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## **I. ALLEGATION OF SALES AT LESS THAN FAIR VALUE**

This petition seeks the imposition of antidumping duties on imports of NOES from Japan. As discussed below, Japanese producers and exporters have sold, or offered for sale, NOES in the United States for less than fair value. Furthermore, there is a reasonable indication that sales of NOES in the Japanese home market were made at prices substantially below the fully-loaded cost of production. Accordingly, Petitioner based Normal Value on Constructed Value. Petitioner requests that the Department initiate an investigation into whether sales are made in the United States at less than fair value and also initiate sales below cost investigations.

The general information required by Section 351.202 of the Department's regulations is provided in Volume I of this petition.

## **II. JAPANESE PRODUCERS AND EXPORTERS OF NOES**

### **A. Description Of The Japanese Industry**

NOES is manufactured in Japan by JFE Steel Corporation ("JFE Steel") and Nippon Steel & Sumitomo Metal Corporation ("NSSMC"). The names and contact information for producers and exporters of NOES in Japan are listed in Volume I: General Issues And Injury at Exhibit I-2. The information provided in that exhibit is the information reasonably available to Petitioner. Petitioner believes that merchandise produced by these companies accounts for virtually all U.S. imports of NOES from Japan during the presumptive POI of July 1, 2012 through June 30, 2013.

### **B. Production Processes Of Japanese Producers**

Both Japanese producers are fully integrated. Their production of NOES begins with iron produced from the blast furnace method, converting the iron to steel in a basic oxygen furnace, and refining the steel prior to continuously casting steel slabs with the required high-silicon low-carbon chemistry used in NOES. The slabs are subsequently hot-rolled into steel coil, and then further cold-rolled. As with other NOES producers, the methods used in the cold-rolling process

and controlled annealing processes result in products with the unique electrical characteristics of NOES.<sup>1</sup>

### C. Known Importers Of Japanese NOES

A complete list of known importers of Japanese-manufactured NOES is contained in Volume I: General Issues And Injury at Exhibit I-3.

## III. CALCULATION OF DUMPING MARGINS

### A. Normal Value Based On Price

#### 1. The Japanese home market is viable

Petitioner does not have access to JFE Steel's or NSSMC's sales volumes in their home market compared to their export sales to the United States. Data, however, on sales tonnages of all electrical steels (including both oriented and non-oriented electrical steels) released by The Japan Iron & Steel Federation and published in Basic Facts About Nippon Steel And Sumitomo Metal indicate that the Japanese home market should be viable.<sup>2</sup>

Sales By Market (1,000 MT)	2010	2011	2012
Domestic Order Receipts	514	524	490
Exports	949	969	799
Total Sales	1,463	1,493	1,289
Domestic Sales % Of Total	35%	35%	38%

<sup>1</sup> See **Exhibit IV-1** for a description of JFE Steel's production process. (<http://www.jfe-steel.co.jp/en/works/west/process.html>). See also **Exhibit IV-2 Basic Facts About Nippon Steel & Sumitomo Metal 2013** at 92-94. [http://www.nssmc.com/en/ir/library/pdf/factbook2013\\_all.pdf](http://www.nssmc.com/en/ir/library/pdf/factbook2013_all.pdf).

<sup>2</sup> *Id.* at 91, 110.

Given that total domestic electrical steel sales are more than a third of the Japanese industry's total electrical steel sales, it is reasonable to assume that domestic sales of NOES will meet the Department's five percent threshold for market viability.

## **2. Normal value based on home market prices**

Petitioner first attempted to determine Normal Value based on price quotes. Specifically, using a confidential source, Petitioner obtained prices for both home market and export sales to the United States for various grades of NOES from JFE Shoji Trade Corporation, a sales subsidiary of JFE Steel. Petitioner also obtained prices for both home market and export sales to the United States from Metal One Corporation, an independent steel trader. The products sold by Metal One were produced by NSSMC. Accordingly, a comparison of export prices with prices in the Japanese market is an appropriate basis upon which to estimate dumping margins for JFE Steel and NSSMC. **Exhibit IV-3** contains a summary of the information found by the confidential source as well as the calculations of ex-factory prices.

### **a) Normal Value based on price for JFE Steel**

The home market price quotations described in Exhibit IV-3 include delivery charges to distributor storage locations and a 5 percent value added tax ("VAT"). Petitioner deducted the 5 percent VAT in its net price calculation. Petitioner did not adjust for inland freight because both the domestic and export price quotations included domestic freight to major centers. Because there is no reasonable way to estimate freight for multiple theoretical locations, Petitioner assumes that both domestic and export inland freight are comparable.

Payment terms were not provided by JFE Steel for either market. Accordingly, Petitioner did not estimate credit expenses in either market.

Petitioner did not adjust for differences in packing costs because Petitioner has no basis for estimating such costs. Petitioner packages its domestic steel shipments with steel strapping, an outer paper wrap, inner ring protector, and a pallet. JFE Steel's Electrical Steel Sheets catalog

(page 26) contains pictures of its far more advanced packaging that one would expect for ocean-going transport. **Exhibit IV-4.** This packaging has galvanized steel outer sheeting, metal banding, inner rustproof paper wrapping, inner ring protectors, or press board protectors, and a pallet depending on whether the product is shipped upright or not.

To the extent that the export shipments are packaged in more advanced protective casings than domestic shipments, Petitioner understated the degree of dumping by omitting the additional packaging expenses for exports. If JFE Steel's domestic and export packaging is identical, then there is no need to adjust for packing differences.

No adjustment was made for differences in physical characteristics of the products being compared, because pricing was obtained for identical products sold to both markets.

No adjustment was made for trading company mark-up, because JFE Shoji Trade is a subsidiary of JFE Steel. The quotation was exclusive of a per coil storage charge which would be in addition to the prices quoted. Since the prices were exclusive of this charge, no deductions were made.

The calculation of Normal Value for JFE Steel is included in Exhibit IV-3.

**b) Normal Value based on price for NSSMC**

The quotation from NSSMC contains very similar terms to those from JFE Steel. Accordingly, Petitioner also deducted the 5 percent VAT in its net price calculation for NSSMC. Petitioner also did not adjust for inland freight, payment terms, packaging, or physical characteristics for the reasons described above.<sup>3</sup>

Petitioner did adjust for trading company mark-up, because Metal One is an independent steel trading company. The calculation of the trading company mark-up for NSSMC is contained in **Exhibit IV-6.**

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<sup>3</sup> **Exhibit IV-5** contains NSSMC's electrical steel products brochure. Unlike the JFE Steel brochure, it does not depict its packaging options or indicate coil weights.



The quotation included all storage charges. These were not separately identified by Metal One. Petitioner assumes that these charges would be similar to those reported in the JFE quotation. Therefore, Petitioner adjusted for storage charges in the ex-factory price calculation for NSSMC in Exhibit IV-3.

Home market prices were quoted in Yen and converted to U.S. dollars using the Federal Reserve official exchange rate prevailing on the date of sale. The exchange rate is provided in **Exhibit IV-7**.

**c) Home market prices for JFE Steel and NSSMC are sold below the fully-loaded cost of production**

Petitioner estimated the fully loaded cost of production in Japan for the identical products quoted by JFE Shoji and Metal One. A complete description of the methodologies used to estimate such costs is provided below.

Petitioner then compared the estimated fully loaded cost of production to the home market ex-factory prices. **Exhibit IV-8** contains the results of this calculation. The products manufactured by JFE Steel and NSSMC were sold significantly below cost. Consequently, Petitioner did not base Normal Value on price-to-price comparisons, but rather on price-to-Constructed Value comparisons.

**B. Normal Value Based On Constructed Value**

Petitioner does not have access to the Japanese producers' factor inputs or factor consumption rates in order to determine their costs in Japan. Accordingly, Petitioner relied on AK Steel's actual direct material consumption of raw material inputs, labor usage, and energy consumption as an estimate of the Japanese producers' factors of production. Petitioner then valued those factor inputs using Japanese import statistics and other information from Japan. See **Exhibit IV-9**. This exhibit also contains a declaration by AK Steel's cost accountant as to the source of the data provided. Factory overhead is a hybrid estimate based partially on AK

Steel's production experience and partially on the Japanese producers' experience and is described more fully below. SG&A expenses and profit are based on the financial results of JFE Steel and NSSMC. Where it was necessary to rely on data from a period preceding the POI, Petitioner inflated such values to reflect current prices using price index data for Japan.

### 1. Direct materials and scrap

Petitioner calculated the Japanese producers' cost of direct materials and scrap by using the average CIF import value of these materials at the Japanese port, imported into Japan for the period July 2012 through June 2013. Consistent with Department practice, Petitioner excluded imports from non-market economies, countries with generally-available export subsidies, and unspecified countries. See **Exhibit IV-10**. Petitioner added to this value the average Japanese brokerage and handling reported for importing goods into Japan in *Doing Business 2013: Japan*, published by the World Bank. See **Exhibit IV-11**. There are a number of other small material inputs and supplies in the cost models that represent a very small portion of AK's total actual costs. Because the Japanese financial statements do not disaggregate energy from other factory costs and, therefore, Petitioner cannot determine actual Japanese factory costs with the exception of depreciation, the petition uses AK Steel's own costs as the best information reasonably available to Petitioner to value these overhead items.

### 2. Labor

Petitioner valued labor using information published by the U.S. Bureau of Labor Statistics, *International Labor Comparisons: International Comparisons of Hourly Compensation Costs in Manufacturing Industries, by Industry, 2008-2012*. According to these data, in 2012, the Japanese hourly compensation costs for the manufacture of basic metals (ISIC 24) was US\$40.98/hour. See **Exhibit IV-12**. Petitioner calculated the Japanese producers' cost of labor (wages and benefits) by applying this rate, and deflated this value to the POI using the Japanese CPI. The resulting labor rate is US\$40.89/hour. See **Exhibit IV-12**.

### 3. Energy and utilities

Petitioner relied upon publicly available information to value electricity and natural gas in Japan. The average rate for electricity for industrial uses, as reported in the latest available edition of *Energy Prices & Taxes*, published by the International Energy Agency (“EIA”) for 2012, was 15,504 Yen per 1,000 kilowatt-hour (or Yen 15.504 per kilowatt hour or US\$ 0.1862 per kilowatt hour after converting to U.S. dollars). See **Exhibit IV-13**. Petitioner used the same EIA publication to value natural gas. The latest available data from Japan, for the year 2011, was Yen 5,611 per mWH GCV. Petitioner converted this amount to Yen/mmBTU and then to US\$/mmBTU using universal conversion factors. Petitioner then adjusted this value to a POI value of US\$ 19.571/mmBTU. The calculations are also contained in Exhibit IV-13.

### 4. Factory overhead, SG&A, and profit

Petitioner used the 2012-2013 fiscal year financial statements of JFE Steel and NSSMC to calculate surrogate financial ratios.

As noted above, the Japanese financial statements are not disaggregated to a level where factory overhead can be calculated as a percentage of direct material, labor, and energy. Petitioner calculated depreciation as a percentage of direct material, labor, and energy and used Petitioner’s own costs for the remainder of factory overhead costs. The SG&A and profit ratios were calculated according to the Department’s normal practice. See **Exhibit IV-14** for the financial ratio calculation worksheets and copies of JFE Steel’s and NSSMC’s audited financial statements as excerpted from their annual reports.

### 5. Packing inputs

The packing costs reflected in the cost model are conservative in that they relate to domestic shipments. Petitioner valued the labor associated with packing using the surrogate labor rate, as described in the direct materials section, above. There are a number of other small packing material inputs and supplies in the cost models that represent a very small portion of AK

Steel's total actual costs. As discussed above with respect to adjustments to ex-factory prices, the packaging materials used by both Japanese producers for exports are more elaborate and undoubtedly more costly than those used by AK Steel in its domestic shipments. Moreover, the Japanese steel mills ship much of their output, domestic sales included, by water. Japanese packaging costs for domestic sales are therefore likely to be higher than AK Steel's domestic packaging costs. To the extent that Japanese packaging is more elaborate than AK Steel's, both cost of production and Constructed Value are understated.

#### **IV. EXPORT PRICE**

##### **A. Export Price Based On Actual Price Quotes**

Petitioner determined Normal Value based upon price quotes. As noted above, Petitioner obtained prices for both home market and export sales to the United States for various grades of NOES from JFE Shoji and Metal One Corporation. Exhibit IV-3 contains a summary of the information found by the confidential source as well as the calculations of ex-factory prices for the export quotations to the United States.

Petitioner calculated ex-factory prices for the U.S. offers using the same methodologies used to calculate ex-factory prices for domestic sales. Petitioner also deducted brokerage and handling charges for exports. Petitioner estimated the foreign brokerage and handling costs using cost information published by the World Bank. Exhibit IV-11 contains the calculation worksheet and excerpts from the World Bank Trading Across Borders publication.

##### **B. Export Price Based On A Comparison Of Ship Manifest Data And Official U.S. Import Statistics**

U.S. Customs and Border Protection's Automated Manifest System ("AMS") contains detailed information regarding goods that arrive at U.S. ports. These data include the name of the shipper, consignee, date of arrival, port of departure, port of arrival, gross weight of the shipments, descriptions of the merchandise, and marks and numbers appearing on the outer

packaging of the merchandise. Petitioner queried this data base to identify shipments of NOES entering the United States.

Official U.S. Customs Import Statistics do not identify these details in publicly available form. The data can, however, be disaggregated by country, HTS subclassification, month of entry, district of unloading, and district of entry.

Petitioner determined whether individual entries of products could be matched so as to align the names of specific shippers, consignees, products, shipment quantities, and actual import prices for specific shipments. Petitioner was able to identify one shipment of NOES from Japan where the quantities of the shipments and port of unloading matched exactly. Petitioner then linked the names of the buyer and seller, a specific product, and the actual FOB Foreign Port price charged to the U.S. buyer. **Exhibit IV-15** contains a summary of the results and copies of the relevant data output from the data sets.

The shipper was Kanematsu Corporation. The product shipped was manufactured by JFE Steel as identified by the marks and numbers on the packages. Petitioner used the same methodologies employed in its calculations of ex-factory prices for Normal Value and Export Price as described above. Petitioner calculated Kanematsu Corporation's dealer mark-up using Kanematsu's financial statements. The calculations and relevant financial statements are contained in Exhibit IV-6.

The calculation of Export Price and a comparison to Constructed Value are also contained in Exhibit IV-15.

### **C. Export Price Based On The Average POI Customs Value For NOES**

As a final indication of Export Price, Petitioner calculated the weighted-average POI Customs Value (i.e., FOB Foreign Port Value) for all NOES products entered from Japan during

the POI. These data are calculated directly from the official U.S. import statistics and are contained in **Exhibit IV-16**.

## **V. DUMPING MARGINS**

### **A. Comparison Of Price To Constructed Value**

Using the FOP cost model discussed above, Petitioner calculated model-specific dumping margins for JFE's NOES ranging from 88.33 percent to 122.22 percent and for NSSMC's NOES ranging from 134.49 percent to 185.84 percent. See **Exhibit IV-17**

### **B. Comparison Of Ship Manifest And Official Import Data Analysis Derived Price To Constructed Value**

Using the FOP cost model discussed above, compared to the pricing data derived from the ship manifest and official import data analysis, Petitioner calculated model-specific dumping margins for JFE's NOES sold by Kanematsu Corporation of 221.43 percent. This calculation is contained along with the ex-factory price calculation in **Exhibit IV-15**.

### **C. Comparison Of Average Customs Value For U.S. Imports Of Japanese NOES To The Lowest Cost NOES Product Produced By AK Steel**

Finally, Petitioner compared the weighted-average Customs Value for all U.S. imports of Japanese-produced NOES during the POI to the calculated Constructed Value of the least costly NOES product that AK Steel produces. NOES covers a range of products with widely differing sales prices. By calculating the least costly Constructed Value and using it as the comparison to the weighted average price of imports that would include many higher priced goods, Petitioner calculates an extremely conservative measure of dumping. The Constructed Value calculations are contained in **Exhibit IV-9** along with the other calculations of product-specific Constructed Values. **Exhibit IV-18** contains the resulting dumping comparison that results in a margin of 114.84 percent.

**VI. MATERIAL INJURY AND THREAT OF MATERIAL INJURY TO THE DOMESTIC INDUSTRY**

Petitioner alleges that imports of NOES from Japan sold at less than fair value are a cause of material injury and threaten to cause material injury to the domestic industry. The factual information in support of this allegation is provided to the Department and the Commission in Volume I of this petition.

**VII. CONCLUSION AND REQUEST FOR INVESTIGATION**

As demonstrated above, Japanese producers and exporters are selling NOES for less than fair value in the United States. Accordingly, Petitioner requests that the Department initiate an antidumping duty investigation on NOES from Japan. Also, as demonstrated above, Japanese producers of NOES are selling this merchandise at home market prices for less than the fully loaded cost of production. Accordingly, Petitioner requests that the Department initiate a sales below cost investigation for both JFE Steel and NSSMC.