

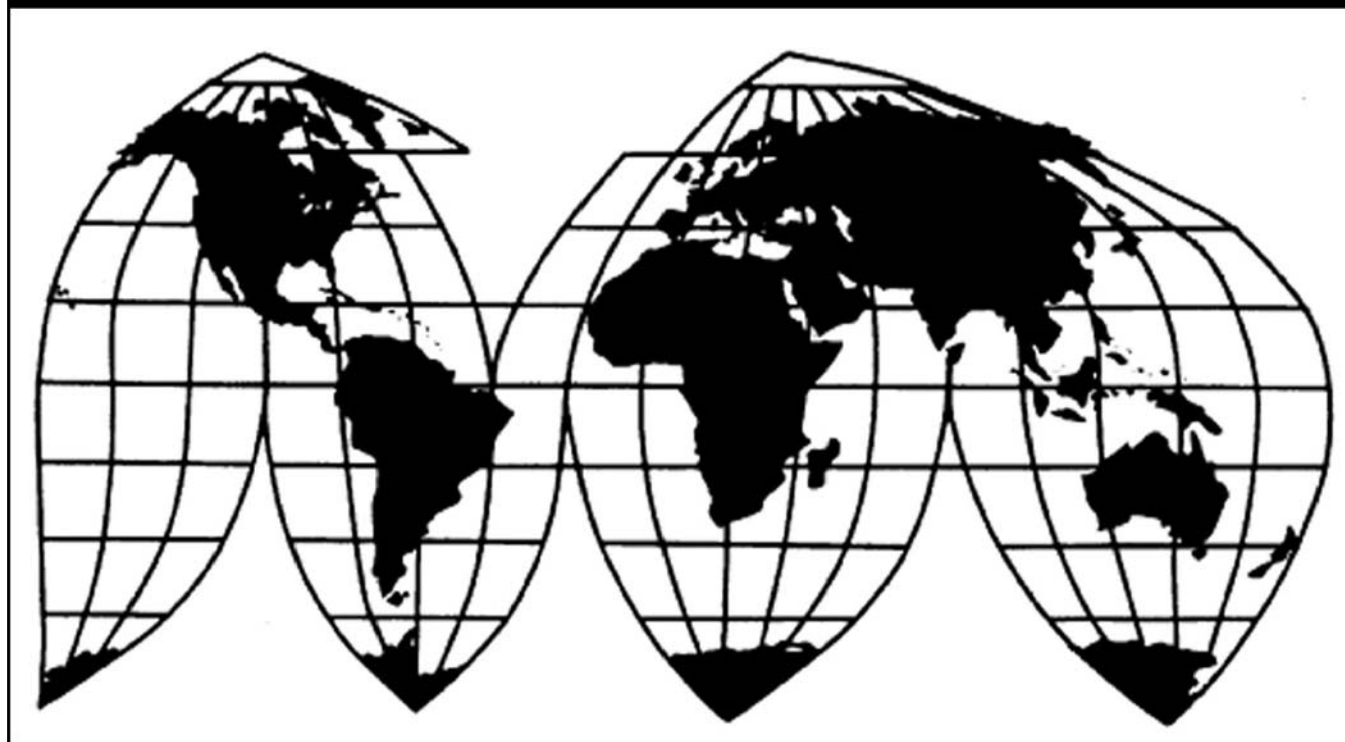
# Frontseating Service Valves From China

Investigation No. 731-TA-1148 (Preliminary)

Publication 3999

May 2008

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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**Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.**

## UNITED STATES INTERNATIONAL TRADE COMMISSION

### Investigation No. 731-TA-1148 (Preliminary) Frontseating Service Valves From China

#### DETERMINATION

On the basis of the record<sup>1</sup> developed in the subject investigation, the United States International Trade Commission (Commission) determines, pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) (the Act), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China of frontseating service valves that are alleged to be sold in the United States at less than fair value (LTFV).

#### COMMENCEMENT OF FINAL PHASE INVESTIGATION

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigation concerning frontseating service valves from China. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission's rules, upon notice from the Department of Commerce (Commerce) of an affirmative preliminary determination in the investigation under section 733(b) of the Act, or, if the preliminary determination is negative, upon notice of an affirmative final determination in this investigation under sections 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigation need not enter a separate appearance for the final phase of the investigation. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

#### BACKGROUND

On March 19, 2008, a petition was filed with the Commission and Commerce by Parker-Hannifin Corp., Cleveland, OH, alleging that an industry in the United States is materially injured or threatened with material injury by reason of LTFV imports of frontseating service valves from China. Accordingly, effective March 19, 2008, the Commission instituted antidumping duty investigation No. 731-TA-1148 (Preliminary).

Notice of the institution of the Commission's investigation and of a public conference 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 March 26, 2008 (73 FR 16059). The conference was held in Washington, DC, on April 8, 2008, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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





## IEWS OF THE COMMISSION

Based on the record in the preliminary phase of this investigation, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of frontseating service valves (“FSVs”) from China that allegedly are sold in the United States at less than fair value (“LTFV”).

### I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping determinations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured, threatened with material injury, or whether the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.<sup>1</sup> In applying this standard, the Commission weighs the evidence before it and determines whether “(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation.”<sup>2</sup>

### II. BACKGROUND

The petition in this investigation was filed by domestic producer Parker-Hannifin Corporation (“Parker”). Representatives from Parker, the sole domestic producer, appeared at the staff conference accompanied by counsel and also filed a postconference brief. Counsel for Zhejiang DunAn Hetian Metal Co., Ltd. and DunAn Precision, Inc. (collectively “DunAn”), producer and importer, respectively, of subject merchandise, as well as counsel for Zhejiang Sanhua Co., Ltd. (“Sanhua”), a foreign producer and importer of subject merchandise, also appeared at the staff conference and filed postconference briefs. In addition, a representative of Goodman Global, Inc. (“Goodman”), a purchaser, appeared at the staff conference accompanied by counsel and filed a postconference brief. Although counsel for Johnson Controls, Inc. and its subsidiary York International Corp., a purchaser, filed an entry of appearance on the day of the conference, no representative or counsel for those firms appeared at the staff conference or filed postconference briefs. No other producer, exporter, or importer of the subject merchandise appeared at the conference or submitted a postconference brief.

### III. DOMESTIC LIKE PRODUCT AND DOMESTIC INDUSTRY

#### A. In General

In determining whether there is a reasonable indication that 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.”<sup>3</sup> Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Act”), defines the relevant domestic industry as the “producers as a

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<sup>1</sup> 19 U.S.C. §§ 1671b(a) and 1673b(a); see also, e.g., Co-Steel Raritan, Inc. v. United States, 357 F.3d 1294 (Fed. Cir. 2004); American Lamb Co. v. United States, 785 F.2d 994, 1001-1004 (Fed. Cir. 1986); Aristech Chemical Corp. v. United States, 20 CIT 353, 354 (1996). No party argued that the establishment of an industry is materially retarded by reason of the allegedly unfairly traded imports.

<sup>2</sup> American Lamb, 785 F.2d at 1001 (Fed. Cir. 1986); see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

<sup>3</sup> 19 U.S.C. § 1677(4)(A).

[w]hole 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.”<sup>4</sup> In turn, the 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.”<sup>5</sup>

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.<sup>6</sup> No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.<sup>7</sup> The Commission looks for clear dividing lines among possible like products and disregards minor variations.<sup>8</sup> Although the Commission must accept the determination of the U.S. Department of Commerce (“Commerce”) as to the scope of the imported merchandise allegedly sold at LTFV,<sup>9</sup> the Commission determines what domestic product is like the imported articles Commerce has identified.<sup>10</sup> The Commission must base its domestic like product determination on the record in this investigation. The Commission is not bound by prior determinations, even those pertaining to the same imported products, but may draw upon previous determinations in addressing pertinent like product issues.<sup>11</sup>

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<sup>4</sup> 19 U.S.C. § 1677(4)(A).

<sup>5</sup> 19 U.S.C. § 1677(10).

<sup>6</sup> See, e.g., 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).

<sup>7</sup> See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

<sup>8</sup> Nippon Steel, 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.”).

<sup>9</sup> See, e.g., USEC, Inc. v. United States, Slip Op. 01-1421 (Fed. Cir. April 25, 2002) at 9 (“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).

<sup>10</sup> Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); Torrington, 747 F. Supp. at 748-752 (affirming Commission determination of six like products in investigations where Commerce found five classes or kinds).

<sup>11</sup> Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp. 2d 1298, 1304-05 (Ct. Int’l Trade 2000); Nippon Steel Corp. v. United States, 19 CIT at 455; Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n.5 (Ct. Int’l Trade 1988) (particularly addressing like product determination); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int’l Trade 1988).

## **B. Product Description**

Commerce's notice of initiation defines the imported merchandise within the scope of this investigation as FSVs,

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.<sup>12</sup>

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

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<sup>12</sup> A frontseating service valve differs from a backseating service valve in several ways. A FSV has a brass stem, whereas a BSV typically has a steel stem. Further, a FSV has one sealing surface on the front side of the valve stem, whereas a BSV has two sealing surfaces on the valve stem, which results in faster charging times. A FSV is used primarily in air conditioning systems and a BSV is largely used in refrigeration applications. Petition at 4-6; Parker's Postconference Brief at 5-6; Tr. at 13-14 (Mr. Miller).

8481.90.5000. The HTSUS numbers are provided for convenience and customs purposes, but the written description of the scope is dispositive.<sup>13</sup>

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.<sup>14</sup>

### **C. Domestic Like Product**

Petitioner Parker argues that the domestic like product is coextensive with the definition of the subject merchandise. It asserts that the two other service valves used in the United States, backseating service valves (“BSVs”) and ball valves, are used for separate and distinct functions, and therefore should not be included in the domestic like product. In addition, Parker and respondent Sanhua argue that all FSVs, notwithstanding their various sizes, constitute a single domestic like product.<sup>15 16</sup> For the reasons explained below, we define a single domestic like product that is coextensive with the scope of the investigation, consisting of FSVs.

#### **1. FSVs, BSVs and Ball Valves**

*Physical Characteristics and End Uses.* All FSVs are designed to be used in residential air conditioning and heating systems, such as split air conditioning equipment and heat pumps. They perform three primary functions: (1) they contain the refrigerant in the condensing unit prior to the installation; (2) they provide a shut-off capability that enables the unit to be serviced once installed; and (3) they 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. All FSVs contain one sealing surface on the front side of the valve stem.<sup>17</sup> FSVs are located 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.<sup>18</sup> Every split air conditioning and heat pump unit includes two FSVs: one is a larger diameter valve used for outgoing refrigerant gas, while the other is a smaller diameter valve used for incoming compressed liquid.<sup>19</sup>

FSVs are made almost entirely from brass and copper. BSVs also have a stem made of steel, while ball valves are made of brass, copper and steel, as well as Teflon, nylon, and stainless steel springs and retainers.<sup>20</sup> The design and parts for BSVs are different from those for FSVs. BSVs have two sealing surfaces and are generally used in refrigeration applications, not residences.<sup>21</sup> Ball valves use a machined

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<sup>13</sup> 73 Fed. Reg. 20,250, 20,251 (Apr. 15, 2008).

<sup>14</sup> Confidential Report (“CR”) at I-3, Public Report (“PR”) at I-2.

<sup>15</sup> Petition at 10; Parker’s Postconference Brief at 4, 7; Sanhua’s Postconference Brief at 15; Sanhua’s Response to Questions of Staff at 2.

<sup>16</sup> Respondent DunAn and purchaser Goodman provided no comment on the appropriate domestic like product.

<sup>17</sup> CR at I-7 - I-8, PR at I-5 - I-6.

<sup>18</sup> CR at I-8, PR at I-6.

<sup>19</sup> CR at I-7, PR at I-6.

<sup>20</sup> Parker’s Postconference Brief at 11-12.

<sup>21</sup> See CR at I-7 & n.18, PR at I-5 & n.18.

rotating ball with a hole through it to provide sealing, while the FSV uses a brass stem.<sup>22</sup> Similar to BSVs, ball valves are used in high-end air conditioning and refrigeration units.<sup>23</sup>

*Interchangeability.* FSVs have different performance requirements and original equipment manufacturer (“OEM”) specifications as compared to BSVs and ball valves. As a consequence, FSVs are not interchangeable with BSVs and ball valves.<sup>24</sup>

*Channels of Distribution.* During the period of investigation, \*\*\* FSV shipments were to \*\*\*, *i.e.* the major air conditioning system OEMs, and there were \*\*\*. BSVs and ball valves are also sold to OEMs, but only for installation and use in high-end air conditioning and refrigeration units.<sup>25</sup>

*Manufacturing Facilities, Production Processes, and Employees.* The major components of FSVs are made on dedicated machinery and equipment.<sup>26</sup> None of the components for BSVs or ball valves are manufactured on the same machinery and equipment used to produce FSV components. The machinery used to assemble FSVs is also dedicated solely to FSV production.<sup>27</sup>

*Producer and Customer Perceptions.* According to Parker, customers and producers perceive distinct differences among FSVs, BSVs and ball valves. FSVs are allegedly perceived as the lowest cost service valve and the standard valve for the OEMs’ standard units. BSVs and ball valves, on the other hand, are perceived to be higher cost items and are only used in premium, *i.e.* high-end, air conditioning and refrigeration units.<sup>28</sup>

*Price.* Parker contends that BSVs cost much more than FSVs because of the extra external seals on the valve body and stem and the faster charging times, and that ball valves cost more because of the higher valve complexity, the machined ball and the Teflon seal incorporated into the ball valve.<sup>29</sup> The record contains information that Parker’s \*\*\* FSVs range in price from \$\*\*\* to \$\*\*\* per unit, while its comparably sized BSVs range in price from \$\*\*\* to \$\*\*\* per unit and its comparably sized ball valves range in price from \$\*\*\* to \$\*\*\* per unit.<sup>30</sup>

*Conclusion.* We do not include BSVs or ball valves in the domestic like product. We base this finding on 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 the products.

## 2. Various Sizes of FSVs

As indicated above, Parker and Sanhua argue that FSVs of all sizes have the same physical characteristics (including the same component parts) and uses. Different size valves are always used in conjunction with each other. As previously stated, every split air conditioning and heat pump unit contains a smaller diameter valve used for incoming compressed liquid and a larger diameter valve used for outgoing refrigerant gas. All sizes of FSVs are sold through the same channels of distribution, all are made on the same dedicated machinery using the same manufacturing process, and all are perceived by

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<sup>22</sup> Parker’s Postconference Brief at 5; CR at I-6, I-10, PR at I-5, I-7; Tr. at 53-55 (Mr. Miller).

<sup>23</sup> CR at I-7, PR at I-5.

<sup>24</sup> Parker’s Postconference Brief at 5.

<sup>25</sup> CR at I-6 - I-7, I-12, PR at I-5, I-8 - I-9.

<sup>26</sup> CR at I-9, PR at I-7.

<sup>27</sup> Parker’s Postconference Brief at 6.

<sup>28</sup> Parker’s Postconference Brief at 6; Tr. at 72 (Mr. Magrath).

<sup>29</sup> Parker’s Postconference Brief at 6.

<sup>30</sup> Parker’s Postconference Brief, Exh. 1 at Question 2.

customers and producers as the same product.<sup>31</sup> The record contains pricing data on various sizes of FSVs, indicating that the larger sizes (pricing products 2 and 3) may sell for approximately \*\*\* as much as the smaller size (pricing product 1).<sup>32</sup>

Based on this evidence, and in the absence of respondents' arguments to the contrary, we include all sizes of FSVs in a single domestic like product. We base this finding 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 size FSVs as similar.

In sum, we define one domestic like product that is coextensive with the scope and consists of all FSVs, regardless of size, but does not include BSVs or ball valves.

#### **D. Domestic Industry**

The domestic industry is defined as the domestic "producers as a [w]hole 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."<sup>33</sup> 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. Based on our finding that the domestic like product is FSVs, for purposes of the preliminary phase of this investigation we define a single domestic industry consisting of all domestic producers of FSVs, limited to the sole producer, Parker.

### **IV. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF SUBJECT IMPORTS<sup>34</sup>**

In the preliminary phase of antidumping or countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured by reason of the imports under investigation.<sup>35</sup> In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.<sup>36</sup> The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."<sup>37</sup> In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the

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<sup>31</sup> Parker's Postconference Brief at 7; Tr. at 59-60 (Mr. Dinan).

<sup>32</sup> CR/PR at Tables V-1 - V-3. The pricing data received account for \*\*\* of Parker's U.S. commercial shipments of FSVs. CR at V-6 - V-7, PR at V-4 - V-5.

<sup>33</sup> 19 U.S.C. § 1677(4)(A).

<sup>34</sup> 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 essentially accounted for 100 percent of total imports of FSVs for the most recent 12-month period (March 2007 through February 2008) for which data were available that preceded the filing of the petition. See CR at IV-5, PR at IV-2.

<sup>35</sup> 19 U.S.C. §§ 1671b(a) and 1673b(a).

<sup>36</sup> 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 . . . [a]nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B). See also Angus Chemical Co. v. United States, 140 F.3d 1478 (Fed. Cir. 1998).

<sup>37</sup> 19 U.S.C. § 1677(7)(A).

state of the industry in the United States.<sup>38</sup> 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.”<sup>39</sup>

For the reasons stated below, we determine that there is a reasonable indication that the domestic industry producing FSVs is materially injured by reason of subject imports from China.

#### **A. Conditions of Competition and the Business Cycle**

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of subject imports.

##### **1. Demand Conditions**

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 FSVs. FSVs are produced to order for seven major OEMs of residential split air conditioning units and typically range from 3/4 inch to 7/8 inch in size. Each air conditioning unit requires two FSVs, typically one large valve and one small valve.<sup>40</sup>

Apparent U.S. consumption of FSVs decreased by \*\*\* percent over the period of investigation, when measured by quantity, and by \*\*\* percent, when measured by value.<sup>41</sup>

The decline in apparent consumption appears to be due to the downturn in the housing market in the last two years because air conditioning units used in residential housing are the end market for all FSVs. We note, however, that 2005 was a peak year in terms of demand, due, at least in part, to a change in energy efficiency regulations<sup>42</sup> that resulted in a large increase in the production of air conditioning units under the old regulations<sup>43</sup> as well as increased demand as a result of new housing construction and replacement air conditioning units.<sup>44</sup> Notwithstanding the decrease in demand at the end of the period for new air conditioning units, the replacement market for air conditioning units is large and not as severely affected by declining economic conditions as the housing market,<sup>45</sup> although a general slowdown in the economy would likely affect replacement market demand as well.

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<sup>38</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>39</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>40</sup> CR/PR at II-1.

<sup>41</sup> CR/PR at Table C-1. We note that Parker argues that the decline in demand during the period of investigation is not a long-term trend, as demand is leveling off due to the fact that central air conditioning systems are considered to be standard requirements, even in starter homes and other residential units. Parker’s Postconference Brief at 9.

<sup>42</sup> The Department of Energy mandated new seasonal energy efficiency ratio (“SEER”) requirements that took effect in January 2006. These new requirements caused a spike in demand for air conditioning units and, therefore, FSVs in 2005, before the new changes took effect. CR at II-5, PR at II-3 - II-4.

<sup>43</sup> See CR at II-5, PR at II-3 - II-4.

<sup>44</sup> DunAn’s Postconference Brief at 8-9.

<sup>45</sup> Tr. at 43 (Mr. Nelson).

## 2. Supply Conditions

At the beginning of the period of investigation, there were two domestic producers, Parker and Chatleff Controls Inc. (“Chatleff”).<sup>46</sup> Chatleff accounted for \*\*\* percent of total reported U.S. production in \*\*\*, the year in which it ceased production. It produced \*\*\* FSVs from \*\*\* of that year.<sup>47</sup> The capacity of the lone remaining domestic producer, Parker, was steady \*\*\* of the period of investigation, subsequent to \*\*\*.<sup>48</sup> Unused domestic capacity for the production of FSVs increased \*\*\* over the period of investigation. Capacity utilization was \*\*\* percent in 2005, declining to \*\*\* percent in 2006 and then declining further to \*\*\* percent in 2007.<sup>49</sup>

One hundred percent of imports in the U.S. market throughout the period of investigation were from China. The domestic industry’s market share decreased steadily over the period, coinciding with the steady increase in market share of subject Chinese imports, in terms of both quantity and value.<sup>50</sup>

## 3. Substitutability and Other Conditions

Parker reports that U.S.-produced and imported FSVs are \*\*\* interchangeable. The responding importers report that the products are \*\*\* interchangeable.<sup>51</sup> As explained above in the discussion of the domestic like product, there is limited interchangeability between FSVs and other valves, such as BSVs and ball valves. There are qualification processes with each OEM purchaser of FSVs that typically last one year or more, although there is conflicting evidence in the record on this issue, with some reports of shorter times. One customer has a qualification process that is \*\*\* and another reported that its process takes 10 to 14 weeks.<sup>52</sup>

While Parker reported that differences other than price are \*\*\* significant, the importers said that non-price differences such as quality and timely delivery are \*\*\* significant.<sup>53</sup> We note that both importers are affiliated with FSV producers in China.<sup>54</sup> Because of the importance of delivery to certain purchasers, there has been some demand for inventories kept in the United States on consignment.<sup>55</sup>

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<sup>46</sup> Chatleff was identified as a producer subsequent to the filing of the petition. The Commission received an incomplete questionnaire response from Chatleff and, therefore, its data are not included in the tables and figures of the report. CR/PR at III-1 n.2.

<sup>47</sup> CR/PR at III-1 n.3.

<sup>48</sup> The domestic industry’s capacity was \*\*\* units in 2005, and \*\*\* units in 2006 and 2007. CR/PR at Table III-2.

<sup>49</sup> CR/PR at Table III-2. Chinese capacity increased by \*\*\* percent during 2005-07, \*\*\* it is projected to \*\*\* in 2008. Chinese capacity utilization decreased from \*\*\* percent in 2005 to \*\*\* percent in 2006, then rose to \*\*\* percent in 2007. It is projected to be \*\*\* percent in 2008 and \*\*\* percent in 2009. CR/PR at Table VII-1.

<sup>50</sup> In terms of quantity, domestic industry market share declined from \*\*\* percent in 2005 to \*\*\* percent in 2006, then to \*\*\* percent in 2007. In terms of value, domestic industry market share declined from \*\*\* percent in 2005 to \*\*\* percent in 2006, then to \*\*\* percent in 2007. CR/PR at Table IV-4.

In terms of quantity, subject import market share rose from \*\*\* percent in 2005 to \*\*\* percent in 2006, then to \*\*\* percent in 2007. In terms of value, subject import market share climbed from \*\*\* percent in 2005 to \*\*\* percent in 2006, then to \*\*\* percent in 2007. CR/PR at Table IV-4.

<sup>51</sup> CR at I-11, II-8, PR at I-8, PR at II-6, CR/PR at Table II-1.

<sup>52</sup> CR at II-9, PR at II-6.

<sup>53</sup> CR at II-9, PR at II-6.

<sup>54</sup> CR at IV-2, PR at IV-1.

<sup>55</sup> See, e.g., Sanhua’s Postconference Brief at 4, Goodman’s Postconference Brief at 2.



The principal raw materials used to produce FSVs are brass and copper, with brass reportedly accounting for \*\*\* percent of total raw material costs and copper accounting for \*\*\* percent. Parker reported that its brass and copper costs have more than doubled since 2005.<sup>56</sup> The means to address these increases differ among the subject producers and Parker. Parker applies a surcharge when brass and copper prices change,<sup>57</sup> while DunAn purchases forward exchange contracts and utilizes a long-term contract agreement \*\*\* that provides for a formula to determine foreign currency exchange rates and material costs for each year of the three-year contract based upon standard cost multipliers.<sup>58</sup> Sanhua imposes surcharges on customers who buy pursuant to contracts and simply raises the prices for non-contract customers.<sup>59</sup>

## **B. Volume of the Subject Imports**

Section 771(7)(C) of the 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.”<sup>60</sup>

The quantity of subject imports \*\*\* over the period of investigation. It rose from \*\*\* units in 2005 to \*\*\* units in 2006, then to \*\*\* units in 2007. The value of subject imports more than tripled over the period. It rose from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007.<sup>61</sup>

Subject import market share increased more than \*\*\* over the period. As measured by quantity, it was \*\*\* percent in 2005, rising to \*\*\* percent in 2006 and to \*\*\* percent in 2007. As measured by value, subject import market share increased more than \*\*\*. It was \*\*\* percent in 2005, climbing to \*\*\* percent in 2006 and to \*\*\* percent in 2007.<sup>62</sup>

Relative to U.S. production, subject imports rose from \*\*\* percent in 2005 to \*\*\* percent in 2006, and climbed \*\*\* to \*\*\* percent in 2007.<sup>63</sup>

These increases in market share by the subject imports occurred entirely at the expense of the domestic industry’s market share, as there were no nonsubject imports present during the period of investigation.<sup>64</sup>

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<sup>56</sup> CR/PR at V-1.

<sup>57</sup> CR/PR at V-3, Tr. at 83-84 (Mr. Nelson).

<sup>58</sup> DunAn’s Postconference Brief at 24-25.

<sup>59</sup> Sanhua’s Response to Questions of Staff at 4.

<sup>60</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>61</sup> CR/PR at Table IV-2. We note that the reasons given by Parker for the substantially increased volumes of subject imports over the period of investigation differ significantly from the reasons given by respondents. See, e.g., Parker’s Postconference Brief at 14-15, Sanhua’s Postconference Brief at 4-5, DunAn’s Postconference Brief at 17-18, Goodman’s Postconference Brief at 1-2. We intend to explore this issue further in any final phase investigation, i.e. the degree to which the increased volume is due primarily to significantly lower priced imports as opposed to quality and delivery issues.

<sup>62</sup> CR/PR at Table IV-4.

<sup>63</sup> CR/PR at Table IV-5.

<sup>64</sup> Sanhua maintains that although the volume of subject imports has increased in both absolute terms and relative to the production or consumption of FSVs in the United States, this increase is not significant, because the domestic producer had a 100 percent share of the market at the beginning of the period of investigation. In addition, Sanhua argues that the purpose of the trade laws is not to enforce “monopoly pricing.” Sanhua’s Postconference Brief at 9. First, we note that Parker’s market share in \*\*\* was not 100 percent. It was \*\*\* as measured by quantity and \*\*\* percent as measured by value because a second domestic producer, Chatleff, produced \*\*\* units during \*\*\* and because there were subject imports present in the market in \*\*\*. CR/PR at III-1 nn. 2-3 & Table IV-4 (Chatleff’s

(continued...)

Based on the foregoing, we find for purposes of the preliminary phase of this investigation that the volume of subject imports is significant, both in absolute terms and relative to consumption and production in the United States.

### C. Price Effects of the Subject Imports

Section 771(7)(C)(ii) of the Act provides that, in evaluating the price effects of the subject imports, 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.<sup>65</sup>

The record indicates that price is an important consideration in purchasing decisions. As noted above, subject imports and domestic FSVs are interchangeable. In addition, sales of subject imports and domestic FSVs are made to the seven major OEM purchasers in head-to-head competition.<sup>66</sup> There are \*\*\* confirmed lost sales allegations totaling \$\*\*\*.<sup>67</sup>

The Commission sought quarterly pricing data for three products.<sup>68</sup> The Commission received usable pricing data from the lone remaining domestic producer, Parker, and from two importers \*\*\*.

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<sup>64</sup> (...continued)

production data for \*\*\* are not included in the data tables). Further, Sanhua's arguments in this investigation 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. 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, — F. Supp. 2d—, Slip Op. 04-49 (Ct. Int'l Trade May 12, 2004) at 11-12 ("ITC did not commit legal error by failing to employ 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)).

<sup>65</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>66</sup> CR/PR at II-1.

<sup>67</sup> CR at V-15, PR at V-7, CR/PR at Table V-6.

<sup>68</sup> These products were as follows: (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 Schraeder Bridgeport access valves and captivated stem with OD solder connection of 3/8 inch (Product 1); (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 Schraeder Bridgeport access valves and captivated stem with OD solder connection of 3/4 inch (Product 2); and (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 Schraeder Bridgeport access valves and captivated stem with OD solder connection of 7/8 inch (Product 3).

Pricing data reported by these firms accounted for \*\*\* percent, or \*\*\*, of Parker's U.S. commercial shipments of FSVs during the period of investigation and \*\*\* percent of U.S. shipments of imports of FSVs from China over the period.<sup>69</sup>

The weighted-average sales price for U.S.-produced Product 1 increased over the period, by \*\*\* percent.<sup>70</sup> The weighted-average quarterly price of Product 1 was \$\*\*\* per unit in the first quarter of 2005 and \$\*\*\* per unit in the last quarter of 2007.<sup>71</sup> The subject imports undersold the domestic product in all 12 price comparisons at margins ranging from 17.5 percent to 36.2 percent.<sup>72</sup>

Similarly, the prices for U.S.-produced Product 2 increased by \*\*\* percent over the period.<sup>73</sup> The weighted-average quarterly price of Product 2 was \$\*\*\* per unit in the first quarter of 2005 and was \$\*\*\* per unit in the last quarter of 2007.<sup>74</sup> The subject imports undersold the domestic product in 11 of the 12 price comparisons at margins ranging from 8.0 percent to 20.8 percent.<sup>75</sup>

The prices for U.S.-produced Product 3 followed the same trend and increased by \*\*\* percent over the period of investigation.<sup>76</sup> The weighted-average quarterly price of Product 3 was \$\*\*\* in the first quarter of 2005 and was \$\*\*\* in the last quarter of 2007.<sup>77</sup> The subject imports undersold the domestic product in all 12 price comparisons at margins ranging from 0.5 percent to 33.3 percent.<sup>78</sup>

In total, subject imports undersold the domestic product in 35 of 36 quarterly pricing comparisons, with margins ranging from 0.5 percent to 36.2 percent. Underselling margins increased toward the end of the period of investigation. Given the frequency of underselling and the importance of price in purchasing decisions, we find underselling by the subject imports to be significant.<sup>79</sup>

We also find that the subject imports have to a significant degree prevented domestic price increases that otherwise would have occurred. The ratio of cost of goods sold to net sales increased steadily over the period, from \*\*\* percent in 2005 to \*\*\* percent in 2006, and then to \*\*\* percent in 2007,<sup>80</sup> suggesting that increases in raw material costs were outpacing prices and sales volumes. Although the domestic industry was able to recoup \*\*\* these increased costs by levying a metal surcharge,<sup>81</sup> we find that, because subject imports are at least fairly good substitutes for the domestic product, because they competed on the basis of price and frequently undersold the domestic product, and because they were significant and increasing in volume during the period of investigation, they prevented, to a significant degree, price increases that otherwise would have occurred.

For the foregoing reasons, we find for purposes of the preliminary phase of this investigation that there has been significant underselling by subject imports and that such imports have suppressed prices to a significant degree.

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<sup>69</sup> CR at V-6 - V-7, PR at V-4 - V-5.

<sup>70</sup> CR at V-7, PR at V-5.

<sup>71</sup> CR/PR at Table V-1.

<sup>72</sup> CR/PR at Table V-1.

<sup>73</sup> CR at V-8, PR at V-5.

<sup>74</sup> CR/PR at Table V-2.

<sup>75</sup> CR/PR at Table V-2.

<sup>76</sup> CR at V-8, PR at V-5.

<sup>77</sup> CR/PR at Table V-3.

<sup>78</sup> CR/PR at Table V-3.

<sup>79</sup> We intend to examine the differences in contract terms for importers and the domestic industry, particularly with respect to how prices are set and adjusted, and how increases in raw material costs are addressed, in any final phase investigation.

<sup>80</sup> CR/PR at Table VI-1.

<sup>81</sup> See CR at VI-3 - VI-4 & n.5, PR at VI-1 - VI-2 & n.5.

#### **D. Impact of the Subject Imports on the Domestic Industry**<sup>82</sup>

Section 771(7)(C)(iii) of the Act provides that the Commission, in examining the impact of the subject imports on the domestic industry, “shall evaluate all relevant economic factors which have a bearing on the state of the industry.”<sup>83</sup> 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.”<sup>84</sup>

We have examined the performance indicators in the trade data for the domestic industry producing FSVs. These data indicate \*\*\* declines over the period of investigation. U.S. production,<sup>85</sup> capacity,<sup>86</sup> capacity utilization,<sup>87</sup> and shipments<sup>88</sup> all declined over the period. Capital expenditures fell \*\*\* and were \*\*\* at the end of the period.<sup>89</sup> Inventories also fell,<sup>90</sup> but we note that inventories are not an important measure in this industry in view of the fact that the domestic industry produces \*\*\* FSVs to order.<sup>91</sup>

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<sup>82</sup> In its notice of initiation, Commerce estimated the dumping margins for imports of subject FSVs from China as ranging from 25.82 to 55.62 percent. 73 Fed. Reg. at 20,254.

<sup>83</sup> 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.”). SAA at 885.

<sup>84</sup> 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 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25 n.148.

<sup>85</sup> U.S. production fell from \*\*\* units in 2005 to \*\*\* units in 2006, then to \*\*\* units in 2007. CR/PR at Table III 2.

<sup>86</sup> Capacity declined from \*\*\* units in 2005 to \*\*\* units in 2006 and 2007. CR/PR at Table III-2.

<sup>87</sup> Capacity utilization decreased from \*\*\* percent in 2005 to \*\*\* percent in 2006, then to \*\*\* percent in 2007. CR/PR at Table III-2.

<sup>88</sup> Domestic producer’s U.S. shipments fell from \*\*\* units in 2005 to \*\*\* units in 2006, then to \*\*\* units in 2007. CR/PR at Table III-3.

<sup>89</sup> Capital expenditures declined from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007. CR/PR at Table VI-3.

<sup>90</sup> U.S. producer’s end-of-period inventories rose from \*\*\* units in 2005 to \*\*\* units in 2006, then fell to \*\*\* units in 2007. CR/PR at Table III-4.

<sup>91</sup> CR at III-7, PR at III-3. We note that Goodman explained that the fact that the importers offer a consignment inventory, in contrast to Parker, was a key factor in terms of delivery. It named quality, cost and delivery as the three key “customer deliverables.” Goodman’s Postconference Brief at 2. We also note that while respondents stated that it was important for a purchaser to maintain more than one supplier in the event of problems at the supplier’s facility, see, e.g., Tr. at 93 (Mr. Craven), \*\*\*. See Tr. 40 (Mr. Nelson), 95-97 (Mr. Knights); see also Tr. at 110 (Mr. Knights); Parker’s Postconference Brief, Exh. 1. We intend to examine the differences in inventory and warehousing between the domestic industry and the subject producers as they relate to pricing issues and the conditions of competition in any final phase investigation.

Employment indicators also demonstrate \*\*\* declines. The number of production and related workers fell over the period of investigation,<sup>92</sup> as did the number of hours worked by such workers,<sup>93</sup> the wages paid to them,<sup>94</sup> and their productivity.<sup>95</sup> The wages they earned per hour, however, increased.<sup>96</sup>

Regarding financial indicators, net sales<sup>97</sup> declined. Operating income \*\*\* at the end of the period.<sup>98</sup> Consequently, operating margins followed the same trend, declining more than \*\*\* percentage points over the period of investigation.<sup>99</sup>

In view of the foregoing, for purposes of the preliminary phase of this investigation, we find that subject imports had an adverse impact on the condition of the domestic industry producing FSVs during the period of investigation. We find, in particular, that both the absolute and relative volumes of subject imports were significant. Subject imports gained market share at the expense of the domestic industry, undersold the domestic like product, and suppressed domestic prices to a significant degree. The increase in subject imports and the accompanying adverse effects on U.S. prices have resulted in declines in the domestic industry's trade, employment and financial performance over the period of investigation.<sup>100 101</sup>

### CONCLUSION

For the reasons stated above, we find that there is a reasonable indication that the domestic industry producing FSVs is materially injured by reason of subject imports of FSVs from China that allegedly are sold in the United States at less than fair value.

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<sup>92</sup> The number of production and related workers decreased from \*\*\* in 2005 to \*\*\* in 2006, then to \*\*\* in 2007. CR/PR at Table III-5.

<sup>93</sup> The number of hours worked fell from \*\*\* in 2005 to \*\*\* in 2006, then to \*\*\* in 2007. CR/PR at Table III-5.

<sup>94</sup> Wages paid declined from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007. CR/PR at Table III-5.

<sup>95</sup> Productivity fell from \*\*\* units per hour in 2005 to \*\*\* units per hour in 2006, then to \*\*\* units per hour in 2007. CR/PR at Table III-5.

<sup>96</sup> Hourly wages rose from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007. CR/PR at Table III-5.

<sup>97</sup> In terms of quantity, net sales fell from \*\*\* units in 2005 to \*\*\* units in 2006, then to \*\*\* units in 2007. In terms of value, net sales decreased from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007. CR/PR at Table VI-1.

<sup>98</sup> Operating income decreased from \$\*\*\* in 2005 to \$\*\*\* in 2006, then to \$\*\*\* in 2007. CR/PR at Table VI-1.

<sup>99</sup> The industry's ratio of operating income to net sales declined from \*\*\* percent in 2005 to \*\*\* percent in 2006, and was \*\*\* percent in 2007. CR/PR at Table VI-1.

<sup>100</sup> The replacement/benefit test required by the U.S. Court of Appeals for the Federal Circuit in Bratsk Aluminium Smelter v. United States, 444 F.3d 1369, 1375 (Fed. Cir. 2006), is not applicable in this investigation because there were no nonsubject imports during the period of investigation. This inquiry addresses the question "whether nonsubject imports would have replaced the subject imports without any beneficial effect on domestic producers." If any party maintains that the Bratsk replacement/benefit test should apply in any final phase investigation, it should comment on what additional information the Commission should collect and how that information should be collected.

<sup>101</sup> For a complete statement of Chairman Pearson and Commissioner Okun's interpretation of Bratsk in a preliminary investigation, see Separate and Additional Views of Chairman Daniel R. Pearson and Commissioner Deanna Tanner Okun Concerning Bratsk Aluminium v. United States in Sodium Hexametaphosphate from China, Inv. No. 731-TA-1110 (Prelim.), USITC Pub. 3912 at 19-25 (Apr. 2007).



## PART I: INTRODUCTION

### BACKGROUND

This investigation results from a petition filed by Parker-Hannifin Corp. (“Parker”) of Cleveland, OH, a domestic producer of frontseating service valves (“FSVs”), 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.<sup>1</sup>

| 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 8, 2008  | Commission's conference <sup>1</sup>   |
| April 15, 2008 | Commerce's notice of initiation (73 FR 20250)  |
| May 2, 2008    | Commission's vote date   |
| May 5, 2008    | Commission's determination transmitted to Commerce   |
| May 12, 2008   | Commission's views transmitted to Commerce   |

<sup>1</sup> A list of witnesses appearing at the conference 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 . . . 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.*

...

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<sup>1</sup> Federal Register notices cited in the tabulation are presented in app. A.

*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, 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 the judicial requirements and information obtained for use in the Commission's consideration of *Bratsk* issues.

### **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.<sup>2</sup> Consumption of FSVs totaled approximately \$\*\*\* (\*\*\*) units) in the U.S. market in 2007. Currently only one firm, Parker, produces FSVs in the United States.<sup>3</sup> The U.S. producer's reported U.S. shipments of FSVs totaled \$\*\*\* (\*\*\*) units) in 2007 and accounted for \*\*\* percent of apparent U.S. consumption by value and \*\*\* percent by quantity. U.S. shipments of imports from China totaled nearly \$\*\*\* (\*\*\*) units) in 2007 and accounted for \*\*\* percent of apparent U.S. consumption by value and

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<sup>2</sup> Petition, p. 4.

<sup>3</sup> Danfoss Chatleff LLC ("Chatleff") ceased production in \*\*\*. Staff telephone interview with \*\*\*.



\*\*\* percent by quantity. There were no known U.S. imports from nonsubject sources during the period for which data were collected in the investigation, 2005-07.

## 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 accounted for all U.S. production of FSVs during \*\*\*. 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 the petition, conference testimony, postconference briefs, and complete foreign producer questionnaire responses.

## 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 from Japan of pneumatic directional control valves.<sup>4</sup>

## NATURE AND EXTENT OF ALLEGED SALES AT LTFV

On April 15, 2008, the Commission received notification of Commerce’s initiation of an antidumping duty investigation concerning FSVs from China.<sup>5</sup> The estimated weighted-average dumping margins (in percent *ad valorem*), as adjusted by Commerce (based on petitioner’s comparison of the export price and normal value) for China ranged from 25.82 percent to 55.62 percent.<sup>6</sup>

## 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.<sup>7</sup> Frontseating service valves contain a sealing surface*

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<sup>4</sup> *Pneumatic Directional Control Valves From Japan, Inv. No. 731-TA-988 (Preliminary)*, USITC Publication 3491, March 2002, p. 1.

<sup>5</sup> *Frontseating Service Valves From the People’s Republic of China: Initiation of Antidumping Duty Investigation*, 73 FR 20250, April 15, 2008.

<sup>6</sup> *Ibid.*

<sup>7</sup> For purposes of the scope, 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  
(continued...)

*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.<sup>8</sup> The scope includes frontseating service valves of any size, configuration, material composition or connection type.<sup>9</sup>*

### **Tariff Treatment**

Commerce indicated in its notice of initiation that FSVs are imported under HTS statistical reporting numbers 8481.80.1095 or 8415.90.8085, but that subject product can also be imported under HTS statistical reporting numbers 8481.80.3040, 8481.80.3090, or 8481.80.5090 (if manufactured out of primary materials other than copper or brass) and HTS subheadings 8481.90.10, 8481.90.30, and 8481.90.50 (parts and components if the FSVs are imported unassembled or incomplete);<sup>10</sup> the Column 1-general *ad valorem* rates of duty (applicable to product imported from China) for those subheadings range from 1.4 to 5.6 percent. However, \*\*\* indicated that FSVs, when imported as finished product, are properly classifiable under HTS subheading 8481.80.10,<sup>11</sup> which has a Column 1-general *ad valorem* rate of duty of 4.0 percent.<sup>12</sup>

### **THE DOMESTIC LIKE PRODUCT**

The Commission's determination regarding the appropriate domestic product that is "like" the subject imported product is based on a number of factors, including (1) physical characteristics and uses; (2) common manufacturing facilities and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and, where appropriate, (6) price. The petition contends that the domestic like product includes all frontseating service valves, assembled or

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<sup>7</sup> (...continued)

installed into an air conditioning or refrigeration unit as a single, unified valve without further assembly.

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. Ibid.

<sup>8</sup> 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.

<sup>9</sup> *Frontseating Service Valves From the People's Republic of China: Initiation of Antidumping Duty Investigation*, 73 FR 20250, April 15, 2008.

<sup>10</sup> Ibid. 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.

<sup>11</sup> Email from \*\*\*.

<sup>12</sup> In fact, \*\*\*.

unassembled, complete or incomplete, and certain parts thereof, corresponding to the scope,<sup>13</sup> and no party has argued for a separate domestic like product that differs from the scope.

Chinese respondent Zhejiang Sanhua Co., Ltd. (“Sanhua”) has advocated defining a single domestic like product comprised of FSVs of large and small diameters because (1) they are produced by the same producer on the same equipment; (2) they are sold to the same OEMs and in the same channels of distribution; (3) they are made of the same materials and are used in the same applications; and (4) they are sized and priced in a continuum, not in discrete categories.<sup>14</sup> Sanhua has not argued to expand the domestic like product definition to include alternate products (backseating service valves (“BSVs”) and ball valves specifically), but suggests that the Commission consider the existence of such products and how they might affect FSV pricing.<sup>15</sup> Chinese respondent Zhejiang DunAn Hetian Metal Co., Ltd. and U.S. importer DunAn Precision, Inc. (“DunAn”) have no comment concerning the definition of the domestic like product in this investigation.<sup>16</sup>

The petitioner supports the definition of a single domestic like product comprised of all FSVs that excludes BSVs and ball valves because it considers these to be completely distinct products.<sup>17</sup> The petitioner argues that FSVs, BSVs, and ball valves do not have the same physical characteristics and uses. An FSV contains one sealing surface, a BSV contains two sealing surfaces, and a ball valve uses a machined ball to provide sealing. Parker argues that FSVs are not interchangeable with BSVs and ball valves because they have different performance requirements, OEM specifications, physical characteristics, and pricing. Parker claims that FSVs are sold primarily to all major OEMs that manufacture air conditioner units, whereas BSVs and ball valves are only sold to certain OEMs to be installed and used in high-end air conditioning and refrigeration units.<sup>18</sup> In terms of customer and producer perceptions, Parker states that BSVs and ball valves are perceived as higher cost items, and used only, if at all, in premium products in high-end air conditioner and refrigeration units. At Parker’s plant none of the components for BSVs or ball valves are machined on the same machinery and equipment used in the machining of FSV components. Finally, BSVs and ball valves are more expensive due to their higher complexity.<sup>19</sup>

### **Physical Characteristics and Uses**

FSVs are designed to be used in residential air conditioning and heating systems such as split air-conditioning equipment and heat pumps.<sup>20</sup> 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

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<sup>13</sup> Petition, pp. 3, 7, and 10.

<sup>14</sup> Sanhua’s postconference brief, pp. 14-15.

<sup>15</sup> Conference transcript, p. 92 (Craven). Sanhua has alleged that Parker patented a plug-style air-conditioning service valve in 2006 that directly competes with FSVs. According to Sanhua, this new valve is neither a BSV nor a ball valve. Sanhua’s postconference brief, pp. 5-6 and 12-13.

<sup>16</sup> DunAn’s postconference brief, p. 2.

<sup>17</sup> Petitioner’s postconference brief, p. 4. Conference transcript, pp. 13-15 (Miller), pp. 57-58 (Dinan).

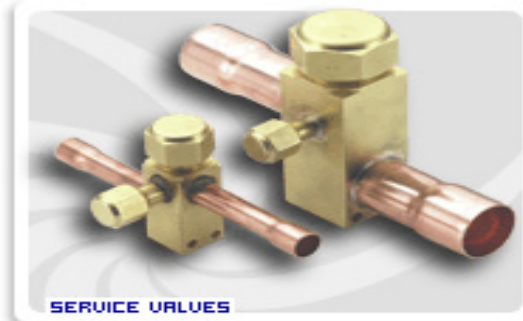
<sup>18</sup> One OEM uses a BSV for residential air conditioning and only for its very high-end model, which represents a very small percentage of the market. Petitioner’s postconference brief, p. 6.

<sup>19</sup> Petitioner’s postconference brief, pp. 4-7.

<sup>20</sup> FSVs are neither pneumatic nor hydraulic valves, but they are refrigeration isolation valves. They are used in residential air conditioning systems and not in refrigeration systems such as grocery store display cases or meat counters.

compressed liquid.<sup>21</sup> 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: Wilspec Technologies, *Service Valves*, found at [http://www.wilspec.com/products/service\\_valves.asp](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;<sup>22</sup> (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.<sup>23</sup>

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 is comprised of an evaporator coil mounted on a furnace with a blower and filter.

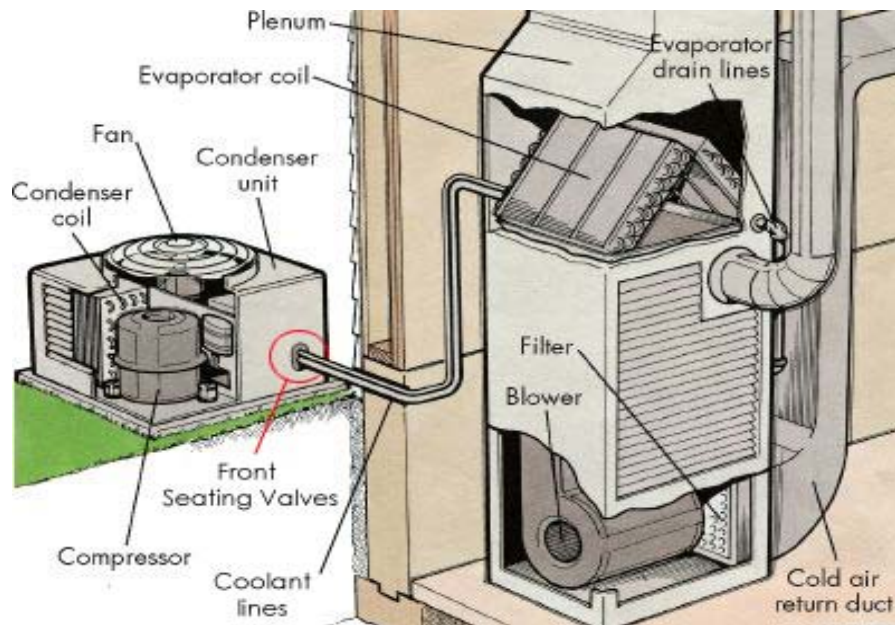
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<sup>21</sup> Conference transcript, p. 12 (Miller).

<sup>22</sup> Conference transcript, p. 11 (Miller).

<sup>23</sup> Conference transcript, p. 12 (Miller).

**Figure I-2**  
**Residential split air conditioning unit**



Source: Air-Conditioning and Refrigeration Institute, *How Central Air Conditioning Works*, found at [http://www.ari.org/ARI/Content/HowCentralAirConditioningWorks\\_305.aspx](http://www.ari.org/ARI/Content/HowCentralAirConditioningWorks_305.aspx), retrieved April 16, 2008.

### **Manufacturing Facilities and Production Employees**

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.<sup>24</sup> FSVs are manufactured to Original Equipment Manufacture (“OEM”) and air conditioning industry specifications.<sup>25</sup>

Production of the FSV starts by \*\*\*.<sup>26</sup> All FSV manufacture also includes the production of refrigerant copper connection tubing.

In the United States all FSVs are produced by the bar stock method.<sup>27</sup> High-quality brass bars are machined to form the brass bodies and brass stems of the FSVs. After machining the brass valve 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 machining tube ends as necessary.<sup>28</sup>

In China some FSVs are produced using \*\*\*.<sup>29</sup> When asked if production of FSVs in China differs from domestic production, a Parker official stated that production in China is dramatically

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<sup>24</sup> Petitioner’s postconference brief, p. 6.

<sup>25</sup> Conference transcript, p. 14 (Miller).

<sup>26</sup> E-mail from \*\*\*.

<sup>27</sup> \*\*\*. E-mail from \*\*\*.

<sup>28</sup> Petition, p. 6.

<sup>29</sup> E-mail from \*\*\*.

different and that in the United States production is highly automated but in China a significant amount of labor is used, particularly for brazing, testing, and assembly.<sup>30</sup>

\*\*\*.<sup>31</sup> \*\*\*.<sup>32</sup> 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.<sup>33</sup>

### **Interchangeability**

Information on any interchangeability between FSVs, BSVs, and ball valves is discussed earlier in this section.<sup>34</sup> The U.S. producer of FSVs reports that the U.S.-produced and imported FSVs are \*\*\* interchangeable.<sup>35</sup> The responding importers report that the products are \*\*\* interchangeable.<sup>36</sup> More detailed information on the interchangeability of FSVs can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

### **Customer and Producer Perceptions**

Information on customer and producer perceptions of FSVs, BSVs, and ball valves is discussed earlier in this section.<sup>37</sup> In commenting on customer and producer perceptions, the U.S. producer stated that differences other than price (*i.e.*, quality, availability, transportation network, product range, technical support, *etc.*) between FSVs produced in the United States and in other countries, are \*\*\* significant.<sup>38</sup> The responding importers report that differences other than price between FSVs produced in the United States and in other countries are \*\*\* significant.<sup>39</sup>

### **Channels of Distribution**

Information on the channels of distribution for FSVs, BSVs, and ball valves is discussed earlier in this section.<sup>40</sup> 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. Over the period for which data were collected, \*\*\* U.S. producer's and importers' shipments were to \*\*\*, and there were \*\*\* reported. Table I-1 presents both producer's and importers' sales to end users. Additional information on channels of distribution can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

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<sup>30</sup> Conference transcript, p. 47 (Miller).

<sup>31</sup> 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. Source, Aufhauser, Brazing Technical Guide, found at [http://www.brazing.com/techguide/popup/definition\\_brazing.htm](http://www.brazing.com/techguide/popup/definition_brazing.htm), retrieved April 28, 2008.

<sup>32</sup> E-mail from \*\*\*.

<sup>33</sup> Conference transcript, p. 76 (Miller).

<sup>34</sup> See also Petitioner's postconference brief, pp. 4-5.

<sup>35</sup> \*\*\* domestic producer questionnaire response, question IV-18.

<sup>36</sup> \*\*\* importer questionnaire responses, question III-17.

<sup>37</sup> See also Petitioner's postconference brief, pp. 4-7, and conference transcript pp. 13-15 (Miller).

<sup>38</sup> \*\*\* domestic producer questionnaire response, question IV-19.

<sup>39</sup> \*\*\* importer questionnaire responses, question III-18. According to \*\*\*. Ibid.

<sup>40</sup> See also Petitioner's postconference brief, p. 6, and conference transcript, p. 13 (Miller).

**Table I-1**  
**FSVs: U.S. producer's and importers' channels of distribution, 2005-07**

\* \* \* \* \*

**Price**

Pricing data collected in this investigation were on FSVs. However, according to the petitioner, both BSVs and ball valves are much more expensive than FSVs.<sup>41</sup> Pricing practices and prices reported for FSVs in response to the Commission's questionnaires are presented in Part V of this report, *Pricing and Related Information*.

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<sup>41</sup> Conference transcript, p. 15 (Miller).





## 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.<sup>1</sup> 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. Each residential split air conditioning unit requires two FSVs, typically both a small and a large valve.<sup>2</sup>

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 \*\*\* over the period for which data were collected. There are seven major OEM air conditioner manufacturers in the United States.<sup>3</sup> 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.<sup>4</sup> Importer \*\*\* listed \*\*\*.<sup>5</sup> Importer \*\*\* listed \*\*\* customers in the United States, with \*\*\* accounting for the majority of its shipments in \*\*\*. It also listed \*\*\* as smaller customers.<sup>6</sup>

When firms were asked to list market areas in the United States where they sell FSVs, the responses showed that the market areas tended to be nationwide for both Parker and the importers.

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 and \*\*\* percent of \*\*\*’s sales occurred within \*\*\* miles of its storage facilities.

\*\*\* percent of Parker’s sales were produced to order, whereas \*\*\* 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 both producers and importers. For Parker, lead times were \*\*\* days for sales of product produced to order. For importers, lead times were \*\*\* for \*\*\*’s sales from inventory and \*\*\* for \*\*\*’s sales produced to order. Importer \*\*\* reported that it maintains inventories for \*\*\* on consignment sales.

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

<sup>2</sup> Conference transcript, pp. 11-12 (Miller).

<sup>3</sup> Petitioner’s postconference brief, p. 3.

<sup>4</sup> \*\*\*.

<sup>5</sup> \*\*\*’s importer’s questionnaire, question III-19.

<sup>6</sup> \*\*\*’s importer’s questionnaire, question III-19.

## 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***

Parker's annual capacity utilization rates for FSVs decreased over the period of investigation, falling from \*\*\* percent in 2005 to \*\*\* percent in 2007. 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.<sup>7</sup> 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 2007. 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 reported that it does not use the machinery, equipment, and workers used to make FSVs in the production of other products.

#### **Subject Imports**

The responsiveness of 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 existence of alternative markets, including the Chinese home market, and \*\*\* inventory levels.

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<sup>7</sup> These exports were \*\*\*.

### ***Industry capacity***

During the period of investigation, the capacity utilization rate for reporting Chinese producers of FSVs increased over the period, decreasing \*\*\* from \*\*\* percent in 2005 to \*\*\* percent in 2006 before rebounding to \*\*\* percent in 2007; it is projected to be \*\*\* percent in 2008.

### ***Alternative markets***

Available data indicate that producers in China have the 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 in 2005 to \*\*\* percent in 2007; it is projected to be \*\*\* percent in 2008. The share of China's shipments to export markets other than the United States decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007. The share of China's shipments going to the home market (including internal consumption) increased from \*\*\* percent in 2005 to \*\*\* percent in 2007; it is projected to be \*\*\* percent in 2008.

### ***Inventory levels***

Responding Chinese producers' inventories, as a share of total shipments, increased from \*\*\* percent in 2005 to \*\*\* percent in 2007. These data indicate that producers in China have the ability to use inventories as a means of increasing shipments of FSVs to the U.S. market.

### **Nonsubject Imports**

There are no known U.S. imports of FSVs from nonsubject sources.<sup>8</sup>

## **U.S. Demand**

### **Demand Characteristics**

U.S. apparent consumption decreased by \*\*\* percent from 2005 to 2007, with most of the decrease (\*\*\* percent) occurring from 2005 to 2006. The lack of close 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 FSVs.<sup>9</sup>

When asked how the overall demand for FSVs has changed since January 2005, Parker reported that \*\*\*.<sup>10</sup> 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.<sup>11</sup>

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<sup>8</sup> FSV producers in Korea, Japan, 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 process of OEM customers. Petitioner's postconference brief, p. 13.

<sup>9</sup> Conference transcript, p. 44 (Nelson).

<sup>10</sup> \*\*\*.

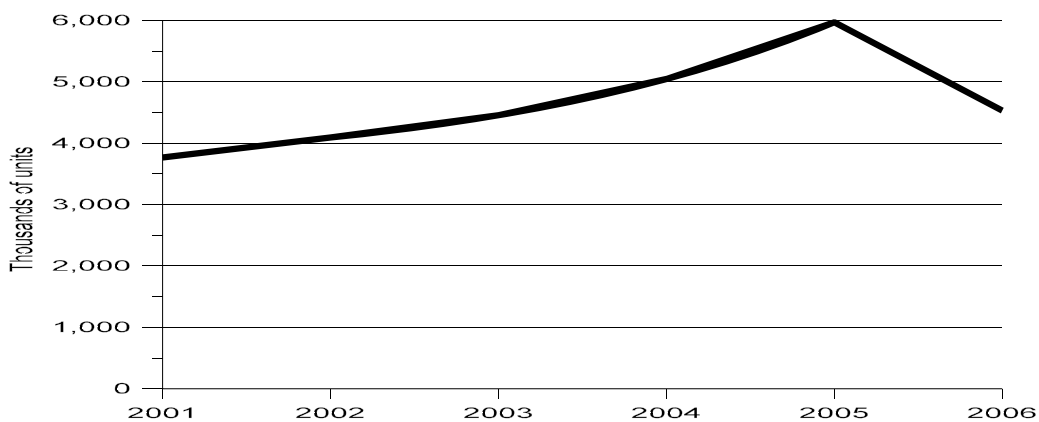
<sup>11</sup> Conference transcript, p. 45 (Nelson). Petitioner's postconference brief, p. 9. U.S. Department of Energy, "Stronger Manufacturers' Energy Efficiency Standards for Residential Air Conditioners Go Into Effect Today,"

(continued...)

Parker reported that the growth rate of consumption of 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.<sup>12</sup> Parker also 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.<sup>13</sup>

As shown in figure II-1, according to the U.S. Census Bureau, 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, the latest year for which the Census data are available.<sup>14</sup> 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.

**Figure II-1**  
**FSVs: Historical perspective of shipments of split system air conditioning units, 2001-06**



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

Parker reported that the residential housing market downturn in 2006 and 2007 also had some negative impact on demand for FSVs since 2005, but that the majority of the FSV market (70 percent) is driven by replacement residential split air conditioning units which do not rely on new housing

<sup>11</sup> (...continued)  
 January 23, 2006. <http://www.energy.gov/news/3097.htm>.

<sup>12</sup> 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 and Refrigeration Institute (“ARI”) 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.

<sup>13</sup> 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 50 percent in 1999 to 66 percent in 2006. *30<sup>th</sup> Annual Portrait of the U.S. Appliance Industry*, Appliance Magazine, September 2007, p. 6.

<sup>14</sup> *Current Industrial Reports: Refrigeration, Air-Conditioning, and Warm Air Heating Equipment: 2006, 2005, 2004, 2003, and 2002*. U.S. Census Bureau. <http://www.census.gov/cir/www/333/ma333m.html>.

construction.<sup>15</sup> According to the Census Bureau, new privately owned housing units completed in the United States decreased by 22.2 percent from 2005 to 2007, with all of the decrease occurring from 2006 to 2007.<sup>16</sup>

\*\*\* reported that demand for FSVs has decreased since January 2005, due to the downturn in the real estate market and substitution of alternate products to achieve increased energy efficiency. \*\*\* 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.

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.<sup>17</sup>

## Substitute Products

Parker \*\*\* reported that there are no substitutes for FSVs. \*\*\* cited some possible substitute products, including backseating service valves (BSVs), ball valves, and aluminum service valves. \*\*\* reported that these substitutes are superior to FSVs, but also more expensive and thus act as a price ceiling on FSVs. The prices of these alternate products have reportedly been consistently higher than the prices of FSVs.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup> BSVs and ball valves can reportedly also be used in residential split air conditioning systems in place of FSVs, but only after redesign of the air conditioning unit, which is reportedly cost-prohibitive.<sup>21</sup>

Sanhua reported that Parker patented a plug style air-conditioning service valve as of May 30, 2006, which Sanhua reports is a superior, alternative product to the FSV.<sup>22</sup>

## Cost Share

Parker and OEM purchaser Goodman Global, Inc. (“Goodman”) reported that FSVs account for between \*\*\* percent of the value of the typical residential split air conditioning unit.<sup>23</sup>

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<sup>15</sup> Petitioner’s postconference brief, p. 9. Conference transcript, p. 44 (Magrath).

<sup>16</sup> U.S. Census Bureau, <http://www.census.gov/const/compann.pdf>.

<sup>17</sup> Conference transcript, p. 70 (Miller).

<sup>18</sup> 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.

<sup>19</sup> Conference transcript, p. 13 (Miller). Petitioner’s postconference brief, p. 5.

<sup>20</sup> 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).

<sup>21</sup> Conference transcript, p. 58 (Dinan).

<sup>22</sup> Sanhua’s postconference brief, p. 5 and responses to questions of staff, p. 4.

<sup>23</sup> Parker’s producer questionnaire, question IV-12. Goodman’s postconference brief, p. 9.

## SUBSTITUTABILITY ISSUES

The degree of substitutability between domestic products and subject and nonsubject imports and between subject and nonsubject imports is examined in this section. The discussion is based upon the results of questionnaire responses from producers and importers.

### 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 and importers 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-1. The importers that compared China with the United States reported that they are \*\*\* interchangeable, as shown in table II-1.

**Table II-1**  
**FSVs: Perceived degree of interchangeability of product produced in the United States and in other countries**

\*   \*   \*   \*   \*   \*   \*

Parker reported that there are qualification processes with each OEM customer that typically last one year or more during which producers work to meet the OEM customer’s specifications and after which production is continually monitored.<sup>24</sup> 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.<sup>25</sup> Goodman reported that the qualification process takes 10 to 14 weeks.<sup>26</sup> Sanhua reported that certification process times can vary depending on the OEM.<sup>27</sup>

As indicated in table II-2, Parker reported that differences other than price are \*\*\* significant. The importers that compared the United States with China said that the differences are \*\*\* significant. Importer \*\*\* reported that non-price factors such as quality and timely delivery are important to \*\*\*.

**Table II-2**  
**FSVs: Differences other than price between products from different sources**

\*   \*   \*   \*   \*   \*   \*

OEM purchaser Goodman reported that importers DunAn and Sanhua International offer superior \*\*\* delivery times than Parker.<sup>28</sup> It reported that it can take seven to ten days to receive FSVs from Parker, whereas consigned inventory from Chinese suppliers makes FSVs available in seconds.<sup>29</sup> Goodman also reported that importers Sanhua International and DunAn are more collaborative regarding

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<sup>24</sup> Conference transcript, pp. 65-66 (Nelson).

<sup>25</sup> Petitioner’s postconference brief, p. 24 and exh. 11 and 12.

<sup>26</sup> Conference transcript, pp. 110, 117 (Knights). Parker disagrees with Goodman’s reported qualification time frame.

<sup>27</sup> Sanhua’s responses to questions of staff, p. 3.

<sup>28</sup> Goodman’s postconference brief, p. 2, app. 2 and 3 and \*\*\*. See Part V for more detailed discussion.

<sup>29</sup> Conference transcript, p. 120 (Knights).

product design and sales terms.<sup>30</sup> Parker refutes Goodman's claims about its poor quality and late delivery. Specifically, Parker contends that its quality was superior to the industry average of 200 DPPM reported by Goodman and that its share of on-time delivery shipments for Goodman was \*\*\* percent over the period.<sup>31</sup>

Sanhua reported that its products have a consistent and improving high quality and defect levels that are well under the target for the industry.<sup>32</sup> 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 \*\*\*.<sup>33</sup> \*\*\* also reports that the \*\*\* FSVs that it purchases from \*\*\* reduce the chance for leaking by \*\*\* percent over \*\*\* FSVs that are produced by \*\*\*.<sup>34</sup>

Three other OEM purchasers, \*\*\*, \*\*\*, and \*\*\*, were contacted by staff to report on differences other than price between U.S.-produced FSVs and imports from China. \*\*\* reported that there were \*\*\*.<sup>35</sup> \*\*\* reported that it \*\*\*.<sup>36</sup> \*\*\* reported that \*\*\*. It also reported that \*\*\*.<sup>37</sup>

Respondents have also reported that U.S. OEM customers prefer to have more than one source of supply to avoid supply interruptions caused by an individual plant.<sup>38</sup> However, at least \*\*\* OEM customer, \*\*\*, reported that it is purchasing \*\*\*.<sup>39</sup> Moreover, Sanhua reported that its contract with \*\*\*.<sup>40</sup>

### 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-1 and II-2.

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.

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<sup>30</sup> 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).

<sup>31</sup> Petitioner's postconference brief, p. 23 and exh. 8.

<sup>32</sup> Sanhua's responses to questions of staff, p. 1 and exh. Q-1.

<sup>33</sup> \*\*\*, \*\*\*, p. 4.

<sup>34</sup> \*\*\*.

<sup>35</sup> \*\*\*.

<sup>36</sup> \*\*\*.

<sup>37</sup> \*\*\*.

<sup>38</sup> Conference transcript, pp. 93-94 (Craven).

<sup>39</sup> \*\*\*.

<sup>40</sup> Sanhua's responses to questions of staff, p. 1.





## 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.<sup>1</sup> The Commission received a completed questionnaire response from petitioner.<sup>2</sup> 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.<sup>3</sup> Table III-1 presents U.S. producers’ positions on the petition, ownership, plant locations, and shares of total reported U.S. production in 2007.

**Table III-1**

**FSVs: U.S. producers, positions on the petition, ownership, plant locations, and shares of total reported 2007 U.S. production**

| Firm  | Position on petition | Firm ownership                 | U.S. plant location | 2007 U.S. production   |                 |
|---|----------------------|--------------------------------|---------------------|------------------------|-----------------|
|   |                      |                                |                     | Quantity (1,000 units) | Share (percent) |
| Chatleff <sup>1</sup>   | ***                  | Danfoss-Chatleff LLC (Denmark) | Buda, TX            | *** <sup>2</sup>       | ***             |
| Parker  | Support/Petitioner   | Parker-Hannifin Corp. (U.S.)   | New Haven, IN       | ***                    | ***             |
| Total   |                      |                                |                     | ***                    | 100.0           |
| <sup>1</sup> Acquired by Danfoss of Denmark in 2007.<br><sup>2</sup> Ceased production of FSVs in ***.<br>Source: Compiled from data submitted in response to Commission questionnaires and from the Petition, p.3. |                      |                                |                     |                        |                 |

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.<sup>4</sup> During the 1990s Parker expanded through acquisitions. In 2001, Parker acquired the New Haven, IN

<sup>1</sup> 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).

<sup>2</sup> Chatleff submitted an incomplete response and therefore data for Chatleff are not included in the tables and figures of this report.

<sup>3</sup> In \*\*\* Chatleff produced \*\*\* FSV units from \*\*\* when it ceased production. Chatleff’s domestic producer questionnaire response, question II-9. Parker speculated that Chatleff ceased U.S. production of FSVs because of competition from imports \*\*\*. Petitioner’s postconference brief, exh. 1, p. 10. FSV purchaser Goodman \*\*\* identified Chatleff’s quality issues as the reason for its cessation of FSV production. According to Goodman, “Chatleff exited the market due to a major quality issue with Nordyne” (an original equipment manufacturer of residential air conditioning units) and re-employed dedicated machine tools to other product lines, but also scrapped a percentage of its machine tools. Goodman’s postconference brief, p. 6.

<sup>4</sup> Conference transcript, p. 49 (Miller).

plant of Aeroquip and broadened its FSV business.<sup>5</sup> 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.<sup>6</sup>

### U.S. CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION

Table III-2 presents data on the U.S. producer’s capacity, production, and capacity utilization between 2005 and 2007. The data are graphically presented in figure III-1. These data do not include information for Chatleff which did not provide a complete U.S. producer’s questionnaire response. Chatleff produced FSVs domestically until \*\*\*, as noted above, and had an annual capacity of \*\*\* units and produced \*\*\* units in \*\*\*.<sup>7</sup> Combined with Parker’s reported decrease in capacity of \*\*\*, domestic FSV capacity decreased by \*\*\* from \*\*\*.

Based on Parker’s questionnaire response only, reported U.S. capacity to produce FSVs decreased by \*\*\* units between 2005 and 2006 but remained stable from 2006 to 2007. Parker attributed this decrease in capacity to the \*\*\*.<sup>8</sup> However, \*\*\*.<sup>9</sup> The machinery was not moved to the production of other types of valves or other products.<sup>10</sup> U.S. production of FSVs decreased each year between 2005 and 2007, for an overall decrease of \*\*\* percent. The average capacity utilization for the U.S. producer fell from \*\*\* percent in 2005 to \*\*\* percent in 2006, and was \*\*\* percent in 2007.

**Table III-2**  
**FSVs: U.S. capacity, production, and capacity utilization, 2005-07**

\* \* \* \* \*

**Figure III-1**  
**FSVs: U.S. producer’s capacity, production, and capacity utilization, 2005-07**

\* \* \* \* \*

Parker reported one constraint on its production capacity: the \*\*\*. According to Parker, the \*\*\*.<sup>11</sup> However, the changeover time to switch between FSVs for different customers is relatively short,

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<sup>5</sup> *Parker-Hannifin Corporation*, International Directory of Company Histories, Vol. 24, St. James Press, 1999, available online at <https://www.fundinguniverse.com/company-histories/ParkerHannifin-Corporation-Company-History.html>, retrieved April 9, 2008. \*\*\*. According to respondents, prior to this acquisition Parker sold FSVs to \*\*\* and Aeroquip sold to the other U.S. residential air conditioner producers. Sanhua’s postconference brief, p. 2.

<sup>6</sup> Conference transcript, p. 10 (Miller).

<sup>7</sup> Chatleff’s domestic producer questionnaire response, question II-9, calculated from a reported weekly capacity of \*\*\* units per week, for an operation time of \*\*\* weeks per year.

<sup>8</sup> E-mail from \*\*\*.

<sup>9</sup> Petitioner’s postconference brief, p. 10.

<sup>10</sup> Conference transcript, p. 75 (Miller).

<sup>11</sup> Parker’s domestic producer questionnaire response, question II-4.

about 10 minutes or less.<sup>12</sup> Parker's New Haven plant equipment is \*\*\*. However, the \*\*\*.<sup>13</sup> Parker \*\*\*.<sup>14</sup> Since January 1, 2005, Parker \*\*\*.<sup>15</sup>

### U.S. PRODUCER'S SHIPMENTS

Table III-3 presents information on the U.S. producer's shipments of FSVs between 2005 and 2007. Parker reported \*\*\*. The U.S. producer's U.S. commercial shipments of FSVs decreased by \*\*\* percent by quantity and \*\*\* percent by value from 2005 to 2007. The unit values of commercial shipments increased each year between 2005 and 2007. Total shipment unit values were higher in 2007 than in 2005 by \*\*\* percent, or by \$\*\*\* per FSV unit. Rising average unit values, however, did not offset declining shipment quantities, and total shipment values for the domestic producer declined in each year-on-year comparison and by \*\*\* percent overall.

Parker reported exports, which constituted \*\*\* of the quantity of its shipments of FSVs throughout the period for which data were collected. The U.S. producer of FSVs reported exporting to \*\*\*.<sup>16</sup>

**Table III-3**  
**FSVs: U.S. producer's shipments, by types and shares, 2005-07**

\* \* \* \* \*

### U.S. PRODUCER'S INVENTORIES

Table III-4, which presents end-of-period inventories for FSVs, shows that inventories were low as a ratio to production and shipments throughout the period examined. Reported inventories were \*\*\*.<sup>17</sup> As a Parker official testified at the Commission's conference, "... once we receive the orders we build them quickly. So we do not have excess inventory sitting around on brass and copper components. Or finished product."<sup>18</sup> Parker reported a typical turnaround of within five to seven days from the time it receives an order to shipment.<sup>19</sup>

**Table III-4**  
**FSVs: U.S. producer's end-of-period inventories, 2005-07**

\* \* \* \* \*

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<sup>12</sup> Conference transcript, p. 48 (Miller).

<sup>13</sup> Parker's domestic producer questionnaire response, question II-3.

<sup>14</sup> Parker's domestic producer questionnaire response, question II-7.

<sup>15</sup> Parker's domestic producer questionnaire response, question II-6.

<sup>16</sup> E-mail from \*\*\*. Air conditioner manufacturers \*\*\*. \*\*\*.

<sup>17</sup> FSV purchaser Goodman Global, Inc. ("Goodman") claims that Parker refused to offer a consignment inventory. Goodman's postconference brief, p. 2.

<sup>18</sup> Conference transcript, p. 67 (Miller).

<sup>19</sup> 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 telephone interview with \*\*\*.

## U.S. PRODUCER'S IMPORTS AND PURCHASES

During the period for which data were collected \*\*\* FSVs.<sup>20</sup> In addition, \*\*\*.<sup>21</sup> Parker reported that it \*\*\*.<sup>22</sup>

## 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 2007 data shows that employment of production and related workers ("PRWs") in the U.S. FSV industry was \*\*\* percent lower and hours worked were \*\*\* percent lower at the end of the period examined. Wages paid to PRWs also declined at a similar rate throughout the period, but hourly wages increased each year. Productivity decreased throughout the period for which data were collected. This decrease in productivity can be explained in part by \*\*\*.<sup>23</sup>

**Table III-5**  
**FSVs: U.S. producer's employment-related data, 2005-07**

\* \* \* \* \*

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<sup>20</sup> Parker's domestic producer questionnaire response, question II-8.

<sup>21</sup> Parker's domestic producer questionnaire response, question II-11.

<sup>22</sup> Parker's domestic producer questionnaire response, question I-5.

<sup>23</sup> \*\*\*. E-mail from \*\*\*.

## 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”). The Commission sent importer questionnaires to these companies as well as to 21 firms that were identified in proprietary Customs data as air conditioner parts importers between 2005 and 2007. DunAn Precision and Sanhua International submitted complete questionnaire responses and the Commission received confirmation of non-importation from 11 firms. Ten firms did not respond to the Commission’s importer questionnaire. Import data in this report are based on questionnaire responses because official Commerce statistics are not available for FSVs separately from other goods. The questionnaire coverage is believed to be near 100 percent because \*\*\*. However, prior to 2006 \*\*\*.<sup>1</sup> Because these units were not accounted for by DunAn Precision’s importer questionnaire and because \*\*\*, imports of FSVs from China were adjusted to include DunAn’s reported 2005 FSV exports to the United States.<sup>2</sup> In addition, because the foreign producer questionnaire included the quantity of exports to the United States in 2005 but not the value, \*\*\*’s reported unit value was applied to DunAn’s exports to derive a value figure.

The combined questionnaire responses of DunAn, DunAn Precision, and Sanhua International are believed to account for \*\*\* U.S. imports of FSVs from China, by quantity, in 2005-07. 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, 2007**

\* \* \* \* \*

Both U.S. importers are affiliated with FSV producers in China. DunAn Precision is owned by \*\*\* which also owns FSV producer DunAn of Zhuji in the Zhejiang province.<sup>3</sup> Sanhua International is wholly owned by \*\*\* and through this relationship is a sister company to FSV producer Sanhua of Xinchang, also in the Zhejiang province.<sup>4</sup> These two producers reportedly import FSVs through their affiliates \*\*\*.<sup>5</sup>

No importer reported \*\*\*.<sup>6</sup> No importer reported \*\*\*.<sup>7</sup> The Commission asked importers to comment on any changes in the character of their operations or organization relating to FSVs. \*\*\*.<sup>8</sup>

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<sup>1</sup> Staff telephone interview with \*\*\*. E-mail from \*\*\*, April 16, 2008.

<sup>2</sup> DunAn’s foreign producer questionnaire response, question II-7. These exports totaled \*\*\* units in 2005.

<sup>3</sup> DunAn Precision’s importer questionnaire response, questions I-3 and I-4.

<sup>4</sup> Sanhua International’s importer questionnaire response, questions I-3 and I-4.

<sup>5</sup> DunAn’s and Sanhua’s foreign producer questionnaire responses, question I-3.

<sup>6</sup> DunAn Precision’s and Sanhua International’s importer questionnaire responses, question I-8.

<sup>7</sup> DunAn Precision’s and Sanhua International’s importer questionnaire responses, question I-9.

<sup>8</sup> DunAn Precision’s and Sanhua International’s importer questionnaire responses, question II-2.

## U.S. IMPORTS

Table IV-2 and figure IV-1 present and depict U.S. imports of FSVs during 2005 to 2007. U.S. import data are based on questionnaire responses.<sup>9</sup>

**Table IV-2**  
**FSVs: U.S. imports, by sources, 2005-07**

\*            \*            \*            \*            \*            \*            \*

**Figure IV-1**  
**FSVs: Quantity of subject U.S. imports, 2005-07**

\*            \*            \*            \*            \*            \*            \*

Between 2005 and 2007, U.S. imports of FSVs from China increased each year. Imports from China increased from more than \*\*\* units to nearly \*\*\* units or by \*\*\* percent by quantity between 2005 and 2006, and increased \*\*\* percent the following year to nearly \*\*\* units. The unit value of imports from China increased by \*\*\* percent or by \$\*\*\* between 2005 and 2006 and by \*\*\* percent or \$\*\*\* between 2006 and 2007.

## NEGLIGIBILITY

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.<sup>10</sup> Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country of 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. However, if there are imports of such merchandise from a number of countries subject to investigations initiated on the same day that individually account for less than 3 percent of the total volume of the subject merchandise, and if the imports from those countries collectively account for more than 7 percent of the volume of all such merchandise imported into the United States during the applicable 12-month period, then imports from such countries are deemed not to be negligible.<sup>11</sup> Subject imports from China accounted for 100 percent of total imports of FSVs by quantity between March 1, 2007 and February 29, 2008, the most recent period for which data are available.<sup>12</sup>

## APPARENT U.S. CONSUMPTION

Table IV-3 presents data on the apparent U.S. consumption of FSVs. Figure IV-2 graphically presents data on apparent U.S. consumption. During 2005-07, total apparent U.S. consumption decreased by \*\*\* percent by quantity and \*\*\* percent by value. The quantity of shipments of subject imports \*\*\* between 2005 and 2007 while the U.S. producer's U.S. shipments decreased by \*\*\*. From 2005 to 2007, shipments of imports of FSVs from China increased by \*\*\* percent.

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<sup>9</sup> Official Commerce statistics were not used because FSVs are covered by “basket category” HTS reporting numbers and data for FSVs separately are not available.

<sup>10</sup> Section 733(a)(1) of the Act.

<sup>11</sup> Section 771(24) of the Act.

<sup>12</sup> Calculated from importer questionnaire responses.

**Table IV-3**  
**FSVs: Apparent U.S. consumption, by sources, 2005-07**

\* \* \* \* \*

**Figure IV-2**  
**FSVs: Apparent U.S. consumption, by sources, 2005-07**

\* \* \* \* \*

### U.S. MARKET SHARES

Table IV-4 presents data on apparent U.S. consumption and market shares in 2005 to 2007. Figure IV-3 graphically presents data on U.S. market shares. The U.S. producer's share of the quantity and value of apparent U.S. consumption of FSVs decreased from 2005 to 2007, 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, by sources, 2005-07**

\* \* \* \* \*

**Figure IV-3**  
**FSVs: Market shares, by sources, 2005-07**

\* \* \* \* \*

### 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 2007.

**Table IV-5**  
**FSVs: Ratios of U.S. imports to U.S. production, 2005-07**

\* \* \* \* \*





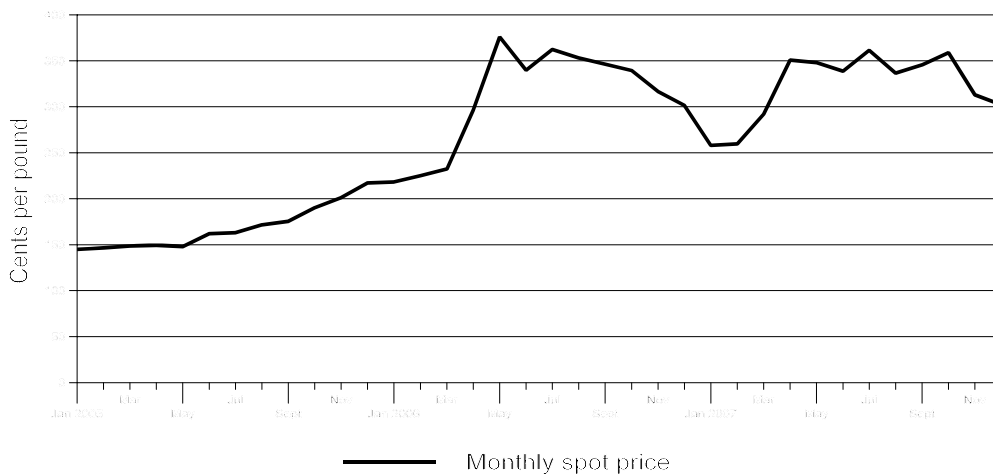
## PART V: PRICING AND RELATED INFORMATION

### 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. Parker reported that its brass (an alloy of copper and zinc) and copper costs have more than doubled since 2005.<sup>1</sup> As shown in figure V-1, the monthly price for brass increased by 156.1 percent from January 2005 to December 2007.<sup>2</sup> The global monthly average spot price for copper increased by 108.4 percent from January 2005 to December 2007, with most of the increase occurring from January 2005 to its highest point during the period in May 2006, as shown in figure V-2.<sup>3</sup> The annual London Metal Exchange (LME) price for zinc increased by 140.8 percent from 2005 to 2007; most of the increase (136.8 percent) occurred from 2005 to 2006 and prices remained relatively flat in 2007.<sup>4</sup>

**Figure V-1**  
**FSVs: Brass prices, January 2005-December 2007**



Source: American Metal Market.

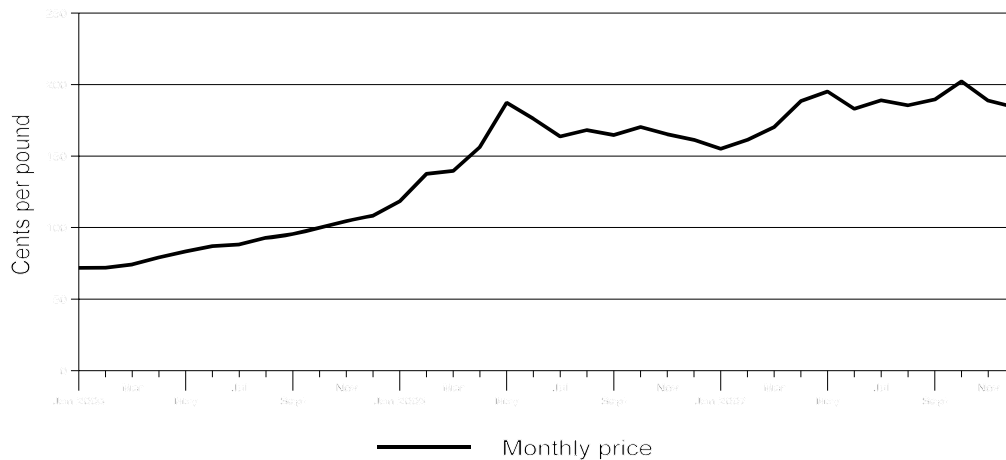
<sup>1</sup> Conference transcript, p. 16 (Miller).

<sup>2</sup> American Metal Market.

<sup>3</sup> New York Mercantile Exchange. [http://www.nymex.com/cop\\_fut\\_histspot.aspx](http://www.nymex.com/cop_fut_histspot.aspx).

<sup>4</sup> The price for zinc in 2007 is an estimate. U.S. Geological Survey, Mineral Commodity Summaries, 2007 and 2008. <http://minerals.usgs.gov/minerals/pubs/commodity/zinc/index.html#myb>.

**Figure V-2**  
**FSVs: COMEX monthly average spot price for copper, January 2005-December 2007**



Source: New York Mercantile Exchange, April 14, 2008.

### **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 it is unclear under which HTS subheadings FSVs are imported.<sup>5</sup>

### **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 \*\*\* percent of the delivered price.

### **Exchange Rate**

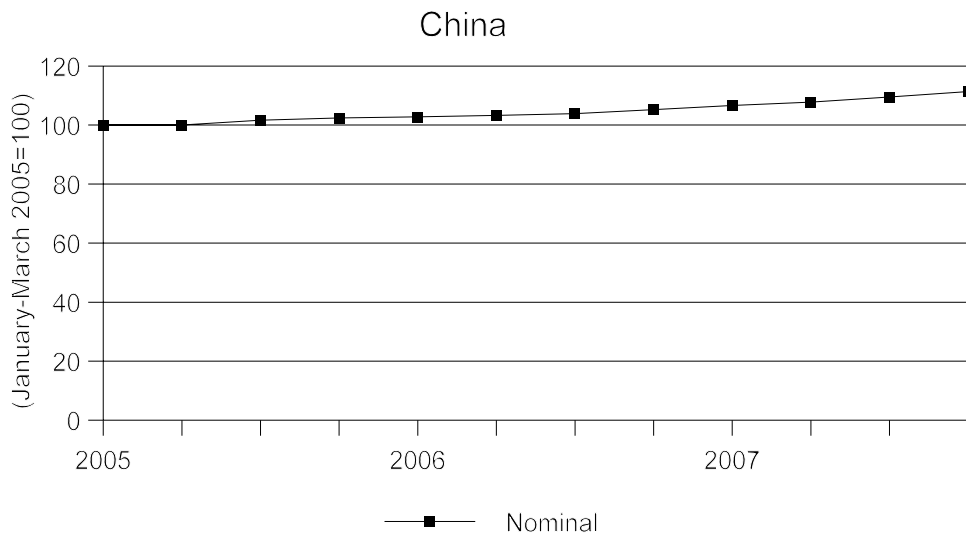
While the nominal exchange rate for the Chinese yuan was pegged to the U.S. dollar during the first six quarters of the period for which data were collected in the investigation, the dollar depreciated by 11.4 percent relative to the yuan in nominal terms from January 2005 to December 2007. A real value is unavailable. Parker reported that the change in the exchange rate was too small to have an effect on the prices of imported FSVs from China over the period.<sup>6</sup> Respondents reported that the change in the exchange rate has affected the competitiveness of imports from China.<sup>7</sup>

<sup>5</sup> Based on import data on the “basket” HTS subheadings 8415.90.80.85, 8481.80.10, and 8481.90.10, transportation costs for FSVs shipped from China to the United States averaged 4.9 percent of the customs value in 2005 and decreased to 3.3 percent in 2007. 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.

<sup>6</sup> Conference transcript, p. 71 (Nelson, Magrath).

<sup>7</sup> Conference transcript, p. 129 (Knights).

**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 2007**



Source: International Monetary Fund, International Financial Statistics, March 28, 2008.

## 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.<sup>8</sup> Among importers, \*\*\*. More specifically, importer DunAn reported that its contract with its \*\*\*. It also reported that it protects itself from increasing costs by purchasing forward exchange contracts on the open market.<sup>9</sup> Sanhua 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.<sup>10</sup> Sanhua also reported that its prices \*\*\*. \*\*\* 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 reported that \*\*\* Sanhua International keeps consignments \*\*\* in \*\*\* or in \*\*\* and that it typically keeps non-consigned inventory stocked in its own warehouse \*\*\* based on its customers' forecasts.<sup>11</sup>

DunAn reported that Parker's sales revenues have increased because it has acquired all of its U.S. competition.<sup>12</sup> 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,

<sup>8</sup> Conference transcript, pp. 83-84 (Nelson).

<sup>9</sup> DunAn's postconference brief, pp. 24-25.

<sup>10</sup> Sanhua's responses to questions of staff, p. 4.

<sup>11</sup> Ibid.

<sup>12</sup> DunAn's postconference brief, p. 6.

mandated supply agreements with no open competition or commercial exit clauses, and ignored customer complaints regarding quality and delivery time.<sup>13</sup> Parker maintains that its declining market share is evidence that it does not have market power and reports that it has not received complaints from customers.<sup>14</sup>

### 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 \*\*\*.

For Parker, \*\*\*. It reported that its \*\*\*. Parker also reported that \*\*\*. In the case of importers, long-term contracts can range from \*\*\*. Importer Sanhua International reported that prices of its long-term contracts \*\*\* while importer DunAn reported that its long-term contract prices are \*\*\*. Importer DunAn also reported that \*\*\*. These importers' long-term contracts \*\*\* meet-or-release provisions. Importer Sanhua International's short-term contracts \*\*\*. Sanhua also reported that its contract with \*\*\*.<sup>15</sup>

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

### 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 of selected products that were shipped to unrelated OEM customers in the U.S. market.<sup>16</sup> Data were requested for the period January 2005-December 2007. 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 Schraeder Bridgeport access valves and captivated stem with OD solder connection of 3/8 inch.

***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 Schraeder 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 Schraeder Bridgeport access valves and captivated stem with OD solder connection of 7/8 inch.

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<sup>13</sup> Conference transcript, p. 91 (Craven). Sanhua's postconference brief, pp. 7-8. Goodman's postconference brief, pp. 1 and 6.

<sup>14</sup> Conference transcript, p. 145 (Dinan).

<sup>15</sup> Sanhua's responses to questions of staff, p. 1.

<sup>16</sup> Annual sales volume and values to individual OEM customers reported by Parker and importers DunAn Precision and Sanhua International are presented in app. D.

Parker and two importers provided pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.<sup>17</sup> Pricing data reported by these firms accounted for approximately \*\*\* percent of Parker’s U.S. commercial shipments of FSVs during January 2005-December 2007 and \*\*\* percent of U.S. shipments of imports from China over the same period.

**Price Trends**

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 2007. 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 2007, with \*\*\* percent of the increase occurring from \*\*\*. The weighted-average sales price of product 1 imported from China, as reported by importers DunAn and Sanhua, increased by \*\*\* percent over the entire period, with prices increasing by \*\*\* percent from the first quarter of 2005 to the fourth quarter of 2006 and decreasing \*\*\* by \*\*\* percent from the fourth quarter of 2006 to the fourth quarter of 2007.

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 2007, with \*\*\* percent of the increase occurring from \*\*\*. The weighted-average sales price of product 2 imported from China, as reported by importers DunAn and Sanhua, increased by \*\*\* percent over the entire period, with \*\*\* percent of the increase occurring from \*\*\*.

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 2007, with \*\*\* percent of the increase occurring from \*\*\*. The weighted-average sales price of product 3 imported from China, as reported by importers DunAn and Sanhua, fluctuated over the period, increasing overall by \*\*\* percent from the first quarter of 2005 to the fourth quarter of 2007.

**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 2007**

\* \* \* \* \*

**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 2007**

\* \* \* \* \*

**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 2007**

\* \* \* \* \*

---

<sup>17</sup> Prior to \*\*\*, the prices of products imported from China are \*\*\*. Importer \*\*\* also reported that all of its pricing data are \*\*\*. \*\*\*.

**Figure V-4**  
**FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 1, by quarters, January 2005-December 2007**

\* \* \* \* \*

**Figure V-5**  
**FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 2, by quarters, January 2005-December 2007**

\* \* \* \* \*

**Figure V-6**  
**FSVs: Weighted-average f.o.b prices and quantities of domestic and imported product 3, by quarters, January 2005-December 2007**

\* \* \* \* \*

**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 35 of 36 quarterly comparisons of products 1-3, by margins ranging from 0.5 percent to 36.2 percent. The margins of underselling increased over the period for all three products.

**Table V-4**  
**FSVs: Margins of underselling/(overselling) by product, quarterly, January 2005-December 2007**

\* \* \* \* \*

**Table V-5**  
**FSVs: Instances of underselling/overselling and the range and average of margins for products 1-3, January 2005-December 2007**

| Product                  | Underselling        |                    |                          | Overselling         |                 |                          |
|--------------------------|---------------------|--------------------|--------------------------|---------------------|-----------------|--------------------------|
|                          | Number of instances | Range (percent)    | Average margin (percent) | Number of instances | Range (percent) | Average margin (percent) |
| Product 1                | 12                  | 17.5 to 36.2       | 30.7                     | 0                   | 0               | (1)                      |
| Product 2                | 11                  | 8.0 to 20.8        | 17.1                     | 1                   | 0.4             | 0.4                      |
| Product 3                | 12                  | 0.5 to 33.3        | 14.6                     | 0                   | 0               | (1)                      |
| <b>Total<sup>2</sup></b> | <b>35</b>           | <b>0.5 to 36.2</b> | <b>20.9</b>              | <b>1</b>            | <b>0.4</b>      | <b>0.4</b>               |

<sup>1</sup> Not applicable.

<sup>2</sup> Total number of instances for all cited products, range of margins for all cited products, and average margin for all cited products.

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

## 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 \$\*\*\*, which accounts for \*\*\* percent of the value of Parker's U.S. shipments during the period for which data were collected.<sup>18</sup> Staff contacted the \*\*\* purchasers cited in the allegations; \*\*\* responded, \*\*\* of which confirmed \*\*\* allegations, valued at a total of \$\*\*\*. The results are summarized in table V-6 and are discussed below.

**Table V-6**  
**FSVs: U.S. producer's lost sales allegations**

\* \* \* \* \*

\*\*\*. \*\*\*. \*\*\*.<sup>19</sup> \*\*\*.<sup>20</sup> \*\*\*.<sup>21</sup> \*\*\*.<sup>22</sup> \*\*\*.<sup>23</sup> \*\*\*.<sup>24</sup> \*\*\*.<sup>25</sup> \*\*\*.<sup>26</sup> \*\*\*.<sup>27</sup> \*\*\*.<sup>28</sup> \*\*\*.

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<sup>18</sup> 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).

<sup>19</sup> \*\*\*.

<sup>20</sup> \*\*\*.

<sup>21</sup> \*\*\*'s response to lost sales allegations, p. 4.

<sup>22</sup> \*\*\*. \*\*\*'s response to lost sales allegations, p. 4.

<sup>23</sup> \*\*\*. \*\*\*.

<sup>24</sup> \*\*\* and \*\*\*'s response to lost sales allegations, p. 4.

<sup>25</sup> \*\*\*.

<sup>26</sup> \*\*\*. \*\*\*.

<sup>27</sup> \*\*\*.

<sup>28</sup> \*\*\*.





## 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. These data accounted for all known U.S. production of FSVs in 2007.<sup>1</sup>

### OPERATIONS ON FSVs

The results of Parker's operations on FSVs (table VI-1) are briefly summarized here. Total net sales quantities and values fell \*\*\* in 2005–07 when Parker lost most of its OEM customer base,<sup>2</sup> although unit sales values increased by \*\*\* percent.<sup>3</sup> Cost of goods sold (“COGS”) 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 was \*\*\* the increase in the average unit value of sales (\$\*\*\* versus \$\*\*\*) between 2005 and 2007; the increase in the average unit value of raw materials was \$\*\*\* in that same time. Parker's gross profit fell from 2005 to 2007, although \*\*\* in each year. Selling, general, and administrative (“SG&A”) expenses declined in value terms, but when expressed as a ratio to net sales, SG&A expenses declined \*\*\* in 2005–06, and rose to the same level in 2007 as in 2005. Parker's operating \*\*\*.

**Table VI-1**  
**FSVs: Results of Parker's operations, calendar years 2005–07**

\* \* \* \* \*

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 for the tubing) and brass (a copper-zinc alloy that is used for the body of the unit).<sup>4</sup> 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 all rose in 2005–07. Data provided by Parker show that the firm obtained \*\*\* recovery of rising raw material costs through a metal surcharge mechanism.<sup>5</sup>

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<sup>1</sup> The other known U.S. producer, Danfoss Chatleff, LLC, ceased producing FSVs in \*\*\*. It responded \*\*\*.

<sup>2</sup> Witnesses from Parker testified that it had approximately 90 percent of the OEM market in 2004 (it supplied six out of the seven firms), but currently supplies about one-third of the OEM market (two out of the seven firms although Parker \*\*\*). Conference transcript, pp. 18-19 (Nelson) and Petitioner's postconference brief, exh. 1. The fall in Parker's sales was \*\*\* the overall decline in U.S. apparent consumption in the same period, which was estimated at \*\*\* percent. Petitioner's postconference brief, p. 9.

<sup>3</sup> Sales include raw material surcharges, which are discussed later. See petitioner's postconference brief, exh. 1.

<sup>4</sup> Conference transcript, p. 16 (Miller).

<sup>5</sup> Petitioner's postconference brief, exh. 1. 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 is typically added to and included in the sales price and offsets (at least partially) the cost increase recorded in raw materials in COGS. Like many other commodities, copper prices have risen dramatically in recent years. For example, between January 2005 and December 2007, spot prices on a per-pound basis increased from about \$1.45 to about \$3.00 on the New York Commodity Exchange (COMEX). Copper prices spiked upward from about \$2.15 to \$3.70 per pound in January–April 2006 and remained above \$3.00 per pound for the remainder of 2006. These prices are shown in a price series of monthly average spot copper prices on the Internet site <http://www.alanwire.com/cop1.html> retrieved on April 11, 2008. Prices for brass also have risen considerably during the period investigated, from 71.88 cents per pound in January 2005 to 184.11 cents per pound in December 2007 for an increase of 156.1 percent, according to a series of average monthly prices published by the American Metal Market. Retrieved from the AMM Website,

(continued...)

Parker's metal surcharges were \$\*\*\*, \$\*\*\*, and \$\*\*\* in 2005, 2006, and 2007, respectively; they accounted for \*\*\* percent, \*\*\* percent, and \*\*\* percent of the total reported sales by value to the seven OEMs in the three years, respectively.<sup>6</sup> On a per-unit basis, the surcharges were \$\*\*\*, \$\*\*\*, and \$\*\*\* in the three years, respectively.<sup>7</sup> These data reflect the price increases of copper and brass, as well as the decline in Parker's net sales by quantity in 2005–07.

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. 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.<sup>8</sup>

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).

**Table VI-2**  
**FSVs: Variance analysis on results of Parker's operations, calendar years 2005–07**

\*       \*       \*       \*       \*       \*       \*

This analysis shows that the \*\*\* in Parker's operating income in 2005–07 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.

### CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

Parker reported capital expenditures \*\*\* research and development (“R&D”) expenses for FSVs that are shown in table VI-3. Reportedly, one focus of Parker's capital expenditures has been in \*\*\*. Reported charges for \*\*\* exceeded \*\*\* in each year investigated, an indication that equipment is not being replaced as fast as it is wearing out. Parker's capital expenditures were \*\*\* in 2005, its \*\*\* for which data were gathered, but declined thereafter.

**Table VI-3**  
**FSVs: Capital expenditures and R&D expenses of Parker, calendar years 2005–07**

\*       \*       \*       \*       \*       \*       \*

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<sup>5</sup> (...continued)

<http://amm.com/priorprice/matprice.asp> on April 21, 2008.

<sup>6</sup> Calculated from the data reported in exh. 1 of Petitioner's postconference brief. The sales reported to OEMs accounted for \*\*\* and \*\*\* percent of Parker's total net sales by value in 2005 and 2006, respectively, \*\*\* percent of Parker's total net sales by value in 2007. Calculated by staff by comparing the data in exh. 1 of Petitioner's postconference brief with Parker's questionnaire response to question III-11.

<sup>7</sup> Calculated from the data reported in exh. 1 of Petitioner's postconference brief.

<sup>8</sup> Conference transcript, p. 47 (Miller).

## 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 2007. The data for total net sales and 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. These data and calculations are shown in table VI-4.

**Table VI-4**

**FSVs: The value of assets and return on investment of Parker, calendar years 2005–07**

\* \* \* \* \*

Accounts receivable \*\*\* because of the loss of four major OEM accounts. Parker also reported \*\*\* reduced inventories of finished goods from 2005 to 2007, from \*\*\* percent of shipments in 2005 to \*\*\* percent of shipments in 2007 (although the ratio had \*\*\* in 2006). Combined, these reductions led to an overall fall in current assets. Parker disposed of various assets, worth \$\*\*\*, resulting in lower values of fixed plant and equipment and total noncurrent assets in 2007 compared with 2006.<sup>9</sup> \*\*\* led to lower total noncurrent assets between 2005 and 2006; an increase in allocated assets in 2007 was not sufficient to offset the effects of the equipment disposal.

## 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:** \*\*\*.

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<sup>9</sup> E-mail from Brad Hudgens, Georgetown Economic Services, to Commission staff, April 9, 2008.



## PART VII: THREAT CONSIDERATIONS AND *BRATSK* INFORMATION

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the nature of the alleged 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 information obtained for consideration by the Commission in relation to *Bratsk* rulings.

### THE INDUSTRY IN CHINA

#### Overview

The petition identified two potential producers of FSVs in China.<sup>1</sup> 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 conference, and provided postconference briefs.

DunAn and Sanhua's FSV operations in China are both ISO 9000 and ISO 14001 approved.<sup>2</sup> Neither DunAn nor Sanhua \*\*\*.<sup>3</sup> \*\*\* reportedly the dominant producers of flare-type service valves used in Asia, the world's biggest market for air conditioning equipment according to Parker.<sup>4</sup> DunAn and Sanhua \*\*\*.<sup>5</sup> Neither producer in China \*\*\*.<sup>6</sup>

\*\*\* two additional, potential FSV producers in China: Guangdong Hangji Metal Product Industries Co., Ltd. ("Guangdong") and Ningbo Riyue Refrigerating Equipment Co., Ltd ("Riyue").<sup>7</sup> 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.<sup>8</sup> Riyue specializes in producing a variety of air conditioner valves including ball valves and what it describes as square valves but which appear identical

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<sup>1</sup> Zhejiang Sanhua Co., Ltd., parent company of Xhejiang Sanhua Climate and Appliance Controls Group, Co. ("Sanhua"), and Zhejiang DunAn Precision Industries Group Co., Ltd., parent company of Zhejiang DunAn Precision Industries ("DunAn"). Petition, pp. 8-9.

<sup>2</sup> Goodman's postconference brief, p. 2.

<sup>3</sup> \*\*\*.

<sup>4</sup> Petitioner's postconference brief, p. 10.

<sup>5</sup> DunAn's and Sanhua's foreign producer questionnaire responses, question II-3.

<sup>6</sup> \*\*\*.

<sup>7</sup> \*\*\* Sanhua's responses to questions of staff, p. 1.

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

to FSVs (*see* figure VII-1).<sup>9</sup> These valves are made with brass bodies and are offered in six connection diameters and four body sizes.<sup>10</sup>

**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](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. Between 2005 and 2007, Chinese FSV capacity and production increased steadily, by \*\*\* percent and \*\*\* percent, respectively. Capacity utilization fluctuated and was highest at \*\*\* percent in \*\*\*.

**Table VII-1**  
**FSVs: Data for producers in China, 2005-07, and projected 2008-09**

\* \* \* \* \*

FSV sales represented \*\*\* percent of DunAn’s and \*\*\* percent of Sanhua’s total sales in 2007.<sup>11</sup> During the period for which data were collected, the Chinese industry’s internal consumption decreased and is projected to be \*\*\* in 2008 and 2009. Home market shipments of FSVs \*\*\* between 2005 and 2007, increasing by \*\*\* percent. Internal consumption and home market shipments combined accounted for a large share of total shipments in 2007, \*\*\* percent. Also, during this period exports to the United States and all other markets increased overall, by \*\*\* percent. This increase was almost \*\*\* percent between 2005 and 2007. In 2007, exports accounted for \*\*\* percent of the Chinese industry’s total FSVs shipments.

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

<sup>10</sup> Riyue Refrigerating, Product Center, Square Valves, found at [http://www.cnriyue.com/product\\_detail.asp?id=00010003](http://www.cnriyue.com/product_detail.asp?id=00010003), retrieved April 18, 2008.

<sup>11</sup> DunAn’s and Sanhua’s foreign producer questionnaire responses, question II-2.

In 2007, \*\*\* percent of DunAn and Sanhua's exports to the United States were imported by \*\*\*.<sup>12</sup> \*\*\* producers responded that \*\*\*.<sup>13</sup> DunAn identified its principal, non-U.S. export markets as: \*\*\*.<sup>14</sup> Sanhua identified its principal, non-U.S. markets as: \*\*\*.<sup>15</sup>

Counsel on behalf of DunAn argued that the recent cut in the Chinese export tax rebate will contribute to a rise in prices for FSVs from China.<sup>16</sup> Introduced in 1985, the tax rebates for exporters have arguably made Chinese products more competitive on the international market.<sup>17</sup> Since September 2006, China has reduced or eliminated VAT export rebates for a wide range of products in an effort to control its trade surplus, optimize the commodity structure of its exports, reduce exports of products that have high energy and resource consumption and generate high pollution levels, and promote sustainable economic and social development.<sup>18</sup>

Projected capacity in China is \*\*\* and \*\*\* reported that \*\*\*.<sup>19</sup> The two producers in China project that full year 2009 production will be \*\*\* 2008 production, by \*\*\* percent, or nearly \*\*\* units. Capacity utilization is projected to \*\*\* in 2008 and 2009 \*\*\*. Counsel for Sanhua noted that the Chinese producers \*\*\*.<sup>20</sup>

End-of-period inventories increased between 2005 and 2007 by \*\*\* percent overall. DunAn and Sanhua reported that, since 2005, \*\*\*.<sup>21</sup> For information on the inventories held in the United States by \*\*\* see *U.S. Importers' Inventories* in this section of the report.

Individual company data on DunAn's FSV capacity, production, inventories, and shipments during 2005-07 and forecasts for 2008 and 2009 are presented in table VII-2.

**Table VII-2**  
**FSVs: Data for DunAn's operations in China, 2005-07, and projected 2008-09**

\* \* \* \* \*

Individual company data on Sanhua's FSV capacity, production, inventories, and shipments during 2005-07 and forecasts for 2008 and 2009 are presented in table VII-3.

**Table VII-3**  
**FSVs: Data for Sanhua's operations in China, 2005-07, and projected 2008-09**

\* \* \* \* \*

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<sup>12</sup> DunAn's and Sanhua's foreign producer questionnaire responses, question I-3.

<sup>13</sup> DunAn's and Sanhua's foreign producer questionnaire responses, question I-5.

<sup>14</sup> DunAn's foreign producer questionnaire response, question II-7.

<sup>15</sup> Sanhua's foreign producer questionnaire response, question II-7.

<sup>16</sup> DunAn's postconference brief, p. 21.

<sup>17</sup> *China to adjust export tax rebate mechanism*, China Daily, July 23, 2006, found at [http://www.chinadaily.com.cn/china/2006-07/23/content\\_647201.htm](http://www.chinadaily.com.cn/china/2006-07/23/content_647201.htm), retrieved April 17, 2008.

<sup>18</sup> *China: Description of Selected Government Practices and Policies Affecting Decision Making in the Economy*, Inv. No. 332-492, USITC Publication 3978, December 2007.

<sup>19</sup> DunAn's and Sanhua's foreign producer questionnaire responses, question II-1.

<sup>20</sup> Sanhua's postconference brief, p. 14.

<sup>21</sup> DunAn's and Sanhua's foreign producer questionnaire responses, question II-4.

Sanhua produces FSVs using \*\*\*. The first employs a \*\*\* while \*\*\*. The company stated that \*\*\*.<sup>22</sup> According to Sanhua, \*\*\* FSVs are primarily sold to \*\*\*<sup>23</sup> while its \*\*\* are sold in \*\*\*. Sanhua stated that forged FSVs are not sold directly into the U.S. market, but rather are occasionally included in finished products sold to the United States.<sup>24</sup> \*\*\*. Table VII-4 presents data for Sanhua's \*\*\*.

**Table VII-4**  
**FSVs: Sanhua's production of \*\*\* and \*\*\* service valves**

\* \* \* \* \*

**U.S. IMPORTS SUBSEQUENT TO DECEMBER 31, 2007**

The Commission requested importers to indicate whether they imported or arranged for the importation of FSVs from any country source after December 31, 2007. Two importers reported arrangements for the importation of FSVs from China for delivery in the future. \*\*\* future orders for importation of FSVs from nonsubject sources were reported. Data relating to U.S. importers' orders for importation of FSVs from China for entry into the United States in the period after December 31, 2007 through April 2008, are presented in table VII-5.

**Table VII-5**  
**FSVs: U.S. importers' current orders from China, for delivery after December 31, 2007**

\* \* \* \* \*

**U.S. IMPORTERS' INVENTORIES**

Inventories of U.S. imports as reported are presented in table VII-6. Inventories of Chinese FSVs increased from 2005 to 2006 by \*\*\* percent, while the ratios of such inventories to imports and to U.S. shipments of imports also increased. Between 2006 and 2007 inventories decreased by \*\*\* percent and the ratio of such inventories to imports and to U.S. shipments of imports also decreased.

**Table VII-6**  
**FSVs: U.S. importers' end-of-period inventories of imports from China, 2005-07**

\* \* \* \* \*

Both DunAn and Sanhua offer a consignment inventory for their customers in the United States.<sup>25</sup> The inventories are kept in OH and TX.<sup>26</sup> According to the Chinese producers, they went "far beyond price in order to obtain" the FSV business of U.S. air conditioner manufacturers by providing inventories

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<sup>22</sup> Sanhua's foreign producer questionnaire response, question II-7, "Explanation to the response."

<sup>23</sup> Sanhua also listed \*\*\* as a destination for its \*\*\* FSVs.

<sup>24</sup> Sanhua's responses to questions of staff, p. 3.

<sup>25</sup> According to Goodman, Parker refused to offer a consignment inventory of FSVs. Goodman's postconference brief, p. 2.

<sup>26</sup> Conference transcript, p. 143 (Dinan) \*\*\*.



for them to draw upon, thereby providing instant access to the needed valves.<sup>27</sup> Goodman indicated that the willingness of the Chinese FSV producers to maintain a consigned inventory in a U.S. location was important.<sup>28</sup> \*\*\*.<sup>29</sup> 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.<sup>30</sup> 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.<sup>31</sup>

## 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.<sup>32</sup>

## INFORMATION ON NONSUBJECT SOURCES

### “Bratsk” Considerations

As a result of the Court of Appeals for the Federal Circuit (“CAFC”) decision in *Bratsk Aluminum Smelter v. United States* (“Bratsk”), the Commission is directed to:

*undertake an “additional causation inquiry” whenever certain triggering factors are met: “whenever the antidumping investigation is centered on a commodity product, and price competitive non-subject imports are a significant factor in the market.” The additional inquiry required by the Court, which we refer to as the Bratsk replacement / benefit test, is “whether non-subject imports would have replaced the subject imports without any beneficial effect on domestic producers.”*<sup>33</sup>

### Nonsubject Source Information

China is believed to account for 100 percent of all imports of FSVs into the United States.<sup>34</sup> 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 data for pricing of FSVs from other sources were reported and pricing data for FSVs from China are presented in Part V of this report. With respect to foreign nonsubject sources of supply, the Commission sought publicly available information regarding

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<sup>27</sup> Versus Parker which produces FSVs to order (typically with a five-day lead time). Sanhua’s postconference brief, p. 4.

<sup>28</sup> Goodman’s postconference brief, p. 1.

<sup>29</sup> \*\*\*. \*\*\*.

<sup>30</sup> Sanhua’s responses to questions of staff, p. 4.

<sup>31</sup> Sanhua’s postconference brief, p. 14.

<sup>32</sup> \*\*\* foreign producer questionnaire responses, question II-6. \*\*\* importer questionnaire responses, question I-10.

<sup>33</sup> *Silicon Metal from Russia, Inv. No. 731-TA-991 (Second Remand)*, USITC Publication 3910, March 2007, p. 2; citing *Bratsk Aluminum Smelter v. United States*, 444 F.3d at 1375.

<sup>34</sup> Petitioner’s postconference brief, p. 3.

international suppliers of FSVs since 2005 from national import and export statistics, from conference testimony, and from interviews with industry sources. No foreign nonsubject sources of supply have been identified.

## Overview

As discussed in Part IV of this report, there are no known nonsubject sources of FSVs. Counsel representing the participating FSV producers in China confirmed that they are unaware of FSV imports from any countries other than China.<sup>35</sup> 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, 2005-07.<sup>36</sup>

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 necessity of meeting mandatory standards for FSV performance and characteristics, (2) the OEMs' lengthy qualification process, (3) alternative uses for copper and brass (the major raw materials for FSV production), and (4) the capital-intensive nature of FSV production.<sup>37</sup>

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<sup>35</sup> Conference transcript, p. 104 (Pardo, Craven). Goodman identified three companies that could potentially supply the U.S. market with product alternatives to 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/cgi-bin/syscer/9000com\\_all.pl?isicsymb=29&isicname=Machinery%20and%20Equipment](http://www.tisi.go.th/cgi-bin/syscer/9000com_all.pl?isicsymb=29&isicname=Machinery%20and%20Equipment), 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](http://www.fujikoki.co.jp/en/product/ro/pr_ro_bulb.html), retrieved April 16, 2008.

<sup>36</sup> Parker's postconference brief, p. 29, and conference transcript, p. 7 (Dinan), p. 22 (Nelson).

<sup>37</sup> 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**



injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from China of frontseating service valves, assembled or unassembled, complete or incomplete, and certain parts thereof, provided for in subheadings 8481.80.10, 8481.90.10, and possibly also imported under subheading 8415.90.80.85, of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value. Unless the Department of Commerce extends the time for initiation pursuant to section 732(c)(1)(B) of the Act (19 U.S.C. 1673a(c)(1)(B)), the Commission must reach a preliminary determination in antidumping investigations in 45 days, or in this case by May 5, 2008. The Commission's views are due at Commerce within five business days thereafter, or by May 12, 2008.

For further information concerning the conduct of this investigation 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 B (19 CFR part 207).

**DATES:** *Effective Date:* March 19, 2008.

**FOR FURTHER INFORMATION CONTACT:**

Dana Lofgren (202-205-3185), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. 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.** This investigation is being instituted in response to a petition filed on March 19, 2008, by Parker-Hannifin Corporation, Cleveland, OH.

**Participation in the investigation and public service list.** Persons (other than petitioners) wishing to participate in the investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the Commission's rules, not later than seven days after publication of this notice in the **Federal Register**. Industrial users and (if the merchandise under

investigation is sold at the retail level) representative consumer organizations have the right to appear as parties in Commission antidumping investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

**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 this investigation available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigation under the APO issued in the investigation, provided that the application is made not later than seven days after the publication of this notice in the **Federal Register**. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

**Conference.** The Commission's Director of Operations has scheduled a conference in connection with this investigation for 9:30 a.m. on April 8, 2008 at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Dana Lofgren (202-205-3185) not later than April 4, 2008, to arrange for their appearance. Parties in support of the imposition of antidumping duties in this investigation and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

**Written submissions.** As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before April 14, 2008, a written brief containing information and arguments pertinent to the subject matter of the investigation. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must 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

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**INTERNATIONAL TRADE COMMISSION**

[Investigation No. 731-TA-1148 (Preliminary)]

**Frontseating Service Valves from China**

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution of antidumping investigation and scheduling of a preliminary phase investigation.

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**SUMMARY:** The Commission hereby gives notice of the institution of an investigation and commencement of preliminary phase antidumping investigation No. 731-TA-1148 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) (the Act) to determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material

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).

In accordance with sections 201.16(c) and 207.3 of the 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 207.12 of the Commission's rules.

Issued: March 20, 2008.

By order of the Commission.

**William R. Bishop,**

*Acting Secretary to the Commission.*

[FR Doc. E8-6092 Filed 3-25-08; 8:45 am]

**BILLING CODE 7020-02-P**

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**DEPARTMENT OF COMMERCE****International Trade Administration**

[A-570-933]

**Frontseating Service Valves From the People's Republic of China: Initiation of Antidumping Duty Investigation**

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

**EFFECTIVE DATE:** April 15, 2008.

**FOR FURTHER INFORMATION CONTACT:** Hallie N. Zink, AD/CVD Operations, China/NME Group, SEC Office, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: 202-482-6907.

**Initiation of Investigation****The Petition**

On March 19, 2008, the Department of Commerce ("Department") received a petition concerning imports of frontseating service valves ("FSVs") from the People's Republic of China ("PRC"), filed in proper form by Parker-Hannifin Corporation ("Petitioner"). See Petition for the Imposition of Antidumping Duties on Frontseating Service Valves, filed March 19, 2008 ("Petition"). On March 25, 2008, the Department issued a request for

additional information and clarification of certain areas of the Petition. Based on the Department's request, Petitioner filed additional information on March 31, 2008 ("Supplement to the Petition"). The Department requested corrections to data filed in the Supplement to the Petition and the Petitioner filed the corrections on April 4, 2008. See Memorandum to the file dated April 3, 2008, from Meredith A. W. Rutherford, Import Policy Analyst.

In accordance with section 732(b) of the Tariff Act of 1930, as amended ("Act"), Petitioner alleges that imports of FSVs from the PRC are being, or are likely to be, sold in the United States at less-than-fair-value ("LTFV"), within the meaning of section 731 of the Act, and that the domestic industry is materially injured or threatened with material injury by reason of such imports.

The Department finds that Petitioner may file this Petition on behalf of the domestic industry because Petitioner is an interested party as defined in section 771(9)(C) of the Act, and has demonstrated sufficient industry support with respect to the antidumping duty investigation. See Determination of Industry Support for the Petition section, *infra*.

#### Period of Investigation

The period of investigation ("POI") is July 1, 2007, through December 31, 2007. See 19 CFR 351.204(b)(1).

#### 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.<sup>1</sup>

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 numbers are provided for convenience and customs purposes, but the written description of the scope is dispositive.

#### Comments on Scope of Investigation

During review of the Petition, the Department discussed the scope with Petitioner to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. In addition, as discussed in the preamble to the Department's regulations, the Department is setting aside a period of time for interested parties to raise issues regarding product coverage. See *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997). The Department encourages all interested parties to submit such comments to the Department by April 28, 2008. Comments should be addressed to Import Administration's APO/Dockets Unit, Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230, Attention: Hallie N. Zink, room 4003. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determination.

#### Comments on Product Characteristics for Antidumping Duty Questionnaire

The Department is requesting comments from interested parties regarding the appropriate physical characteristics of FSVs to be reported in response to the Department's antidumping questionnaire. This information will be used to identify the key physical characteristics of the subject merchandise in order for any respondents to report more accurately the relevant factors of production, as well as develop appropriate product reporting criteria, in accordance with the Department's non-market economy ("NME") methodology, as described in the "Normal Value" section, *infra*.

Interested parties may provide any information or comments that they believe are relevant to the development of an accurate listing of physical characteristics. Specifically, interested parties may provide comments as to which characteristics are appropriate to use as: (1) General product characteristics; and (2) product reporting criteria. The Department notes that it is not always appropriate to use all product characteristics as product reporting criteria. While there may be some physical product characteristics that manufacturers use to describe FSVs, it may be that only a select few product characteristics take into account meaningful physical characteristics of FSVs.

<sup>1</sup> 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.



In order to consider the suggestions of interested parties in developing and issuing the antidumping duty questionnaire, the Department must receive non-proprietary comments at the above-referenced address by April 28, 2008, and receive rebuttal comments by May 8, 2008.

#### **Determination of Industry Support for the Petition**

Section 732(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 732(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for: (i) At least 25 percent of the total production of the domestic like product; and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 732(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) Poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the "industry" as the producers as a whole of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The International Trade Commission ("ITC"), which is responsible for determining whether "the domestic industry" has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. *See USEC, Inc. v. United States*, 132 F. Supp. 2d 1, 8 (CIT 2001), *citing Algoma Steel Corp. Ltd. v. United States*, 688 F. Supp. 639, 644 (CIT 1988), *aff'd* 865 F.2d 240 (Fed. Cir. 1989), *cert. denied* 492 U.S. 919 (1989).

Section 771(10) of the Act defines the 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 under this subtitle." Thus, the reference point from which the domestic like product analysis begins is "the article subject to an investigation" (*i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition).

With regard to the domestic like product, Petitioner does not offer a definition of domestic like product distinct from the scope of the investigation. Based on the Department's analysis of the information submitted on the record, the Department has determined that FSVs constitutes a single domestic like product and the Department has analyzed industry support in terms of that domestic like product. For a discussion of the domestic like product analysis in this case, *see* "Antidumping Duty Investigation Initiation Checklist: Frontseating Service Valves from the People's Republic of China" ("Initiation Checklist"), at Attachment II (Industry Support), on file in the Central Records Unit, Room 1117 of the main Department of Commerce building.

The Department's review of the data provided in the Petition, supplemental submissions, and other information readily available to the Department indicates that Petitioner has established industry support. First, the Petition establishes support from domestic producers (or workers) accounting for more than 50 percent of the total production of the domestic like product and, as such, the Department is not required to take further action in order to evaluate industry support (*e.g.*, polling). *See* Section 732(c)(4)(D) of the Act. Second, the domestic producers have met the statutory criteria for industry support under 732(c)(4)(A)(i) because the domestic producers (or workers) who support the Petition account for at least 25 percent of the total production of the domestic like product. Finally, the domestic producers have met the statutory criteria for industry support under 732(c)(4)(A)(ii) because the domestic producers (or workers) who support the Petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the Petition. Accordingly, the Department determines that the Petition was filed on behalf of the domestic industry within the meaning of section 732(b)(1) of the

Act. *See* Initiation Checklist, at Attachment II.

The Department finds that Petitioner filed the Petition on behalf of the domestic industry because it is an interested party as defined in section 771(9)(C) of the Act and it has demonstrated sufficient industry support with respect to the antidumping investigation that it is requesting the Department initiate. *See* Initiation Checklist, at Attachment II.

#### **Allegations and Evidence of Material Injury and Causation**

Petitioner alleges that the U.S. industry producing the domestic like product is being materially injured by reason of the imports of the subject merchandise sold at less than normal value ("NV"). Petitioner contends that the industry's injured condition is illustrated by the reduced market share, reduced production, and capacity utilization, reduced shipments, underselling and price depressing and suppressing effects, lost revenue and sales, reduced employment, a decline in financial performance, and an increase in import penetration. The Department has assessed the allegations and supporting evidence regarding material injury, threat of material injury, and causation, and the Department determines that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. *See* Initiation Checklist, at Attachment III.

#### **Allegation of Sales at Less Than Fair Value**

The following is a description of the allegation of sales at LTFV upon which the Department based its decision to initiate this investigation of imports of FSVs from the PRC. The sources of data for the deductions and adjustments relating to the U.S. price and the factors of production are also discussed in the checklist. *See* Initiation Checklist. Should the need arise to use any of this information as facts available under section 776 of the Act in the preliminary or final determinations, the Department will re-examine the information and revise the margin calculations, if appropriate.

#### **Export Price**

Petitioner obtained three price quotes for three different sized FSVs produced and exported by Zhejiang Sanhua Co., Ltd. ("Sanhua") in the PRC and offered for sale to one of its U.S. customers during the POI. *See* Petition, at 23-24; Initiation Checklist. Petitioner deducted charges and expenses associated with exporting and delivering the product,

including the affiliated importer, Sanhua International Inc.'s ("Sanhua USA"), U.S. indirect selling expenses, U.S. credit expenses, U.S. inland freight, ocean freight and insurance charges, U.S. duties, U.S. port and wharfage fees, foreign inland freight costs, and foreign brokerage and handling. *See* Petition, at 26; Initiation Checklist. Petitioner calculated the affiliated U.S. importer's indirect selling expenses based on its own industry knowledge and experience. *See* Petition, at 29, 34, 40; Supplement to the Petition, at 15–17, and AD–Supp 6; and Initiation Checklist. Petitioner calculated U.S. inland freight, port to Sanhua USA's warehouse facility, based on its commercial experience and direct quotes for the specific U.S. importer's route. *See* Petition, at 27, 34, 41, and Exhibits AD 2A–AD 2C; Initiation Checklist. Because Petitioner obtained the U.S. inland freight quote after the POI, it provided a period deflator, moving the U.S. inland freight quote to the average of the POI. *See* Supplement to the Petition, at 17; I Exhibits AD–Supp 9, and AD–Supp 15A–15C; and Initiation Checklist.

#### Normal Value

Petitioner notes that the Department's long-standing treatment of the PRC as an NME country remains in effect until revoked by the Department, and notes that no such revocation determination has been made to date. *See* Petition, at 46–47. The Department has previously examined the PRC's market status and determined that NME status should continue for the PRC. *See* Memorandum from the Office of Policy to David M. Spooner, Assistant Secretary for Import Administration, regarding The People's Republic of China Status as a Non-Market Economy, dated May 15, 2006 (available online at <http://ia.ita.doc.gov/download/prc-nme-status/prc-nme-status-memo.pdf>). In addition, in recent investigations, the Department has continued to determine that the PRC is an NME country. *See Final Determination of Sales at Less Than Fair Value and Partial Affirmative Determination of Critical Circumstances: Certain Polyester Staple Fiber from the People's Republic of China*, 72 FR 19690 (April 19, 2007); *Final Determination of Sales at Less Than Fair Value: Certain Activated Carbon from the People's Republic of China*, 72 FR 9508 (March 2, 2007).

In accordance with section 771(18)(C)(i) of the Act, the presumption of NME status remains in effect until revoked by the Department. The presumption of NME status for the PRC has not been revoked by the

Department and, therefore, remains in effect for purposes of the initiation of this investigation. Accordingly, the NV of the product is appropriately based on factors of production valued in a surrogate market economy country, in accordance with section 773(c) of the Act. In the course of this investigation, all parties will have the opportunity to provide relevant information related to the issues of the PRC's NME status and the granting of separate rates to individual exporters.

Petitioner asserts that, of the five countries normally considered as alternative surrogate market economies for the PRC, *i.e.*, India, Egypt, Indonesia, the Philippines and Sri Lanka, India is the appropriate surrogate country for the PRC because it is has a significant brass valve industry, including several producers of FSVs, is at a comparable level of economic development, and surrogate data from India are available and reliable. *See* Petition, at 47–48; Initiation Checklist. Further, Petitioner notes that the four other potential surrogate countries either have no FSVs production, or have FSVs production on a limited scale. *See* Petition, at 49–50, and Exhibit AD 3D; Initiation Checklist. Based on the information provided by Petitioner, the Department believes that the use of India as a surrogate country is appropriate for purposes of initiation. *See* Initiation Checklist. However, after initiation of the investigation, interested parties will have the opportunity to submit comments regarding surrogate country selection and, pursuant to 19 CFR 351.301(c)(3)(i), will be provided an opportunity to submit publicly available information to value factors of production within 40 days after the date of publication of the preliminary determination.

Petitioner calculated NVs and dumping margins for each of the three U.S. prices, discussed above, using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C) and 19 CFR 351.408. Petitioner calculated NVs based on its own consumption rates for producing FSVs in 2007, with adjustments made for known differences, which included adjustments for labor and total material weight per piece. *See* Petition, at 51–56, and Exhibits AD11–AD11C; Supplement to the Petition, at 21–22, 27–28, and Exhibits AD–Supp 17–17C; and Initiation Checklist. Petitioner states that its production experience is representative of the production process used in the PRC because production of FSVs by large Chinese producers is based on similar, partly vertically integrated manufacturing starting with brass bar and copper tubing. *See*

Petition, at 51; Supplement to the Petition, at 21–22; and Initiation Checklist.

Petitioner valued the factors of production on reasonably available, public surrogate country data, including official Indian government import statistics. *See* Petition, at 56; Initiation Checklist. Petitioner sourced the Indian statistics from the World Trade Atlas ("WTA"), excluding values from countries previously determined by the Department to be NME countries, as well as imports into India from Indonesia, the Republic of Korea, and Thailand because they maintain broadly available, non-industry specific, export subsidies. Specifically, Petitioner relied on WTA data for the following production inputs (*i.e.*, raw material metal inputs, semi-finished parts purchased, scrap as a production cost offset, chemical inputs, industrial gasses, and packing materials): Brass bar for valve bodies and valve stems; copper tubing to create a factory connection and field connection; valve stem caps; brass charge ports; check (gauge) valve cores; brass acorn charge port caps; plastic (neoprene) o-rings; copper scrap; brass scrap; coolant; solvent; hydraulic fluid; hydrogen; helium; compressed air; corrugated cartons; corrugated packing pads/cartons dividers; carton labels; wood pallets; and plastic pallet film. *See* Petition, at 59–81; Supplement to the Petition, at AD–Supp 17; and Initiation Checklist.

Petitioner used the US\$ 0.83/hour labor rate for the PRC currently available for 2004 on the Department's Web site. *See* Petition, at 81, and Exhibit AD 22; Initiation Checklist. After noting that the WTA import value for the industrial gas input, nitrogen, appeared particularly high, Petitioner compared it against another source, a domestic Indian gas price. Subsequently, Petitioner determined to apply a more conservative surrogate value for nitrogen obtained from Boruka Gas Limited, an Indian manufacturer of industrial gases,<sup>2</sup> inflated from the 1997 source material, rather than the WTA value.<sup>3</sup> *See* Petition, at 84; Initiation Checklist. Petitioner valued electricity for industrial use in India in the fourth quarter of 2002, as published by the International Energy Agency ("IEA") in its 2005 Key World Energy Statistics online. *See* Petition, at 82; Supplement to

<sup>2</sup> As previously used in the *Preliminary Determination of the Antidumping Duty Investigation of Carbon and Certain Alloy Steel Wire Rod from Moldova*, 67 FR 17401 (April 2, 2002) ("Steel Wire Rod from Moldova").

<sup>3</sup> *See Steel Wire Rod from Moldova*, Factors of Production Valuation/Analysis Memorandum dated, April 2, 2002, at 6.

the Petition, at 30; and Initiation Checklist. Petitioner valued natural gas based on the publication of non-subsidized Indian natural gas prices. Petitioner explains that, as noted in a May 28, 2005, *Financial Express* article, analysis must differentiate between the subsidized GAIL natural gas tariff and the Indian market-determined price for industrial users. See Petition, at 83, and Exhibit AD 23B; Supplement to the Petition, at 30.

Petitioner calculated water prices from publicly available information published by the Maharashtra Industrial Development Corporation on India. See Petition, at 83, and Exhibit AD 23C; Supplement to the Petition, at 30. Where Petitioner was unable to find input prices contemporaneous with the POI, it adjusted for inflation using the wholesale prices index for India, as published in "International Financial Statistics" by the International Monetary Fund. See Petition, at 57; Supplement to the Petition, at 29–30, and Exhibits AD-Supp 13 and 14; and Initiation Checklist. For exchange rates to convert Indian Rupees to U.S. Dollars, Petitioner averaged the foreign currency exchange rates, as provided on the Department's Web site, for each day of the POI. Monetary conversions were applied only after having first applied a Rupee-based inflator to the original source Rupee value, as necessary. See Petition, at 58, and Exhibit AD 5; Supplement to the Petition, at 29–30; and Initiation Checklist.

Petitioner was unable to provide a specific Indian Harmonized Tariff Schedule ("HTS") category for brazing rings, one of the raw material inputs it purchased and used in the production of FSVs. Petitioner explains that brazing rings, which are made of copper, silver, zinc, phosphorus and tin, are used to connect various components of the valve assembly. See Petition, at 67; Initiation Checklist. Petitioner argues that because the finished brazing ring is a highly value-added component, the Department should value each element in the alloy composition (silver, zinc, phosphorus, and tin) and then attribute the value of each element to the proportion of each element. See Petition, at 67–68; Supplement to the Petition, at 30–32; and Initiation Checklist. Petitioner notes that it was similarly unable to locate an HTS category specific to brazing rings in one of the four other potential surrogate countries, *i.e.*, Egypt, Indonesia, the Philippines and Sri Lanka. See Supplement to the Petition, at 30–31; Initiation Checklist. While Petitioner did provide an Indian HTS basket subcategory, 8481.90.90 OTHER PARTS

OF THE ITEMS UNDER HDG 8481, for valuing this raw material input, which it concedes would cover brazing rings, it argues that the average unit value ("AUV") for this HTS is far lower than the actual U.S. market price paid by Petitioner. See Supplement to the Petition, at 31–32; Initiation Checklist. For initiation purposes, however, rather than attempting to account for the exact metal formulation in the alloy composition, we have determined to conservatively value brazing rings using the Indian HTS subcategory 8481.90.90. See Initiation Checklist, at Attachment V.

For the surrogate financial expenses for factory overhead, selling, general and administrative expenses ("SG&A"), and profit, Petitioner relied on the financial ratios of Brassomatic Pvt. Ltd. ("Brassomatic"), an Indian brass air-conditioning valve producer and Carbac Holdings Ltd. ("Carbac"), an Indian brass valve producer for the natural gas industry. Brassomatic, however, had no profit before taxes in 2006/2007, while Carbac recorded profits during that time. Therefore, Petitioner calculated factory overhead and SG&A expenses using Brassomatic's 2006/2007 financial statements, while calculating surrogate profit using Carbac's 2006/2007 financial statements. See Petition, at 85–86, and Exhibits AD 24–AD 25; Supplement to the Petition, at 24–26, and Exhibits AD-Supp 17A–17C; Initiation Checklist. Since Brassomatic's financial statement did not report a profit, we have determined not to use any of Brassomatic's data in our calculation of surrogate financial ratios for purposes of this initiation. It is the Department's practice to disregard financial statements with zero profit when there are financial statements of other surrogate companies that have earned profit on the record. See *Notice of Initiation of Antidumping Duty Investigations: Electrolytic Manganese Dioxide from Australia and the People's Republic of China*, 72 FR 52850 (September 17, 2007); *citing Certain Frozen Warmwater Shrimp from the Socialist Republic of Vietnam: Final Results of the First Antidumping Administrative Review and First New Shipper Review*, 72 FR 52052 (September 12, 2007) and accompanying Issues and Decision Memorandum at Comment 2, section B. Therefore, we have recalculated factory overhead, SG&A, and profit using Carbac's 2006/2007 reported financial ratios. Although Carbac is not as similar as Brassomatic is to the PRC producer, it is still a producer of comparable merchandise and therefore serves as a viable

alternative source of surrogate financial ratios information. See Initiation Checklist, at Attachment V.

#### Fair Value Comparisons

Based on the data provided by Petitioner, as adjusted by the Department, there is reason to believe that imports of FSVs from the PRC are being, or are likely to be, sold in the United States at LTFV. Based on comparisons of export price to NV, calculated in accordance with section 773(c) of the Act, the estimated dumping margins for FSVs range from 25.82 percent to 55.62 percent. See Initiation Checklist, at Attachment V.

#### Initiation of Antidumping Investigations

Based upon the examination of the Petition on FSVs from the PRC, the Department finds that the Petition meets the requirements of section 732 of the Act. Therefore, the Department is initiating an antidumping duty investigation to determine whether imports of FSVs from the PRC are being, or are likely to be, sold in the United States at LTFV. In accordance with section 733(b)(1)(A) of the Act, unless postponed, the Department will make its preliminary determination no later than 140 days after the date of this initiation.

#### Separate Rates

In order to obtain separate-rate status in NME investigations, exporters and producers must submit a separate-rate status application. See Policy Bulletin 05.1: Separate-Rates Practice and Application of Combination Rates in Antidumping Investigations Involving Non-Market Economy Countries (April 5, 2005) ("Separate Rates/Combination Rates Bulletin"), available on the Department's Web site at <http://ia.ita.doc.gov/policy/bull05-1.pdf>. The specific requirements for submitting the separate-rate application in this investigation are outlined in detail in the application itself, available on the Department's Web site at <http://ia.ita.doc.gov/ia-highlights-and-news.html> on the date of publication of this initiation notice in the **Federal Register**. The separate rate-application will be due sixty (60) days from the date of publication of this initiation notice in the **Federal Register**.

#### NME Respondent Selection and Quantity and Value Questionnaire

The Department will request quantity and value information from all known exporters and producers identified in the Petition and Supplement to the Petition. The quantity and value data

received from NME exporters/producers will be used as the basis to select the mandatory respondents.

The Department requires that the respondents submit a response to both the quantity and value questionnaire and the separate-rate application by the respective deadlines in order to receive consideration for separate-rate status. See *Circular Welded Austenitic Stainless Pressure Pipe from the People's Republic of China: Initiation of Antidumping Duty Investigation*, 73 FR 10221, 10225 (February 26, 2008); and *Initiation of Antidumping Duty Investigation: Certain Artist Canvas From the People's Republic of China*, 70 FR 21996, 21999 (April 28, 2005). Appendix I of this notice contains the quantity and value questionnaire that must be submitted by all NME exporters/producers no later than May 8, 2008. In addition, the Department will post the quantity and value questionnaire along with the filing instructions on the Import Administration Web site, at <http://ia.ita.doc.gov/ia-highlights-and-news.html>. The Department will send the quantity and value questionnaire to those PRC companies identified in the Petition, at 9; Supplement to Petition, at 1–2.

**Use of Combination Rates in an NME Investigation**

The Department will calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. The Separate Rates/Combination Rates Bulletin states:

{w}hile continuing the practice of assigning separate rates only to exporters, all separate rates that the Department will now assign in its NME investigations will be specific to those producers that supplied the exporter during the period of investigation. Note, however, that one rate is calculated for the exporter and all of the producers which supplied subject merchandise to it during the period of investigation. This practice applies both to mandatory respondents receiving an individually calculated separate rate as well as the pool of non-investigated firms receiving the weighted-average of the individually calculated rates. This practice is referred to as the application of combination rates because such rates apply to specific combinations of exporters and one or more producers. The cash-deposit rate assigned to an exporter will apply only to merchandise both exported by the firm in question and produced by a firm that supplied the exporter during the period of investigation.

See Separate Rates/Combination Rates Bulletin, at 6.

**Distribution of Copies of the Petition**

In accordance with section 732(b)(3)(A) of the Act and 19 CFR 351.202(f), copies of the public version of the Petition have been provided to the representatives of the Government of the PRC. The Department considers the service of the public version of the Petition to the foreign exporters/producers satisfied by the delivery of a public version to the Government of the PRC, consistent with 19 CFR 351.203(c)(2).

**U.S. International Trade Commission Notification**

The Department has notified the ITC of its initiation, as required by section 732(d) of the Act.

**Preliminary Determination by the International Trade Commission**

The ITC will preliminarily determine, no later than May 5, 2008, whether there is a reasonable indication that the U.S. industry is materially injured or threatened with material injury by imports of FSVs from the PRC. A negative ITC determination with respect to the investigation will result in the investigation being terminated; otherwise, this investigation will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: April 8, 2008.

**David M. Spooner,**  
*Assistant Secretary for Import Administration.*

**Appendix I**

Where it is not practicable to examine all known exporters/producers of subject merchandise, section 777A(c)(2) of the Tariff Act of 1930, as amended, permits us to investigate (1) a sample of exporters, producers, or types of products that is statistically valid based on the information available at the time of selection, or (2) exporters and producers accounting for the largest volume and value of the subject merchandise that can reasonably be examined.

In the chart below, please provide the total quantity and total value of all your sales of merchandise covered by the scope of this investigation (see "Scope of Investigation" section of this notice), produced in the PRC, and exported/shipped to the United States during the period July 1, 2007, through December 31, 2007.

| Market                                  | Total quantity in pieces | Terms of sale | Total value |
|---|--------------------------|---------------|-------------|
| United States .....                     | .....                    | .....         | .....       |
| 1. Export Price Sales .....             | .....                    | .....         | .....       |
| 2. a. Exporter Name .....               | .....                    | .....         | .....       |
| b. Address .....                        | .....                    | .....         | .....       |
| c. Contact .....                        | .....                    | .....         | .....       |
| d. Phone No. ....                       | .....                    | .....         | .....       |
| e. Fax No. ....                         | .....                    | .....         | .....       |
| 3. Constructed Export Price Sales ..... | .....                    | .....         | .....       |
| 4. Further Manufactured .....           | .....                    | .....         | .....       |
| Total sales .....                       | .....                    | .....         | .....       |

**Total Quantity:**

- Please report quantity on a metric ton basis. If any conversions were used, please provide the conversion formula and source.

**Terms of Sales:**

- Please report all sales on the same terms (e.g., free on board at port of export).

**Total Value:**

- All sales values should be reported in U.S. dollars. Please indicate any exchange

rates used and their respective dates and sources.

**Export Price Sales:**

- Generally, a U.S. sale is classified as an export price sale when the first sale to an unaffiliated customer occurs before importation into the United States.
- Please include any sales exported by your company directly to the United States.
- Please include any sales exported by your company to a third-country market economy reseller where you had knowledge

that the merchandise was destined to be resold to the United States.

- If you are a producer of subject merchandise, please include any sales manufactured by your company that were subsequently exported by an affiliated exporter to the United States.
- Please do not include any sales of subject merchandise manufactured in Hong Kong in your figures.

**Constructed Export Price Sales:**

- Generally, a U.S. sale is classified as a constructed export price sale when the first sale to an unaffiliated customer occurs after importation. However, if the first sale to the unaffiliated customer is made by a person in the United States affiliated with the foreign exporter, constructed export price applies even if the sale occurs prior to importation.

- Please include any sales exported by your company directly to the United States;

- Please include any sales exported by your company to a third-country market economy reseller where you had knowledge that the merchandise was destined to be resold to the United States.

- If you are a producer of subject merchandise, please include any sales manufactured by your company that were subsequently exported by an affiliated exporter to the United States.

- Please do not include any sales of subject merchandise manufactured in Hong Kong in your figures.

**Further Manufactured:**

- Sales of further manufactured or assembled (including re-packaged) merchandise is merchandise that undergoes further manufacture or assembly in the United States before being sold to the first unaffiliated customer.

- Further manufacture or assembly costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expense, interest expense, and additional packing expense incurred in the country of further manufacture, as well as all costs involved in moving the product from the U.S. port of entry to the further manufacturer.

[FR Doc. E8-8006 Filed 4-14-08; 8:45 am]

**BILLING CODE 3510-DS-P**

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**APPENDIX B**  
**CONFERENCE WITNESSES**





## CALENDAR OF PUBLIC CONFERENCE

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

**Subject:** Frontseating Service Valves from China  
**Inv. No.:** 731-TA-1148 (Preliminary)  
**Date and Time:** April 8, 2008 - 9:30 a.m.

The conference in connection with this investigation was held in the main hearing room (room 101), 500 E Street, SW, Washington, DC.

### **OPENING REMARKS:**

Petitioners (Donald R. Dinan, Roetzel & Andress)  
Respondents (David J. Craven, Riggle & Craven)

### **In Support of the Imposition of Antidumping Duties:**

Roetzel & Andress  
Washington, DC  
on behalf of

Parker-Hannifin Corp.

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

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

### **In Opposition to the Imposition of Antidumping Duties:**

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

Zhejiang DunAn Hetian Metal Co., Ltd., and DunAn Precision Inc.

Mark E. Pardo, Esq. )  
William F. Marshall, Esq. ) OF COUNSEL

**In Opposition to the Imposition of Antidumping Duties:—Continued**

Riggle & Craven  
Chicago, IL  
on behalf of

Zhejiang Sanhua Co., Ltd.

David J. Craven, Esq. – OF COUNSEL

McDermott Will & Emery  
Washington, DC  
on behalf of

Goodman Global Inc.

Michael J. Knights, Vice President, Procurement, Goodman Global Inc.

Raymond Paretzky, Esq. – OF COUNSEL

**REBUTTAL/CLOSING REMARKS:**

Petitioners (Donald R. Dinan, Roetzel & Andress)

Respondents (Mark E. Pardo, Grunfeld, Desiderio, Lebowitz, Silverman & Klestadt LLP)

**APPENDIX C**  
**SUMMARY DATA**



**Table C-1**  
**FSVs: Summary data concerning the U.S. market, 2005-07**

\* \* \* \* \*



**APPENDIX D**

**U.S. PRODUCER'S AND SUBJECT IMPORTERS' SALES TO INDIVIDUAL  
U.S. OEM CUSTOMERS, 2005-07**





**Table D-1**

**FSVs: Parker's sales to individual U.S. OEM customers, 2005-07**

\* \* \* \* \*

**Table D-2**

**FSVs: DunAn's sales to individual U.S. OEM customers, \*\*\***

\* \* \* \* \*

**Table D-3**

**FSVs: Sanhua International's sales to individual U.S. OEM customers, \*\*\***

\* \* \* \* \*