U.S. PRODUCER’S SHIPMENTS

Table III-3 presents information on Parker’s shipments of FSVs. Parker reported ***. Its U.S. shipments of FSVs decreased by *** percent by quantity and *** percent by value from 2005 to 2008. The unit values of U.S. shipments increased by *** percent, or by \$*** per FSV from 2005 to 2008. Rising average unit values, however, did not offset declining shipment quantities, and total shipment values for the domestic producer declined by *** percent from 2005 to 2008.

Parker’s reported exports during the period for which data were collected *** of its total FSV shipments by quantity, ***.¹³ Parker reported exporting to ***.¹⁴

**Table III-3
FSVs: U.S. producer’s shipments, by types and shares, 2005-2008**

* * * * *

⁶ Petitioner’s postconference brief, p. 10.

⁷ Conference transcript, p. 75 (Miller).

⁸ Parker’s domestic producer questionnaire response, question II-4.

⁹ Conference transcript, p. 48 (Miller).

¹⁰ Parker’s domestic producer questionnaire response, question II-3.

¹¹ Parker’s domestic producer questionnaire response, question II-7.

¹² Parker’s domestic producer questionnaire response, question II-6.

¹³ ***. E-mail from ***, March 25, 2009.

¹⁴ E-mail from ***, April 14, 2008. Air conditioner manufacturers ***, ***.

U.S. PRODUCER'S INVENTORIES

Table III-4, which presents end-of-period inventories for FSVs, shows that inventories were *** as a ratio to production and shipments throughout the period examined. Reported inventories were ***.¹⁵ Parker offered FSVs under a consignment for a short period; however, Parker stopped due to the “holding, handling, and warehousing costs associated with this service.”¹⁶ According to hearing testimony by a Parker official, on-time deliveries were maintained at levels that were in the 98-to-100 percent range to their customers’ requested dates.¹⁷ Parker reported a typical turnaround of within five to seven days from the time it receives an order to shipment.¹⁸

Table III-4
FSVs: U.S. producer’s end-of-period inventories, 2005-2008

* * * * *

U.S. PRODUCER'S IMPORTS AND PURCHASES

During the period for which data were collected *** FSVs.¹⁹ In addition, ***.²⁰ Parker reported that it ***.²¹

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Table III-5 presents data on the U.S. producer’s employment-related indicia. A comparison between 2005 and 2008 data shows that employment of production and related workers (“PRWs”) decreased by *** percent while the number of hours worked decreased by *** percent. Wages paid to PRWs also declined at a similar rate throughout the period, but hourly wages increased each year. Productivity decreased between 2005 and 2007, which can be explained in part by ***.²² However, productivity increased between 2007 and 2008 ***. According to testimony provided at the hearing, this increase can be explained in part by Parker’s reduced employment levels, since productivity is based on employment hours over production.²³

Table III-5
FSVs: U.S. producer’s employment-related data, 2005-2008

* * * * *

¹⁵ Parker’s domestic producer questionnaire response, question IV-14.

¹⁶ Hearing transcript, pp. 21-22 (Nelson).

¹⁷ Hearing transcript, p. 61 (Nelson). Petitioner submitted on-time delivery rates for Parker from 2006-2007, the time period when Parker lost customers to the Chinese producers. In 2006, the rates ranged from *** percent to ***. In 2007, the rates were essentially all *** percent. Petitioner’s posthearing brief, p. 6.

¹⁸ Conference transcript, p. 68 (Miller), and p. 144 (Dinan). According to Goodman, Parker failed to meet the delivery target measures of delivery on time and days of supply inventory levels every month in 2006. Conference transcript, p. 99 (Knights). According to ***. Staff interview with ***.

¹⁹ Parker’s domestic producer questionnaire response, question II-8.

²⁰ Parker’s domestic producer questionnaire response, question II-11.

²¹ Parker’s domestic producer questionnaire response, question II-5.

²² ***. E-mail from ***, April 14, 2008.

²³ Hearing transcript, p. 97 (Hudgens).

PART IV: U.S. IMPORTS, APPARENT U.S. CONSUMPTION, AND MARKET SHARES

U.S. IMPORTERS

The petition identified two potential importers of FSVs, DunAn Precision Inc. (“DunAn Precision”) and Sanhua International, Inc. (“Sanhua International”). DunAn Precision and Sanhua International submitted complete questionnaire responses. Import data in this report are based on questionnaire responses because official Commerce statistics are not available for FSVs separately from other goods. Moreover, the questionnaire coverage is believed to be 100 percent because ***. Prior to 2006 ***, which also submitted a complete U.S. importers questionnaire.¹ The combined questionnaire responses of *** are believed to account for all U.S. imports of FSVs from China, by quantity, in the period examined. The responding importers reported *** from other sources during the period examined. Table IV-1 presents information on U.S. importers.

Table IV-1
FSVs: U.S. importers and imports from China, 2008

* * * * *

DunAn Precision and Sanhua International are affiliated with FSV producers in China. DunAn Precision is owned by *** which also owns FSV producer Zhejiang DunAn Hetian Metal Co., Ltd. (“DunAn”).² Sanhua International is wholly owned by *** and through this relationship is a sister company to FSV producer Zhejiang Sanhua Co., Ltd. (“Sanhua”).³ These two producers reportedly export FSVs to the United States through their affiliate U.S. importers ***.⁴

***.⁵

*** reported importing the subject product through a foreign trade zone or under the temporary importation under bond program. *** reported importing FSVs from bonded warehouses.⁶ The Commission asked importers to comment on any changes in the character of their operations or organization relating to FSVs. ***. ***.⁷

The Commission asked importers to comment on whether they changed or planned to change the amount of imports of FSVs from China because of the filing of the petition in this investigation. ***.
***.⁸

¹ Staff telephone interview with ***. E-mail from ***, April 16, 2008.

² *** importer questionnaire response, questions I-3 and I-4.

³ *** importer questionnaire response, questions I-3 and I-4.

⁴ *** foreign producer questionnaire responses, question I-3.

⁵ Staff interview with ***. E-mails from ***.

⁶ *** importer questionnaire responses, questions I-8, I-9.

⁷ *** importer questionnaire responses, question II-2.

⁸ *** importer questionnaire response, question II-3.

U.S. IMPORTS

Table IV-2 presents U.S. imports of FSVs during 2005 to 2008. U.S. import data are based on questionnaire responses.⁹

Table IV-2
FSVs: U.S. imports, by sources, 2005-2008

* * * * *

U.S. imports of FSVs from China increased by *** units or by *** percent between 2005 and 2006, increased by *** percent in 2007 to *** units, and decreased by *** percent in 2008 to *** units. The unit value of imports from China increased by *** percent or by \$*** between 2005 and 2008.

The Commission asked importers to indicate, in order of importance, what they believe to have been the principal reasons for any increases in U.S. imports from China since 2005. DunAn Precision ***. Sanhua International reported ***. ***.¹⁰

NEGLIGIBILITY

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.¹¹ Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country or merchandise corresponding to a domestic like product where such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition or the initiation of the investigation.¹² During the most recent such 12-month period for which data are available, China accounted for all known U.S. imports of FSVs.

APPARENT U.S. CONSUMPTION

Table IV-3 presents data on the apparent U.S. consumption of FSVs. Between 2005 and 2008, total apparent U.S. consumption decreased by *** percent by quantity and *** percent by value. This decrease in total apparent U.S. consumption can be attributed in part to the ongoing economic downturn as well as an increasing trend in which homeowners are choosing to repair, rather than replace their air conditioning units.¹³ Between 2005 and 2008, U.S. shipments of subject imports increased by *** percent by quantity and *** percent by value. U.S. producer's U.S. shipments decreased by *** percent by quantity and *** percent by value between 2005 and 2008.

⁹ Official Commerce statistics were not used because FSVs are covered by "basket category" HTS reporting numbers and data for FSVs separately are not available.

¹⁰ *** importer questionnaire responses, question II-5.

¹¹ Section 733(a)(1) of the Act.

¹² Section 771(24) of the Act.

¹³ The replacement market reportedly accounts for 70 percent of the total U.S. market for FSVs. New home construction accounts for the remaining 30 percent. Hearing transcript, p. 92 (Miller).

Table IV-3
FSVs: Apparent U.S. consumption, by sources, 2005-2008

* * * * *

U.S. MARKET SHARES

Table IV-4 presents data on apparent U.S. consumption. Between 2005 and 2008, the U.S. producer's share of apparent U.S. consumption decreased by *** percentage points by quantity and *** percentage points by value while imports from China increased in both share of quantity and share of value.

Table IV-4
FSVs: Apparent U.S. consumption and market shares, 2005-2008

* * * * *

RATIO OF IMPORTS TO U.S. PRODUCTION

Table IV-5 presents information on the ratio of subject imports to U.S. production of FSVs. The ratio of subject imports to U.S. production increased from *** percent in 2005 to *** percent in 2008.

Table IV-5
FSVs: Ratio of U.S. imports to U.S. production, 2005-2008

* * * * *

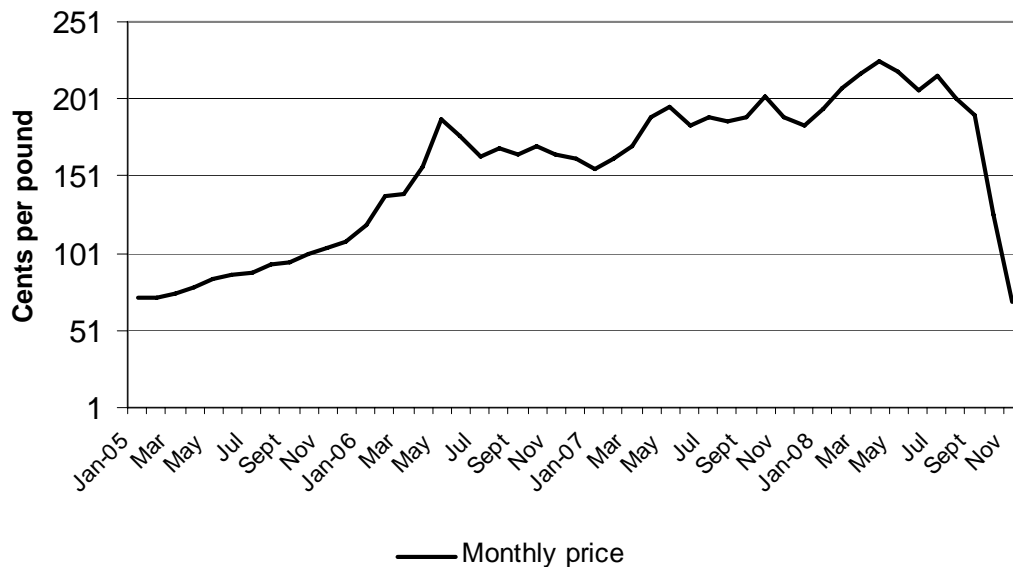
PART V: PRICING AND RELATED INFORMATION

FACTORS AFFECTING PRICES

Raw Material Costs

Brass and copper are the principal raw materials used in producing FSVs, with brass reportedly accounting for *** percent of total raw material costs and copper accounting for *** percent. U.S. producer Parker reported that its prices for brass and copper have increased by *** percent since 2005.¹ As shown in figure V-1, the monthly price for brass increased by 164.3 percent from January 2005 to September 2008, after which it decreased by 63.8 percent to November 2008, the last month for which data were available.² As shown in figure V-2, the London Metal Exchange (LME) monthly price for copper increased by 165.4 percent from January 2005 to July 2008, after which it decreased by 63.1 percent to December 2008.³

Figure V-1
FSVs: Monthly brass prices, January 2005-November 2008



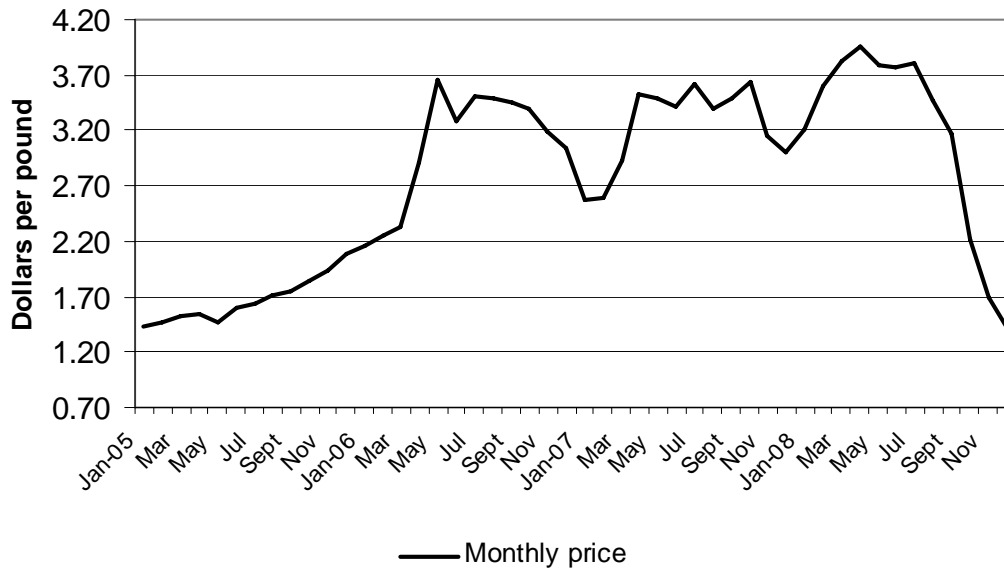
Source: American Metal Market.

¹ Parker's producer questionnaire response, question IV-19.

² American Metal Market.

³ London Metal Exchange. International Monetary Fund, primary commodity pricing data.
<http://www.imf.org/external/np/res/commod/index.asp>

Figure V-2
FSVs: Monthly copper prices, January 2005-December 2008



Source: International Monetary Fund, Primary Commodity Prices, February 4, 2009.

Transportation Costs to the U.S. Market

Transportation costs for FSVs shipped from China to the United States that would typically be derived from official import data are unavailable because the importers ***.⁴

U.S. Inland Transportation Costs

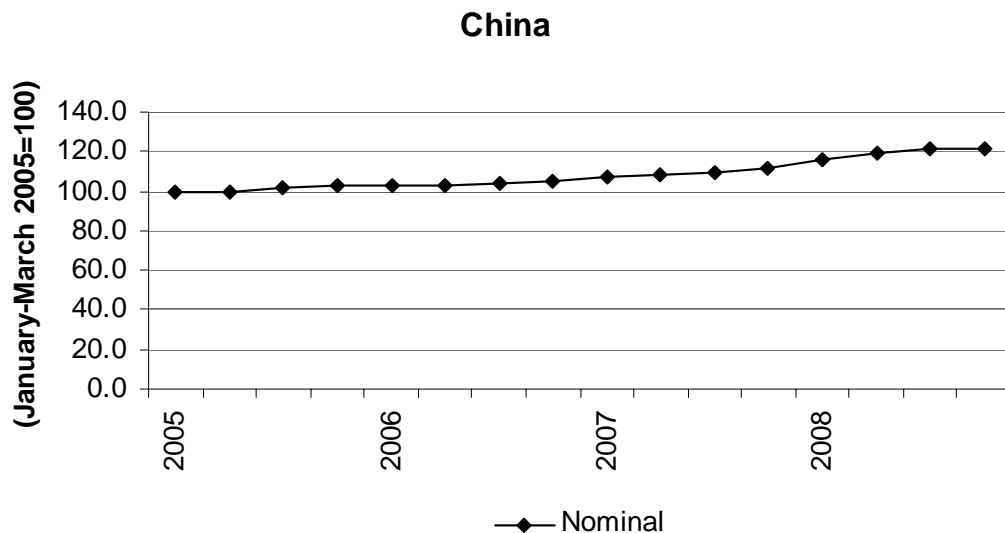
FSVs are sold on an f.o.b. basis and purchasers reportedly arrange for transportation. Parker and the importers reported that U.S. inland transportation costs of FSVs are *** to *** percent of the delivered price.

Exchange Rate

While the nominal exchange rate for the Chinese yuan was pegged to the U.S. dollar during the first six quarters of the period for which data were collected in the investigation, the dollar depreciated by 21.1 percent relative to the yuan in nominal terms from January 2005 to December 2008, as shown in figure V-3. A real value is unavailable.

⁴ Based on import data on the HTS subheadings ***, transportation costs for FSVs shipped from China to the United States averaged 4.0 percent of the customs value in 2005 and decreased to 3.4 percent in 2008. The estimated cost was obtained by subtracting the customs value from the c.i.f. value of the imports and then dividing by the customs value.

Figure V-3
Exchange rate: Index of the nominal exchange rate of the Chinese currency relative to the U.S. dollar, by quarters, January 2005-December 2008



Source: International Monetary Fund, International Financial Statistics, March 17, 2009.

PRICING PRACTICES

Pricing Methods

When questionnaire respondents were asked how they determined the prices that they charge for FSVs, responses were varied. Parker reported the use of ***. It reported that prices are based on ***. It also reports the use of a monthly surcharge or debit for changes in the price of copper.⁵ Among importers, ***. More specifically, importer DunAn Precision reported that its contract with its ***. DunAn Precision also reported that it protects itself from increasing costs by purchasing forward exchange contracts on the open market.⁶ Sanhua International reported that its contracts have included a raw material surcharge for some customers beginning in 2006 and now apply to all customers who buy on a contract basis.⁷ Sanhua International also reported that its prices ***.⁸ *** responding firms reported the use of price lists. Prices of FSVs are quoted on an f.o.b. rather than a delivered basis, for both Parker and the importers.

Sanhua and OEM customer Goodman alleged that, prior to the existence of the imports from China in the U.S. market, Parker had market power in the United States due to it being the sole remaining U.S. producer of FSVs. According to Sanhua and Goodman, Parker kept prices of FSVs high, mandated supply agreements with no open competition or commercial exit clauses, and ignored customer complaints regarding quality and delivery time.⁹ Parker maintains that its declining market share is

⁵ Conference transcript, pp. 83-84 (Nelson).

⁶ DunAn Precision's postconference brief, pp. 24-25.

⁷ Sanhua's April 14, 2008 responses to questions of staff, p. 4.

⁸ ***. Sanhua International's posthearing brief, exh. 1.

⁹ Conference transcript, p. 91 (Craven). Sanhua's postconference brief, pp. 7-8. Goodman's postconference brief, pp. 1 and 6.

evidence that it does not have market power and reports that it has not received complaints regarding quality from customers.¹⁰

Sales Terms and Discounts

Parker and importers of FSVs from China were asked what share of their sales were on a (1) long-term contract basis (multiple deliveries for more than 12 months), (2) short-term contract basis, and (3) spot sales basis (for a single delivery) during 2007. Parker reported that ***. Among the importers that reported sales of imports from China, ***. *** reported that ***. *** reported that ***.

For Parker, ***. It reported that its ***. Parker reported that ***. Parker also reported that ***.¹¹ Parker reported that it will only hedge raw materials with a customer's permission and has done so only two to four times.¹²

In the case of importers, long-term contracts can also range from ***. Importer Sanhua International reported that ***. Sanhua International also reported that its contract with ***. ***. ***.¹³ ***. These importers' long-term contracts *** meet-or-release provisions.

Parker and the importers ***. ***. Importer *** reported that ***. Importer *** reported that ***.

Parker reported that its sales contracts for FSVs are typically negotiated specifically for FSVs only and do not include other products.¹⁴ Alternatively, Sanhua International reported that it typically negotiates contracts that include a package of products, not limited to FSVs.¹⁵

Purchasers were asked if the contract terms differ between the domestic producer and those of importers of FSVs from China. Three purchasers reported that the contract terms are the same. Three other purchasers reported that, while suppliers from both sources offer contract terms that account for changes in raw material prices, contract terms with importers also cover fluctuations in the U.S.-China exchange rate.

PRICE DATA

The Commission requested U.S. producers and importers of FSVs from China to provide quarterly data for the total quantity and f.o.b. value (including all price adjustments for raw material surcharges and exchange rate movements) of selected products that were shipped to unrelated OEM customers in the U.S. market. Data were requested for the period January 2005-December 2008. The products for which pricing data were requested are as follows:

Product 1. -- 3/8 inch—SAE—6 size: Frontseating service valves that have brass bodies with copper tube extensions, double 90-degree flow pattern, metal-to-metal seating, with Schrader Bridgeport access valves and captivated stem with OD solder connection of 3/8 inch.

¹⁰ Conference transcript, p. 145 (Dinan). Hearing transcript, p. 81 (Nelson).

¹¹ ***.

¹² Hearing transcript, p. 75 (Miller).

¹³ See ***.

¹⁴ Hearing transcript, p. 42 (Nelson).

¹⁵ Hearing transcript, p. 143 (Jin).

Product 2.-- 3/4 inch—SAE—12 size: Frontseating service valves that have brass bodies with copper tube extensions, double 90-degree flow pattern, metal-to-metal seating, with Schrader Bridgeport access valves and captivated stem with OD solder connection of 3/4 inch.

Product 3.-- 7/8 inch—SAE—14 size: Frontseating service valves that have brass bodies with copper tube extensions, double 90-degree flow pattern, metal-to-metal seating, with Schrader Bridgeport access valves and captivated stem with OD solder connection of 7/8 inch.

Parker and two importers provided pricing data for sales of the requested products, although not all firms reported sales for all products for all quarters.¹⁶ Pricing data reported by these firms accounted for approximately *** percent of Parker’s U.S. commercial shipments of FSVs during January 2005-December 2008 and *** percent of U.S. shipments of imports from China over the same period.

Price Trends

When purchasers were asked if prices of FSVs had increased, decreased, or remained the same since 2005, all six purchasers responded that prices had increased. Purchasers attributed the rising prices to raw material cost increases. One purchaser reported that it “always” purchases the FSVs offered at the lowest price; three reported “sometimes;” and two reported “usually.” When asked to cite firms they considered price leaders, two purchasers cited *** because of its low prices and two cited *** because of its ***.

Weighted-average f.o.b. prices reported for U.S. producers and importers are presented in tables V-1 through V-3 and in figures V-4 through V-6 on a quarterly basis during January 2005-December 2008. Domestic prices of pricing products increased *** over the period, ***. The prices of products imported from China also increased, ***. For sales reported by Parker, ***. For sales of products imported from China, ***.

The weighted-average sales price of U.S.-produced product 1 increased by *** percent from the first quarter of 2005 to the fourth quarter of 2008, first increasing by *** percent from the first quarter of 2005 to the *** before decreasing *** in *** and rebounding in ***, after which it *** by *** percent to the fourth quarter of 2008. The weighted-average sales price of product 1 imported from China, as reported by importers DunAn Precision and Sanhua International, increased by *** percent over the entire period, with *** increase occurring in the ***, after which the price fluctuated and decreased by *** percent to the fourth quarter of 2008.

The weighted-average sales price of U.S.-produced product 2 increased by *** percent from the first quarter of 2005 to the fourth quarter of 2008, first increasing by *** percent from the first quarter of 2005 to the *** before *** decreasing to *** and rebounding in ***, after which it decreased by *** percent to the fourth quarter of 2008. The weighted-average sales price of product 2 imported from China, as reported by importers DunAn Precision and Sanhua International, increased by *** percent over the entire period, after having decreased from the first quarter of 2005 to the *** and *** increasing in the ***, after which the price increased by *** percent to the fourth quarter of 2008.

¹⁶ Prior to ***, the prices of products imported from China are ***. Importer *** also reported that all of its pricing data are ***. ***. Importer *** provided unusable pricing data because ***.

The weighted-average sales price of U.S.-produced product 3 increased by *** percent from the first quarter of 2005 to the fourth quarter of 2008, first increasing by *** percent from the first quarter of 2005 to the *** before *** decreasing in *** and rebounding in ***, after which it fluctuated and *** decreased by *** percent to the fourth quarter of 2008. The weighted-average sales price of product 3 imported from China, as reported by importers DunAn Precision and Sanhua International, fluctuated over the period, increasing overall by *** percent over the entire period, first increasing by *** percent from the first quarter of 2005 to the *** before decreasing by *** percent to the fourth quarter of 2008.¹⁷

Table V-1

FSVs: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 and margins of underselling/(overselling), by quarters, January 2005-December 2008

* * * * *

Table V-2

FSVs: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 and margins of underselling/(overselling), by quarters, January 2005-December 2008

* * * * *

Table V-3

FSVs: Weighted-average f.o.b. prices and quantities of domestic and imported product 3 and margins of underselling/(overselling), by quarters, January 2005-December 2008

* * * * *

Figure V-4

FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 1, by quarters, January 2005-December 2008

* * * * *

Figure V-5

FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 2, by quarters, January 2005-December 2008

* * * * *

Figure V-6

FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 3, by quarters, January 2005-December 2008

* * * * *

¹⁷ Sales of product 3 imported from China in *** as reported by *** matched ***'s first data submission in the preliminary phase of this investigation, which was later revised. Staff used the revised data submitted by *** in the preliminary phase of the investigation for its sales of product 3 for those quarters in the data presented here. See ***'s revision to its Importers' Questionnaire, ***.

Price Comparisons

Margins of underselling and overselling for the period are presented by product category in tables V-4 and V-5 below. The data show that prices of imports from China were lower than the U.S. producer prices in all 48 quarterly comparisons of products 1-3, by margins ranging from 11.0 percent to 45.9 percent.

Table V-4

FSVs: Margins of underselling/(overselling) by product, quarterly, January 2005-December 2008

* * * * *

Table V-5

FSVs: Instances of underselling/overselling and the range and average of margins for products 1-3, January 2005-December

* * * * *

LOST SALES AND LOST REVENUES

The Commission requested that Parker report any instances of lost sales or revenues it experienced due to competition from imports of FSVs from China since January 2005. Parker provided *** lost sales allegations totaling \$*** and *** totaling \$***.¹⁸ Staff contacted the *** purchasers cited in the allegations; *** responded, *** of which confirmed *** allegations, valued at a total of \$***.¹⁹ The results are summarized in tables V-6 and V-7 and are discussed below.

Table V-6

FSVs: U.S. producer's lost sales allegations

* * * * *

Table V-7

FSVs: U.S. producer's lost revenue allegations

* * * * *

***.

***.²⁰ ***.²¹ ***.²²

¹⁸ Parker also reported that its remaining customers have said that Parker could lose their business for FSVs if Parker does not meet the quoted Chinese price. Conference transcript, pp. 25-26 (Miller).

¹⁹ ***.

²⁰ ***.

²¹ ***.

²² ***.

***.23 ***.24 ***.25 ***.26

***.27 ***.28 ***.29 ***.30

***.31

***.

***.

***.

23 ***.

24 ***. ***. ***.

25 ***. ***.

26 ***.

27 ***.

28 ***.

29 ***.

30 ***.

31 ***.

PART VI: FINANCIAL EXPERIENCE OF THE U.S. PRODUCER

BACKGROUND

Parker provided production, shipment, and financial data on its operations on FSVs, reporting on a calendar-year basis.¹ These data accounted for all known U.S. production of FSVs in 2008.²

OPERATIONS ON FSVs

Parker's total net sales quantities and values of FSVs fell *** in 2005–2006, and *** in 2006–2007, following the loss of most of its OEM customer base; sales fell again by *** percent and *** percent on a quantity and value basis, respectively, between 2007 and 2008 (table VI-1).³ Parker's sales value did not fall as much as sales quantity because unit sales values increased by *** percent from 2005 to 2006, by *** percent from 2006 to 2007, and by *** percent from 2007 to 2008.⁴ Cost of goods sold (“COGS”) net of scrap credit⁵ fell in absolute terms with the decline in production and net sales quantity, but rose *** whether expressed as a ratio to net sales or on a per-unit basis, driven by raw material costs and other factory costs. The increase in the unit value of COGS net of scrap credit was *** than the increase in the average unit value of sales, \$*** versus \$*** between 2005 and 2006, and \$*** versus \$*** between 2006 and 2007; the increase in the average unit value of raw materials, net of scrap credit, was \$*** and \$*** between 2005 and 2006, and 2006 and 2007, respectively. From 2007 to 2008, Parker's sales unit value increased by \$*** compared with a decrease in the unit value of COGS net of scrap credit of \$*** and *** in raw materials net of scrap credit. Parker's gross profit decreased by approximately *** percent from 2005 to 2008, and was *** (Parker ***) in 2007. Selling, general, and administrative (“SG&A”) expenses fell in value terms (***) from 2005 to 2007, but increased in 2008; when expressed as a ratio to net sales, SG&A expenses declined *** in 2006, and rose in 2007 and 2008 to a level above that in 2005. Parker's operating ***. Net income before taxes and cash flows followed operating income.

¹ Parker's fiscal year ends June 30 but it provided questionnaire data on a calendar-year basis. Commission staff verified the questionnaire response of Parker on February 10-11, 2009. See verification report, Memorandum to the Commission, INV-GG-012, February 23, 2009.

² The other known U.S. producer, Danfoss Chatleff, LLC, ceased producing FSVs in ***. It responded ***.

³ Parker had approximately *** percent of the OEM market in 2005 when it supplied six out of the seven major producers of residential air conditioning systems. Since 2005, it lost the entire business of four of its OEM customers, and Parker's sales to those two remaining OEMs have fallen as well. Most of the decline in sales to OEMs occurred in *** (*see* Parker's posthearing brief, exh. 1, p. 9). Parker stated that it is threatened with the loss of its last two customers when their contracts expire unless it meets the “China price.” Petitioner's prehearing brief, p. 19 and hearing transcript, p. 15 (Miller). With regard to Parker's operating results from the loss of business in 2005-2006, *see* hearing transcript, pp. 93-94 (Miller and Magrath). Sanhua started to sell product to its customers in ***. Sanhua's posthearing brief, responses to Commission questions, p. 4.

⁴ Sales include raw material surcharges, which are discussed later. *See* petitioner's postconference brief, exh. 1.

⁵ Brass and copper scrap is reclaimed and sold to Parker's suppliers of those metals resulting in a *** recovery of the cost of brass bar and copper tubing. In this final phase of the investigation, the Commission's questionnaire requested Parker to show its byproduct scrap cost recovery separately from other categories of COGS. Parker complied with the Commission's request ***. The cost recovery is shown as a deduction from COGS in table VI-1.

Table VI-1
FSVs: Results of Parker's operations, calendar years 2005–2008

* * * * *

The per-unit value of other factory costs also rose *** the per-unit value of raw materials. This cost behavior is consistent with fixed costs being spread over a declining base of production and sales (the *** is attributable to Parker's efforts to adjust to lower sales volume of FSVs). On the other hand, labor costs declined whether expressed as per-unit or as a ratio to net sales. This decline is supported by statements of Parker personnel indicating that the firm made capital investments in automation to improve its competitiveness.⁶ It also assigned personnel to other duties or to other products during the period investigated.

Raw materials represent a large component of total COGS. The raw material costs of an FSV are chiefly composed of the costs of copper (used in the tubing) and brass (comprising the body of an FSV) and reflect changes in the prices of those materials.⁷ Because of lower sales, the absolute value of raw materials fell during 2005-2008. However, the ratio of raw material costs to total COGS, the ratio of raw material costs to sales, and the average unit value of raw materials generally rose during 2005–2008.

Data provided by Parker show that the firm obtained *** recovery of rising raw material costs through a metal surcharge mechanism.⁸ Parker's metal surcharges were \$*** and \$*** in 2005 and 2006, respectively, and \$*** and \$*** in 2007 and 2008, respectively; they accounted for *** percent, *** percent, *** percent, and *** percent of the total reported U.S. commercial sales, by value, in the four years, respectively.⁹ On a per-unit basis, the surcharges were \$*** and \$*** in 2005 and 2006, respectively, and \$*** and \$*** in 2007, and 2008, respectively.¹⁰ These data reflect the price increases of copper and brass, as well as the decline in Parker's net sales by quantity during the period investigated.

Changes in Parker's operating income are further evidenced by a variance analysis that shows the effects of prices and volume on net sales and of costs and volume on their total costs (table VI-2).

⁶ Conference transcript, p. 47 (Miller).

⁷ Conference transcript, p. 16 (Miller). Copper and brass prices are discussed further in Part V of this report.

⁸ Parker's postconference brief, exh. 1, Parker's filing of January 22, 2009, and e-mail to staff from ***, March 23, 2009. A metal surcharge is a sales price adjustment mechanism built into a contract to protect against risk due to price fluctuations of the input raw material; it may be added to and included in the sales price and offsets (at least partially) the cost increase recorded in raw materials in COGS. Parker's contracts for FSVs ***. While the invoice price is on a per-unit basis, the *** is based on the contained weight of copper and brass in each FSV. Correspondence between staff and *** on February 5, 2009. Copper and brass prices are discussed further in Part V of this report.

⁹ Calculated by staff by comparing the data in the filing of January 22, 2009 and e-mail to staff from ***, March 23, 2009, with Parker's U.S. commercial sales in question II-9. The sales reported to OEMs accounted for *** and *** percent of Parker's U.S. commercial sales by value in 2005 and 2006, respectively, and for *** percent of Parker's U.S. commercial sales by value in 2007 and 2008, respectively.

¹⁰ Calculated by staff by comparing the data in the filing of January 22, 2009 and e-mail to staff from ***, March 23, 2009, with Parker's U.S. commercial sales in question II-9. These data are consistent with the pricing products data that Parker submitted. The pricing product data cover approximately *** percent, *** percent, *** percent, and *** percent, of Parker's U.S. commercial sales by value, in 2005, 2006, 2007, and 2008, respectively. The per-unit surcharges for the three pricing products average \$*** and \$*** in 2005 and 2006, respectively, and \$*** and \$*** in 2007 and 2008, respectively. Calculated by staff from Parker's pricing product data by subtracting the average unit values of Parker's pricing product data that do not include the metal surcharges from Parker's pricing product data that include the metal surcharges. The pricing product data in 2008 reflect a fall in the prices of copper and brass that resulted in ***.

Table VI-2

FSVs: Variance analysis on results of Parker’s operations, calendar years 2005–08

* * * * *

This analysis shows that the *** in Parker’s operating income in 2005–2008 of \$*** generally was attributable to the combined negative net cost/expense variance *** and *** lower sales volume that were greater than the favorable price variance ***. Parker’s operating income fell by *** between 2005 and 2006 as it did between 2006 and 2007. Parker’s *** between 2007 and 2008, reflecting the effect of a favorable price variance that was greater than the unfavorable net cost/expense variance, and a favorable volume variance.

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

Parker reported capital expenditures *** and *** research and development (“R&D”) expenses for FSVs, as shown in table VI-3. Both capital expenditures and R&D efforts are directed at “lean” manufacturing and an ability to manufacture to just-in-time delivery schedules.¹¹ For example, some of Parker’s capital expenditures have been directed toward *** the period for which data were collected.¹² Parker’s capital expenditures were *** in 2005, its *** for which data were gathered, but declined thereafter, attributed to Parker’s worsening financial condition.¹³ This is reflected in the data where the reported charges for *** exceeded *** in each year investigated. R&D expenses represent the *** in research efforts. Much of Parker’s R&D efforts are directed at ***.¹⁴

Table VI-3

FSVs: Capital expenditures and R&D expenses of Parker, calendar years 2005–2008

* * * * *

ASSETS AND RETURN ON INVESTMENT

The Commission’s questionnaire requested data on assets used in the production, warehousing, and sale of FSVs to compute return on investment (“ROI”) for 2005 to 2008. The data for operating income are from table VI-1. Operating income was divided by total assets, resulting in the asset turnover ratio. ROI fell *** from *** percent in 2005 to *** percent in 2007 before improving *** percent in 2008. These data and calculations are shown in table VI-4.

¹¹ Hearing transcript, p. 68 (Miller).

¹² Mr. Miller, General Manager of Parker’s CLS division, testified that “we have done everything possible to lower our cost structure and prices. We have implemented a number of capital investments to improve our production efficiency. For example, we have installed computer automated machining and assembly equipment which exceed \$7 million in cost prior to the period of investigation. This allowed us to significantly lower labor cost at capacity and improve productivity.” Hearing transcript, p. 15 (Miller). He also stated that Parker has “made significant investments in machining centers that produce the parts from barstock complete in one cycle {and that the parts} do not have to be machined in multiple cycles. It improves significantly on the quality. Parker has made significant investments on automation of the furnace up front and then through the whole assembly, testing, and copper forming and bending portion of the product line so that we can minimize the amount of labor impact that goes in and improve the first run yield or the quality of the product through the cycle.” Hearing transcript, pp. 84-85 (Miller).

¹³ Hearing transcript, p. 17 (Miller).

¹⁴ Verification report and hearing transcript, pp. 54 (Nelson) and 64 (Miller).

Table VI-4

FSVs: The value of assets and return on investment of Parker, calendar years 2005–2008

* * * * *

Accounts receivable *** percent between 2005 and 2006, and *** percent between 2006 and 2007 because of the loss of *** major OEM accounts. Parker also reported *** reduced inventories of finished goods from 2005 to 2008, from *** percent of the value of total net sales in 2005 to *** percent of the value of total net sales in 2008 (although the ratio had *** in 2006). Combined, these reductions led to an overall fall in current assets. Parker also disposed of various assets, worth \$***, resulting in lower values of fixed plant and equipment and total noncurrent assets in 2007 compared with 2006.¹⁵ Changes in the allocation *** led to lower total noncurrent assets between 2005 and 2006; an increase in allocated assets in 2007 or 2008 was not sufficient to offset the effects of the ***.

CAPITAL AND INVESTMENT

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of FSVs from China on their firms' growth, investment, and ability to raise capital or development and production efforts (including efforts to develop a derivative or more advanced version of the product). Parker's responses are presented here.

Actual Negative Effects

Parker: ***.

Parker made the following additional statement with regard to other actual negative effects:
***.

Anticipated Negative Effects

Parker: ***.

¹⁵ Email from *** to Commission staff, April 9, 2008.

PART VII: THREAT CONSIDERATIONS AND INFORMATION ON NONSUBJECT COUNTRIES

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on Commerce's final determination of sales at less than fair value was presented earlier in this report; information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on the U.S. producer's existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise and foreign producers' operations, including the potential for "product-shifting," follows. Also presented in this section of the report is any information obtained for consideration by the Commission on nonsubject countries and the global market.

THE INDUSTRY IN CHINA

Overview

The petition identified two potential producers of FSVs in China.¹ Staff sent the foreign producer questionnaire, by fax and by e-mail, to both manufacturers listed. Both foreign producers entered notices of appearance, submitted foreign producer and importer questionnaires, participated at the Commission's hearing, and provided prehearing and posthearing briefs.

DunAn and Sanhua's FSV operations in China are both ISO 9000 and ISO 14001 approved.² *** reportedly the dominant producers of flare-type service valves used in Asia, the world's biggest market for air conditioning equipment, according to Parker.³ Sanhua ***, and DunAn ***.⁴ DunAn and Sanhua ***.⁵ Neither producer in China ***.⁶

*** two additional potential FSV producers in China: Guangdong Hangji Metal Product Industries Co., Ltd. ("Guangdong") and Ningbo Riyue Refrigerating Equipment Co., Ltd. ("Riyue").⁷ Guangdong advertises its main businesses as heating, ventilating, and air conditioning, or HVAC, and the fabrication of various types of metal parts. Its product offerings include service valves and ball valves and it lists Carrier and Trane as among its customers.⁸ Riyue specializes in producing a variety of air conditioner valves including ball valves and what it describes as square valves but which appear identical to FSVs (*see* figure VII-1).⁹ These valves are made with brass bodies and are offered in six connection

¹ Zhejiang Sanhua Co., Ltd., ("Sanhua"), which is owned by *** and Zhejiang DunAn Hetian Metal Co., Ltd., ("DunAn"), which is owned by ***. Sanhua is affiliated to Sanhua International, which is a U.S. importer of FSVs. DunAn is affiliated with DunAn Precision, which is a U.S. importer of FSVs.

² Goodman's postconference brief, p. 2.

³ Petitioner's postconference brief, p. 10.

⁴ ***.

⁵ *** foreign producer questionnaire responses, question II-3.

⁶ *** foreign producer questionnaire responses, question II-5.

⁷ *** Sanhua's April 14, 2008 responses to questions of staff, p. 1. Sanhua also identified "other small makers such as Jinhui and Hequn who manufacture on a cottage industry basis." *Ibid.*

⁸ Guangdong Hangji Metal Product Industries Co., Ltd., *Profile*, found at <http://en.hangji.com>, retrieved April 16, 2008.

⁹ Riyue Refrigerating, company information, found at <http://www.cnriyue.com/about.asp>, retrieved April 18, 2008.

diameters and four body sizes.¹⁰ The Commission sent foreign producer questionnaires to Guangdong and Riyue, but neither firm provided responses.

The Commission identified another apparent FSV producer in China, Taizhou Double Winners Copper Co., Ltd. (“Double Winners”). Established in 2001, Double Winners advertises itself as one of the largest suppliers of copper and copper alloy fittings in China, manufacturing products for air conditioning and refrigeration systems that are widely used in the United States, Germany, the United Kingdom, Italy, Spain, and Australia. Its product offerings include frontseating service valves and ball valves as well as a number of brass and bronze fittings. The FSVs advertised by Double Winners have brass bodies and copper-connection tubes and are available in many sizes.¹¹ The Commission sent a foreign producer’s questionnaire to Double Winners, but the firm did not provide a response.

Figure VII-1
FSVs: Riyue’s square valve product offerings



Source: Riyue Refrigerating website found at http://www.cnriyue.com/product_detail.asp?id=00010003, retrieved April 18, 2008.

FSV Operations

Data on China’s reported FSV capacity, production, inventories, and shipments are presented in table VII-1. These data include Chinese production of FSVs sold for the North American market, since there is no FSV market outside of North America.¹² Between 2005 and 2008, Chinese FSV capacity and production increased by *** percent and *** percent, respectively. Capacity utilization fluctuated and was highest at *** percent in ***.

¹⁰ Riyue Refrigerating, Product Center, Square Valves, found at http://www.cnriyue.com/product_detail.asp?id=00010003, retrieved April 18, 2008.

¹¹ Made in China, Taizhou Double Winners Copper Co., Ltd., Product list, found at <http://www.made-in-china.com/showroom/jemmylee/product-list/catalog-1.html>, retrieved January 29, 2009.

¹² Hearing transcript, pp. 112 and 115-116 (Hudgens). The valves which DunAn sells in China and Asia differ in the shape and outdoor unit connection method to the FSVs subject to this investigation. DunAn’s posthearing brief, p. 4. Upon request, counsel on behalf of DunAn submitted revised data that excluded the valves that DunAn sells in China and Asia.

Table VII-1
FSVs: Data for reporting producers in China, 2005-2008, and projected 2009

* * * * *

Internal consumption and home market shipments accounted for *** share of the Chinese industry's total FSVs total shipments in 2008, while exports accounted for the remaining *** percent. Total exports increased by *** percent between 2005 and 2008, an increase that was *** increased exports to the United States of *** percent.

Chinese producers were asked to comment on reasons for any increases in U.S. imports of FSVs from China since 2005. DunAn reported ***. Sanhua reported ***.¹³

In 2008, *** percent of DunAn and Sanhua's exports to the United States were imported by ***.¹⁴ Both producers responded that ***.¹⁵ Sanhua identified its principal non-U.S. export markets as: ***.¹⁶

The Chinese government levies a value-added tax (VAT tax) on most products, but provides a rebate for a certain amount of that tax on exported goods. The rates of these export tax rebates are often adjusted by the Chinese government when it is trying to encourage or discourage growth in a particular industry.¹⁷ For instance, by lowering export rebates in 2005, the Chinese government was able to curb exports of high energy consuming, high-polluting and resource-intensive products.¹⁸ However, in 2008, the Chinese government increased export tax rebates four times in an effort to counter the global economic downturn.¹⁹ Counsel on behalf of Sanhua has stated that on December 1, 2008, the Chinese government increased the export rebate of the VAT tax on FSVs. Effective that date, the export rebate of the VAT tax increased from 13 percent to 14 percent.²⁰

*** did not respond to a question on plans to add, expand, curtail, or shut down production capacity or production of FSVs in China, ***. *** reported that it ***.²¹ The two producers in China project that full-year 2009 production will be *** 2008 production, by *** percent, or *** units.

Chinese producers' reported end-of-period inventories increased by *** percent between 2005 and 2008. DunAn and Sanhua reported that, since 2005, ***.²² For information on the inventories held in the United States by ***, see *U.S. Importers' Inventories* in this section of the report.

¹³ DunAn's and Sanhua's foreign producer questionnaire responses, question II-4.

¹⁴ E-mail from ***, March 11, 2009. E-mail from ***, March 12, 2009.

¹⁵ DunAn's and Sanhua's foreign producer questionnaire responses, question I-5.

¹⁶ *** foreign producer questionnaire response, question II-7.

¹⁷ *China to raise export tax rebates for machinery products*, China Daily, December 29, 2008, found at http://www.chinadaily.com.cn/china/2008-12/29/content_7350536.htm, retrieved March 20, 2009.

¹⁸ *China to adjust export tax rebate mechanism*, China Daily, July 23, 2007, found at http://www.chinadaily.com.cn/china/2006-07/23/content_647201.htm, retrieved April 17, 2008.

¹⁹ The most recent increase took effect on December 1, 2009 and covered 3,770 items of labor-intensive, mechanical, and electrical products, or 27.9 percent of China's total exports. *China to raise export tax rebates for machinery products*, China Daily, December 29, 2008, found at http://www.chinadaily.com.cn/china/2008-12/29/content_7350536.htm, retrieved March 20, 2009.

²⁰ Counsel on behalf of Sanhua explains that the VAT tax is refunded upon export of the product. Sanhua's posthearing brief, supplement to response to Commission questions, March 17, 2009.

²¹ DunAn's and Sanhua's foreign producer questionnaire responses, question II-1.

²² DunAn's and Sanhua's foreign producer questionnaire responses, question II-5.

Data on DunAn’s FSV capacity, production, inventories, and shipments during 2005-2008, and projected data for 2009, are presented in table VII-2.

Table VII-2
FSVs: Data for DunAn’s operations, 2005-2008, and projected data for 2009

* * * * *

Data on Sanhua’s FSV capacity, production, inventories, and shipments during 2005-2008, with projections for 2009, are presented in table VII-3.

Table VII-3
FSVs: Data for Sanhua’s operations, 2005-2008, and projected 2009

* * * * *

Sanhua produces FSVs using two different manufacturing methods. The first employs a bar stock and is the method used by Parker in the United States, while the second uses a forged body.²³ The company stated that ***. According to Sanhua, ***.²⁴

U.S. IMPORTS SUBSEQUENT TO SEPTEMBER 30, 2008

The Commission requested importers to indicate whether they imported or arranged for the importation of FSVs from China after September 30, 2008. *** reported arrangements for the importation of FSVs from China for delivery after September 30, 2008 but did not supply information on the quantities involved and the months in which the imports would occur.²⁵ *** importer reported importing parts or components of FSVs separately (such as any brazed assembly consisting of any two or more of the following components): a valve body, a field tube, a factory connection tube, or a valve charge port.

U.S. IMPORTERS’ INVENTORIES

Inventories of U.S. imports as reported are presented in table VII-4. Inventories of Chinese FSVs increased by *** percent during the period for which data were gathered, reaching *** in 2006.

Table VII-4
U.S. importers’ end-of-period inventories from China, 2005-2008

* * * * *

²³ Petitioner maintains that the forged body valve produced by Sanhua is a completely different valve known as a flare valve, which is not interchangeable with an FSV and is not and cannot be sold in the United States due to environmental regulations that the OEMs have to meet. Hearing transcript, p. 207 (Dinan).

²⁴ Sanhua’s foreign producer questionnaire response, question II-7, “Explanation to the response.”

²⁵ *** importer questionnaire responses, question II-6.

Both DunAn and Sanhua offer a consignment inventory for their customers in the United States.²⁶ The inventories are kept in Ohio and Texas.²⁷ According to Sanhua, the Chinese producers went “far beyond price in order to obtain” the FSV business of U.S. air conditioner manufacturers by providing inventories for them to draw upon, thereby providing instant access to the needed valves.²⁸ Goodman indicated that the willingness of the Chinese FSV producers to maintain a consigned inventory in a U.S. location was important.²⁹ ***.³⁰ Sanhua International keeps *** consignments in *** or in ***. Sanhua International typically keeps *** non-consigned inventory stocked in its own warehouse based on its customers’ rolling forecasts.³¹ Counsel on behalf of Sanhua argued that these inventories are maintained solely to fulfill the demands of customers and that the nature of the contracts in the industry makes the existence of inventories, or lack thereof, irrelevant.³²

DUMPING IN THIRD-COUNTRY MARKETS

Exports of FSVs from China are not subject to antidumping or countervailing duty orders in third-country markets. No questionnaire respondent reported any antidumping duty or countervailing duty orders on FSVs from China in third-country markets.³³

INFORMATION ON NONSUBJECT COUNTRIES

In assessing whether the domestic industry is materially injured or threatened with material injury “by reason of subject imports,” the legislative history states “that the Commission must examine all relevant evidence, including any known factors, other than the dumped or subsidized imports, that may be injuring the domestic industry, and that the Commission must examine those other factors (including non-subject imports) ‘to ensure that it is not attributing injury from other sources to the subject imports.’”³⁴

Nonsubject Source Information

China is believed to account for 100 percent of all imports of FSVs into the United States.³⁵ During the preliminary phase of these investigations, the Commission sought pricing data from U.S. importers of FSVs from China and all other countries. No imports or pricing data for nonsubject-country FSVs were reported. With respect to nonsubject-country sources of supply, the Commission sought

²⁶ According to Goodman, Parker refused to offer a consignment inventory of FSVs. Goodman’s postconference brief, p. 2.

²⁷ Conference transcript, p. 143 (Dinan) ***.

²⁸ Versus Parker which produces FSVs to order (typically with a five-day lead time). Sanhua’s postconference brief, p. 4.

²⁹ Goodman’s postconference brief, p. 1.

³⁰ ***. Goodman’s postconference brief, p. 1 and app. 1, p. 9.

³¹ Sanhua’s responses to questions of staff, p. 4.

³² Sanhua’s postconference brief, p. 14.

³³ *** foreign producer questionnaire responses, question II-6. *** importer questionnaire responses, question I-10.

³⁴ Mittal Steel Point Lisas Ltd. v. United States, Slip Op. 2007-1552 at 17 (Fed. Cir., Sept. 18, 2008), quoting from Statement of Administrative Action on Uruguay Round Agreements Act, H.R. Rep. 103-316, Vol. I at 851-52; see also Bratsk Aluminum Smelter v. United States, 444 F.3d 1369 (Fed. Cir. 2006).

³⁵ Petitioner’s posthearing brief, p. 10.

publicly available information regarding international suppliers of FSVs since 2005 from national import and export statistics, from conference testimony, and from interviews with industry sources. No nonsubject-country sources of supply have been identified.

Overview

As discussed in Part IV of this report, there are no known U.S. imports of FSVs from nonsubject countries. Counsel representing the participating FSV producers in China confirmed that they are unaware of FSV imports from any countries other than China.³⁶ The petitioner has argued that the decision in *Bratsk* has no bearing on this investigation because 100 percent of FSVs imported into the United States are from China and therefore there were no nonsubject imports in the market during the period of investigation.³⁷

According to petitioner, in the foreseeable future there will be only two foreign producers supplying the U.S. market, DunAn and Sanhua. They cite several barriers to new FSV market entrants including (1) the OEMs' lengthy qualification process; (2) alternative uses for copper and brass (the major raw materials for FSV production); and (3) the capital-intensive nature of FSV production.³⁸

³⁶ Conference transcript, p. 104 (Pardo, Craven). Goodman identified three companies that could potentially supply the U.S. market with FSVs: P.C. Takashima of Thailand, Unix of Korea, and Fujikoki of Japan. Goodman's postconference brief, p. 7. P.C. Takashima Co., Ltd. is a refrigeration components manufacturer and lists service valves among its main products on its company website found at <http://www.pctakashima.com/profile.html>, retrieved April 16, 2008 and ISO 9000, *List of Certified Companies in Thailand- ISO 9000, Machinery and Equipment sector*, found at <http://www.tisi.go.th/syscer/9000.html>, retrieved April 16, 2008. Fujikoki describes itself as a manufacturer of control devices for refrigeration and air conditioning for automobiles, office, and home use. Its product offerings include service valves used to connect piping between indoor and outdoor units of air conditioning systems. These valves have a stem cap similar to imported and domestically produced FSVs. Fujikoki Corp.'s home page, *Company Profile, Products*, found at http://www.fujikoki.co.jp/en/product/ro/pr_ro_bulb.html, retrieved April 16, 2008.

³⁷ Petitioner's postconference brief, p. 29. Conference transcript, p. 7 (Dinan), p. 22 (Nelson).

³⁸ Petitioner's postconference brief, p. 13. There is some disagreement over the length of time required for an OEM's qualification of a new FSV part or design. Goodman's witness stated that the qualification process took 12 to 14 weeks but could take longer. Conference transcript, p. 110 (Knights). Parker's witness stated that "typically on a brand new product it would be about a year time period." Conference transcript, p. 40 (Nelson).

APPENDIX A
***FEDERAL REGISTER* NOTICES**

**INTERNATIONAL TRADE
COMMISSION****[Investigation No. 731-TA-1148 (Final)]****Frontseating Valves From China****AGENCY:** United States International Trade Commission.**ACTION:** Scheduling of the final phase of an antidumping investigation.

SUMMARY: The Commission hereby gives notice of the scheduling of the final phase of antidumping investigation No. 731-TA-1148 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) (the Act) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of less-than-fair-value imports from China of frontseating service valves and certain parts thereof ("frontseating service valves"), provided for under subheadings 8415.90.80, 8481.80.10, 8481.80.30, 8481.80.50, 8481.90.10, 8481.90.30, or 8481.90.50 of the Harmonized Tariff Schedule of the United States.¹

For further information concerning the conduct of this phase of the investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and C (19 CFR part 207).

DATES: *Effective Date:* November 17, 2008.**FOR FURTHER INFORMATION CONTACT:** Edward Petronzio (202-205-3176), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436.

¹ Commerce defined the subject merchandise in its notice of preliminary determination (73 FR 62952, October 22, 2008).

Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

SUPPLEMENTARY INFORMATION:

Background.—The final phase of this investigation is being scheduled as a result of an affirmative preliminary determination by the Department of Commerce that imports of frontseating service valves from China are being sold in the United States at less than fair value within the meaning of section 733 of the Act (19 U.S.C. 1673b). The investigation was requested in a petition filed on March 19, 2008, by Parker-Hannifin Corporation, Cleveland, OH.

Participation in the investigation and public service list.—Persons, including industrial users of the subject merchandise and, if the merchandise is sold at the retail level, representative consumer organizations, wishing to participate in the final phase of this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in section 201.11 of the Commission's rules, no later than 21 days prior to the hearing date specified in this notice. A party that filed a notice of appearance during the preliminary phase of the investigation need not file an additional notice of appearance during this final phase. The Secretary will maintain a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in the final phase of this investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made no later than 21 days prior to the hearing date specified in this notice. Authorized applicants must represent interested parties, as defined by 19 U.S.C. 1677(9), who are parties to the investigation. A party granted access to BPI in the preliminary phase of the investigation need not

reapply for such access. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Staff report.—The prehearing staff report in the final phase of this investigation will be placed in the nonpublic record on February 24, 2009, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules.

Hearing.—The Commission will hold a hearing in connection with the final phase of this investigation beginning at 9:30 a.m. on March 10, 2009, at the U.S. International Trade Commission Building. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before March 3, 2009. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the hearing. All parties and nonparties desiring to appear at the hearing and make oral presentations should attend a prehearing conference to be held at 9:30 a.m. on March 5, 2009, at the U.S. International Trade Commission Building. Oral testimony and written materials to be submitted at the public hearing are governed by sections 201.6(b)(2), 201.13(f), and 207.24 of the Commission's rules. Parties must submit any request to present a portion of their hearing testimony *in camera* no later than 7 days prior to the date of the hearing.

Written submissions.—Each party who is an interested party shall submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.23 of the Commission's rules; the deadline for filing is March 3, 2009. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.24 of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.25 of the Commission's rules. The deadline for filing posthearing briefs is March 17, 2009; witness testimony must be filed no later than three days before the hearing. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation, including statements of support or opposition to the petition, on or before March 17, 2009. On April 1, 2009, the Commission will make available to parties all information on which they have not had an opportunity to comment. Parties may submit final comments on this information on or before April 3, 2009, but such final

comments must not contain new factual information and must otherwise comply with section 207.30 of the Commission's rules. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain BPI must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II (C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

Additional written submissions to the Commission, including requests pursuant to section 201.12 of the Commission's rules, shall not be accepted unless good cause is shown for accepting such submissions, or unless the submission is pursuant to a specific request by a Commissioner or Commission staff.

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.21 of the Commission's rules.

By order of the Commission.

Issued: November 18, 2008.

William R. Bishop,

Acting Secretary to the Commission.

[FR Doc. E8-27686 Filed 11-20-08; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF COMMERCE**International Trade Administration**

[A-570-933]

Frontseating Service Valves From the People's Republic of China: Final Determination of Sales at Less Than Fair Value and Final Negative Determination of Critical Circumstances

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

DATES: *Effective Date:* March 13, 2009.

SUMMARY: The Department of Commerce (the "Department") has determined that frontseating service valves ("FSVs") from the People's Republic of China ("PRC") are being, or are likely to be, sold in the United States at less than fair value ("LTFV") as provided in section 735 of the Tariff Act of 1930, as amended ("the Act"). The estimated margins of sales at LTFV are shown in the "Final Determination Margins" section of this notice.

FOR FURTHER INFORMATION CONTACT: Eugene Degan or Lori Apodaca, AD/CVD Operations, Office 8, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 482-0414 or (202) 482-4551, respectively.

SUPPLEMENTARY INFORMATION:**Case History**

The Department published its preliminary determination of sales at LTFV on October 22, 2008. *See Frontseating Service Valves from the People's Republic of China: Preliminary Determination of Sales at Less Than Fair Value, Preliminary Negative Determination of Critical Circumstances, and Postponement of Final Determination*, 73 FR 62952 (October 22, 2008) ("Preliminary Determination"). The period of investigation ("POI") is July 1, 2007, to December 31, 2007.

Between November 10 and December 18, 2008, the Department conducted verifications of Zhejiang DunAn Precision Industries Co., Ltd., Zhejiang DunAn Hetian Metal Co., Ltd. ("DunAn Hetian") and their U.S. subsidiary, DunAn Precision, Inc. ("DunAn Precision") (collectively, "DunAn")¹

¹ See Verification of the Sales and Factors Response of DunAn in the Antidumping Investigation of Frontseating Service Valves from the People's Republic of China, dated January 15, 2009 ("DunAn Verification Report"); and Verification of the U.S. sales questionnaire

and Zhejiang Sanhua Co., Ltd. ("Zhejiang Sanhua") and Sanhua International Inc. ("Sanhua International") (collectively "Sanhua").² See the "Verification" section below for additional information.

We invited interested parties to comment on the *Preliminary Determination* and on January 26, 2009, Parker-Hannifin Corporation ("Petitioner") and DunAn filed case briefs. On February 2, 2009, Petitioner, DunAn and Sanhua filed rebuttal briefs. The Department held a hearing on February 12, 2009.

Verification

As provided in section 782(i) of the Act, we verified the information submitted by DunAn and Sanhua for use in our final determination. See the Department's verification reports on the record of this investigation in the Central Records Unit ("CRU"), Room 1117 of the main Department building, with respect to these entities. For all verified companies, we used standard verification procedures, including examination of relevant accounting and production records, as well as original source documents provided by respondents.

Analysis of Comments Received

All issues raised in the case and rebuttal briefs by parties to this investigation are addressed in the "Investigation of Frontseating Service Valves from the People's Republic of China: Issues and Decision Memorandum" ("Issues and Decision Memorandum"), dated concurrently with this notice and which is hereby adopted by this notice. A list of the issues which parties raised and to which we respond in the Issues and Decision Memorandum is attached to this notice as Appendix I. The Issues and Decision Memorandum is a public document and is on file in the CRU, and is accessible on the Web <http://trade.gov/ia/index.asp>. The paper copy

responses of Zhejiang DunAn Precision Industries Co., Ltd., Zhejiang DunAn Hetian Metal Co., Ltd., and their U.S. subsidiary DunAn Precision Inc. in the Antidumping Investigation of Frontseating Service Valves from the People's Republic of China, dated January 14, 2009 ("DunAn CEP Verification Report").

² See Verification of the Sales and Factors Response of Zhejiang Sanhua Co., Ltd. in the Antidumping Investigation of Frontseating Service Valves from the People's Republic of China, dated January 16, 2009 ("Sanhua Verification Report"), and Verification of the U.S. Sales Response of Zhejiang Sanhua Co., Ltd. and Sanhua International Inc. in the Antidumping Investigation of Frontseating Service Valves from the People's Republic of China, dated January 16, 2009 ("Sanhua CEP Verification Report").

and electronic version of the memorandum are identical in content.

Changes Since the Preliminary Determination

Based on our analysis of information on the record of this investigation, we have made changes to the margin calculations for the final determination for all mandatory respondents.

General Issues

Calculation of Surrogate Financial Ratios

- For the final determination, we are calculating the surrogate financial ratios using the statements of Siddhi Cast Private Limited (“Siddhi”), Pyrocast India Private Ltd. (“Pyrocast”), and Dharpat Casting Private Ltd (“Dharpat”). See Issues and Decision Memorandum at Comment 1.

Calculation of Surrogate Values

- For the final determination, we are valuing the inputs of brass connection tube heads and connection tube caps using WTA data for Indian HTS category 7412.20.19. See Issues and Decision Memorandum at Comments 6f and 6h.
- For the final determination, we are valuing valve cores using WTA data for Indian HTS category 8481.90.90. See Issues and Decision Memorandum at 7.

Company-Specific Issues

DunAn

- For the final determination, we are using the U.S. sales and factor of production (“FOP”) databases submitted by DunAn on January 22, 2009.

- For the final determination, we applied, as partial AFA to certain of DunAn’s December 2007 sales, a rate of 55.62 percent (the rate from the initiation of this proceeding) which constitutes the highest rate from this proceeding. See Memorandum regarding “Application of Partial Adverse Facts Available for Zhejiang DunAn Precision Industries Co., Ltd., Zhejiang DunAn Hetian Metal Co., Ltd., and their U.S. subsidiary DunAn Precision Inc. in the Antidumping Investigation of Frontseating Service Valves from the People’s Republic of China” (March 6, 2009) (“Partial AFA Memo”) and Issues and Decision Memorandum at Comment 12c.

- For the final determination, we applied, as partial AFA to the inventory carrying cost (“ICC”) for all of DunAn’s sales during the months of October, November and December 2007, the highest ICC calculated for any sale during the POI. See Partial AFA Memo

and Issues and Decision Memorandum at Comment 12c.

- For the final determination, we are allowing, in part, DunAn’s claimed by-product offsets for scrap sold, and scrap recycled into the production of subject merchandise. See Issues and Decision Memorandum at Comment 12j, and DunAn Analysis Memorandum for the Final Determination, dated March 6, 2009.

Sanhua

- For the final determination, we are using the U.S. sales and FOP databases submitted by Sanhua on January 22, 2009. However, for eight transactions in the U.S. sales database, which did not contain price or selling expense data, we are applying, as facts available, the average margin calculated for each of the CONNUMs associated with these sales. See *Use of Facts Available*, below.

- For the final determination, we are allowing, in part, the by-product offset for scrap claimed by Sanhua. See Issues and Decision Memorandum at Comment 10g.

- For the final determination, to calculate normal value for certain sales that were sold during the POI but produced prior to the POI, we are using the FOPs of subject merchandise produced during the POI with the nearest similar physical characteristics (as demonstrated by the control numbers (“CONNUMs”)) to those products. See Sanhua Analysis Memorandum for the Final Determination.

Scope of Investigation

The merchandise covered by this investigation is frontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof. Frontseating service valves contain a sealing surface on the front side of the valve stem that allows the indoor unit or outdoor unit to be isolated from the refrigerant stream when the air conditioning or refrigeration unit is being serviced. Frontseating service valves rely on an elastomer seal when the stem cap is removed for servicing and the stem cap metal to metal seat to create this seal to the atmosphere during normal operation.³

³The frontseating service valve differs from a backseating service valve in that a backseating service valve has two sealing surfaces on the valve stem. This difference typically incorporates a valve stem on a backseating service valve to be machined of steel, where a frontseating service valve has a brass stem. The backseating service valve dual stem seal (on the back side of the stem), creates a metal to metal seal when the valve is in the open position, thus, sealing the stem from the atmosphere.

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

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

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

description of the scope of this proceeding is dispositive.

Scope Comments

We set aside a period for interested parties to raise issues regarding product coverage. See *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997). In our *Initiation Notice*, we encouraged parties to submit comments regarding the scope of the merchandise under investigation by April 28, 2008. On April 28, 2008, Sanhua submitted scope comments. No other party submitted scope comments. On May 8, 2008, Petitioner submitted rebuttal scope comments. No other party submitted rebuttal comments. Sanhua requested that the Department limit the scope to FSVs made of brass or copper and not include forged products with integrated feet because it believes the scope as written covers too broad a range of service valves. Sanhua argues that service valves may erroneously be classified as FSVs when they enter the United States under the current scope description. Specifically, Sanhua contends that the scope as written currently suggests that FSVs are made of any material. Sanhua argues that, in fact, FSVs must stand up to certain operating conditions and brass FSVs are the only product that meet those conditions and demands. Petitioner argues that the Department should not consider any changes that would limit the scope to specific material composition or mounting type or that would attempt to remove all forged valve bodies from the scope.

In the *Initiation Notice*,⁴ we stated that the scope of merchandise includes FSVs of any size, configuration, material composition or connection type. FSVs are classified under subheading 8481.80.1095, and also have been classified under subheading 8415.90.80.85 of the HTSUS. Additionally, we stated that it is possible for FSVs to be manufactured out of primary materials other than copper and brass, in which case they would be classified under HTSUS subheadings 8481.80.3040, 8481.80.3090, or 8481.80.5090. In the *Preliminary Determination* we stated that, based upon the above, we have preliminarily determined that the scope of the merchandise under consideration as it is currently written clearly describes the scope of the merchandise under consideration. No party submitted comments on scope issues

⁴ See *Frontseating Service Valves from the People's Republic of China: Notice of Initiation of Antidumping Duty Investigation*, 73 FR at 20250, 2025 (April 15, 2008).

addressed in the *Preliminary Determination*. Therefore, we are not making any changes to scope of the proceeding in this final determination.

Surrogate Country

In the *Preliminary Determination*, we stated that we had selected India as the appropriate surrogate country to use in this investigation for the following reasons: (1) It is a significant producer of comparable merchandise; (2) it is at a similar level of economic development comparable to that of the PRC; and (3) we have reliable data from India that we can use to value the factors of production. See *Preliminary Determination* at 62954. For the final determination, we received no comments and made no changes to our findings with respect to the selection of a surrogate country.

Separate Rates

In proceedings involving nonmarket economy ("NME") countries, the Department begins with a rebuttable presumption that all companies within the country are subject to government control and, thus, should be assigned a single antidumping duty deposit rate. It is the Department's policy to assign all exporters of merchandise subject to an investigation in an NME country this single rate unless an exporter can demonstrate that it is sufficiently independent so as to be entitled to a separate rate. See *Final Determination of Sales at Less Than Fair Value: Sparklers from the People's Republic of China*, 56 FR 20588 (May 6, 1991) ("*Sparklers*"), as amplified by *Notice of Final Determination of Sales at Less Than Fair Value: Silicon Carbide from the People's Republic of China*, 59 FR 22585 (May 2, 1994) ("*Silicon Carbide*"), and 19 CFR 351.107(d).

In the *Preliminary Determination*, we found that DunAn and Sanhua demonstrated their eligibility for separate-rate status. For the final determination, we continue to find that the evidence placed on the record of this investigation by DunAn and Sanhua demonstrates both a *de jure* and *de facto* absence of government control, with respect to their respective exports of the merchandise under investigation, and, thus both are eligible for separate rate status.

Use of Facts Available

Section 776(a)(2) of the Act, provides that, if an interested party: (A) Withholds information that has been requested by the Department; (B) fails to provide such information in a timely manner or in the form or manner requested subject to sections 782(c)(1)

and (e) 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 subsection 782(d) of the Act, use facts otherwise available in reaching the applicable determination.

Section 782(e) of the Act states that the Department shall not decline to consider information deemed "deficient" under section 782(d) of the Act if: (1) The information is submitted by the established deadline; (2) the information can be verified; (3) the information is not so incomplete that it cannot serve as a reliable basis for reaching the applicable determination; (4) the interested party has demonstrated that it acted to the best of its ability; and (5) the information can be used without undue difficulties.

Furthermore, section 776(b) of the Act states that if the Department "finds that an interested party has failed to cooperate by not acting to the best of its ability to comply with a request for information from the administering authority or the Commission, the administering authority or the Commission (as the case may be), in reaching the applicable determination under this title, may use an inference that is adverse to the interests of that party in selecting from among the facts otherwise available." See also *Statement of Administrative Action accompanying the Uruguay Round Agreements Act*, H.R. Rep. No. 103-316, Vol. 1 (1994) ("*SAA*") at 870.

For this final determination, in accordance with sections 773(c)(3)(A) and (B) of the Act and section 776(a)(2) and 776(b) of the Act, we have determined that the use of total adverse facts available ("AFA") is warranted for the PRC entity, and partial adverse facts available is warranted for both DunAn and Sanhua, as discussed below.

The PRC-Wide Entity

Because we begin with the presumption that all companies within an NME country are subject to government control and because only the companies listed under the "Final Determination Margins" section below have overcome that presumption, we are applying a single antidumping rate—the PRC-wide rate—to all other exporters of subject merchandise from the PRC. See, e.g., *Synthetic Indigo from the People's Republic of China: Notice of Final Determination of Sales at Less Than Fair Value*, 65 FR 25706 (May 3, 2000). The PRC-wide rate applies to all entries of subject merchandise except for entries from the respondents identified

as receiving a separate rate in the "Final Determination Margins" section below. In the *Preliminary Determination*, the Department found that the PRC-wide entity did not respond to our requests for information because record evidence indicates there were more exporters of FSVs from the PRC during the POI than those that responded to the Q&V questionnaire or the full antidumping questionnaire. Therefore, in the *Preliminary Determination*, we treated these PRC exporters as part of the PRC-wide entity because they did not demonstrate that they operate free of government control over their export activities. No additional information was placed on the record with respect to these entities after the *Preliminary Determination*. In addition, because the PRC-wide entity has not provided the Department with the requested information, pursuant to section 776(a)(2)(A), (B) and (C) of the Act, the Department continues to find that the use of facts available is appropriate to determine the PRC-wide rate. Section 776(b) of the Act provides that, in selecting from among the facts otherwise available, the Department may employ an adverse inference if an interested party fails to cooperate by not acting to the best of its ability to comply with requests for information. See *Notice of Final Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Flat-Rolled Carbon-Quality Steel Products from the Russian Federation*, 65 FR 5510, 5518 (February 4, 2000). See also SAA at 870. We have determined that, because the PRC-wide entity did not respond to our request for information, it has failed to cooperate to the best of its ability. Therefore, the Department finds that, in selecting from among the facts otherwise available, an adverse inference is warranted.

DunAn

The Department finds that it has insufficient information on the record to construct an accurate and otherwise reliable margin with respect to certain of DunAn's December 2007 U.S. sales, and to value DunAn's inventory carrying cost ("ICC") for all sales for the months of October, November and December 2007. Further, we find that the information is not on the record, and that DunAn significantly impeded this proceeding, and provided information that could not be verified, pursuant to sections 776(a)(1) and (2) of the Act. Accordingly, the Department is using the facts otherwise available. Moreover, because the Department finds that DunAn failed to cooperate to the best of its ability, pursuant to Section 776(b) of the Act, the Department has determined

to use an adverse inference when applying partial facts available in this review. Accordingly, as partial AFA for certain U.S. sales, the Department is applying the rate from the initiation, which is 55.62 percent.

Additionally, to value ICC for sales that took place in the months of October, November or December 2007, we have selected as partial AFA the highest ICC expense calculated for any sale during the POI. For a full discussion of this issue see Partial AFA Memo.

Sanhua

On January 16, 2009, subsequent to the verification of Sanhua, we requested that Sanhua submit revised FOP and U.S. sales data bases, incorporating all prior corrections and any additional corrections to its data based on the results of the verification. In that request, we notified Sanhua that upon receipt of a response that is incomplete or deficient, the Department may proceed with the use of facts available. Analysis of the data submitted in the U.S. sales database shows that for eight transactions Sanhua did not include either the sales prices of the FSVs or the selling expenses associated with those sales. Because the Department did not alert Sanhua to this deficiency, and because these eight sales comprise a very small percentage of overall sales that would not have a significant effect on the margin calculation, we have determined to apply to these sales, as facts available, the average margin calculated for each of the CONNUMs associated with these sales.

Corroboration

Section 776(c) of the Act provides that, when the Department relies on secondary information in using the facts otherwise available, it must, to the extent practicable, corroborate that information from independent sources that are reasonably at its disposal. We have interpreted "corroborate" to mean that we will, to the extent practicable, examine the reliability and relevance of the information submitted. See *Notice of Final Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Flat-Rolled Carbon-Quality Steel Products From Brazil*, 65 FR 5554, 5568 (February 4, 2000); see, e.g., *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From Japan, and Tapered Roller Bearings, Four Inches or Less in Outside Diameter, and Components Thereof, From Japan; Preliminary Results of Antidumping Duty Administrative Reviews and Partial Termination of Administrative Reviews*, 61 FR 57391, 57392 (November

6, 1996), unchanged in *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From Japan, and Tapered Roller Bearings, Four Inches or Less in Outside Diameter, and Components Thereof, From Japan: Final Results of Antidumping Duty Administrative Reviews and Termination in Part*, 62 FR 11825 (March 13, 1997).

At the *Preliminary Determination*, in accordance with section 776(c) of the Act, we corroborated our AFA margin by comparing it to the margins we found for the respondents. We found that the margin from the initiation, 55.62 percent, had probative value because it was in the range of margins we found for the mandatory respondents. Similarly, for the final determination, we have also compared the margin from the initiation to the margins calculated for the respondents. We found that the margin from the initiation is within the range of the margins calculated for the mandatory respondents in this investigation.

Because no parties commented on the selection of the PRC-wide rate, we continue to find that the margin of 55.62 percent has probative value. Accordingly, we find that the rate of 55.62 percent is corroborated within the meaning of section 776(c) of the Act.

Critical Circumstances

In the *Preliminary Determination*, we did not find that critical circumstances exist with respect to either the PRC-wide entity or the mandatory respondents. For this final determination, we continue to find that critical circumstances do not exist with respect to either the PRC-wide entity or the mandatory respondents. For a detailed discussion of our findings, see Issues and Decision Memorandum at Comment 2.

Combination Rates

In the *Preliminary Determination*, the Department stated that it would calculate combination rates for the respondents that are eligible for a separate rate in this investigation. See *Preliminary Determination*, 73 FR at 62961. This change in practice is described in Policy Bulletin 05.1, "Separate Rates Practice and Application of Combination Rates in Antidumping Investigations Involving Non-Market Economy Countries." available at <http://ia.ita.doc.gov/policy/index.html>.

Final Determination Margins

We determine that the following percentage weighted-average margins exist for the POI:

Exporter/Producer combination	Per- cent margin
Exporter: Zhejiang Sanhua Co., Ltd. Producer: Zhejiang Sanhua Co., Ltd.	28.44
Exporter: Zhejiang DunAn Hetian Metal Co., Ltd. Producer: Zhejiang DunAn Hetian Metal Co., Ltd.	12.95
PRC-Wide Entity *	55.62

* The PRC-wide entity includes Tianda.

Disclosure

We will disclose the calculations performed within five days of the date of publication of this notice to parties in this proceeding in accordance with 19 CFR 351.224(b).

Continuation of Suspension of Liquidation

In accordance with section 735(c)(1)(B) of the Act, we are directing U.S. Customs and Border Protection ("CBP") to continue to suspend liquidation of all imports of subject merchandise entered, or withdrawn from warehouse, for consumption on or after October 22, 2008, the date of publication of the *Preliminary Determination* in the **Federal Register**. We will instruct CBP to continue to require a cash deposit or the posting of a bond for all companies based on the estimated weighted-average dumping margins shown above. The suspension of liquidation instructions will remain in effect until further notice.

ITC Notification

In accordance with section 735(d) of the Act, we have notified the International Trade Commission ("ITC") of our final determination of sales at LTFV. As our final determination is affirmative, in accordance with section 735(b)(2) of the Act, within 45 days the ITC will determine whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports or sales (or the likelihood of sales) for importation of the subject merchandise. 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 CBP to assess antidumping duties on all imports of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the effective date of the suspension of liquidation.

Notification Regarding APO

This notice also serves as a reminder to the parties subject to administrative protective order ("APO") of their responsibility concerning the disposition of proprietary information disclosed under APO in accordance with 19 CFR 351.305. Timely notification of return or destruction of APO materials or conversion to judicial protective order is hereby requested. Failure to comply with the regulations and the terms of an APO is a sanctionable violation.

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

Dated: March 6, 2009.

Ronald K. Lorentzen,
Acting Assistant Secretary for Import Administration.

APPENDIX I—LIST OF ISSUES IN THE ACCOMPANYING ISSUES AND DECISION MEMORANDUM

I. General Issues

- Comment 1: Selection of Surrogate Financial Statements and Calculation of the Surrogate Financial Ratios
- Comment 1a: Treatment of Job Work Expenses
- Comment 1b: Treatment of Commissions, Advertising and Other Selling Expenses
- Comment 1c: Treatment of Other Income Earned From Non-Essential Business
- Comment 1d: Treatment of Taxes Other Than Corporate Income Tax or Value Added Tax
- Comment 1e: Treatment of Generator Expenses
- Comment 1f: Treatment of "Gratuity" Benefit Program Expenses
- Comment 2: Whether Critical Circumstances Exist for Both Respondents and the PRC-Entity
- Comment 3: Regression Analysis for the Labor Wage Rate
- Comment 4: Whether to Exclude Imports from Japan, France and the UAE in the Surrogate Value Calculation for Brass Bar
- Comment 5: Whether to Exclude Imports of Sri Lankan Re-Melted Brass Ingots and Cast "Wire Bars" from the Surrogate Value Calculation for Brass Bar
- Comment 6: Valuation of Valve Components Other Than Valve Cores
- Comment 7: Valuation of Valve Cores
- Comment 8: Surrogate Value Source for Electricity

II. Sanhua-Specific Issues

- Comment 9: Whether to Apply Total Adverse Facts Available to Sanhua
- Comment 10: Whether to Apply Partial Adverse Facts Available to Sanhua
- Comment 10a: Certain Unreported U.S. Sales
- Comment 10b: Certain Omitted Credit Memos
- Comment 10c: Unreported Shrink Wrap
- Comment 10d: Pallet Use

- Comment 10e: Material and Exchange Rate Surcharges
- Comment 10f: Missing International Movement Expenses
- Comment 10g: Scrap Offsets
- Comment 10h: Unreported Electricity Consumption
- Comment 10i: Unreported Ammonia Consumption
- Comment 10j: Weight of Cardboard Cartons
- Comment 10k: Plastic Bags for Scrap

III. DunAn-Specific Issues

- Comment 11: Whether to Apply Total Adverse Facts Available to DunAn
 - Comment 12: Whether to Apply Partial Adverse Facts Available to DunAn
 - Comment 12a: Affiliation With U.S. Customer
 - Comment 12b: Whether DunAn Reported Wrong Date of Sale
 - Comment 12c: Whether DunAn Failed to Reconcile Quantity and Value and Completeness
 - Comment 12d: Reported Weights
 - Comment 12e: Cost Reconciliation
 - Comment 12f: Brass Bar and Other Materials
 - Comment 12g: Electricity Consumption
 - Comment 12h: Ammonia Consumption
 - Comment 12i: Labor Consumption
 - Comment 12j: By-Product Offset for Brass Scrap
 - Comment 13: Weight of Pallets Consumed
- [FR Doc. E9-5480 Filed 3-12-09; 8:45 am]

BILLING CODE 3510-DS-P

APPENDIX B
LIST OF HEARING WITNESSES

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: Frontseating Service Valves from China
Inv. No.: 731-TA-1148 (Final)
Date and Time: March 10, 2009 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, SW, Washington, DC.

OPENING REMARKS:

Petitioner (**Donald R. Dinan**, Roetzel & Andress, LPA)
Respondents (**David J. Craven**, Riggle & Craven)

In Support of the Imposition of an Antidumping Duty Order:

Roetzel & Andress, LPA
Washington, DC
on behalf of

Parker-Hannifin Corporation

Darryl Miller, General Manager, Climate Systems Division, Parker-Hannifin
Chris J. Nelson, Division Market Development Manager,
Climate Systems Division, Parker-Hannifin
Dr. Patrick Magrath, Managing Director, Georgetown Economic Services, LLC
Brad Hudgens, Economist, Georgetown Economic Services, LLC

Donald R. Dinan)
Craig A. Koenigs) OF COUNSEL

In Opposition to the Imposition of an Antidumping Duty Order:

Riggle & Craven
Chicago, IL
on behalf of

Zhejiang Sanhua Co., Ltd.

Mark Jin, Vice President, Sanhua International, Inc.
Tony Guo, Marketing Manager, Sanhua International, Inc.

David J. Craven – OF COUNSEL

Grunfeld, Desiderio, Lebowitz, Silverman & Kledstadt LLP
Washington, DC
on behalf of

Zhejiang DunAn Hetian Metal Co., Ltd.

Ned H. Marshak – OF COUNSEL

REBUTTAL/CLOSING REMARKS:

Petitioner (**Donald R. Dinan**, Roetzel & Andress, LPA)
Respondents (**David J. Craven**, Riggle & Craven)

APPENDIX C
SUMMARY DATA

Table C-1
FSVs: Summary data concerning the U.S. market, 2005-08

* * * * *

APPENDIX D

PURCHASERS' REPORTED PURCHASES BY SOURCE

Table D-1
FSVs: Purchases of FSVs, by source, as reported by purchasers, 2005-2007, January-September 2007,
and January-September 2008

* * * * *