

Normal Value

A. Non-Market Economy Status

In every case conducted by the Department involving the PRC, the PRC has been treated as an NME country. Neither party to this review has contested such treatment. Accordingly, we calculated normal value in accordance with section 773(c) of the Act, which applies to NME countries.

B. Surrogate Country

Section 773(c)(4) of the Act requires the Department to value the NME producer's factors of production, to the extent possible, in one or more market-economy countries that: (1) Are at a level of economic development comparable to that of the NME, and (2) are significant producers of comparable merchandise. The Department has determined that India, Pakistan, Indonesia, Sri Lanka, and the Philippines are countries comparable to the PRC in terms of overall economic development (*see* Memorandum from Jeff May, Director, Office of Policy, to Davina Hashmi, Senior Import Compliance Specialist, Office 2, dated July 22, 2002). According to the available information on the record, we have determined that India meets the statutory requirements for an appropriate surrogate country for the PRC. Accordingly, we have calculated normal value using Indian values for the PRC producer's factors of production, except, as noted below, in certain instances where an input was sourced from a market economy and paid for in a market-economy currency. We have obtained and relied upon PAI wherever possible.

C. Factors of Production

In accordance with section 773(c) of the Act, we calculated normal value based on the factors of production reported by Liyang's affiliated producer, Liyang Brothers Chemical Company, Ltd. To calculate normal value, the reported unit factor quantities for materials, energy and utilities were multiplied by publicly available Indian values, where possible, or, in the case of the auxiliary agent and the wetting agent, by the weighted-average purchase price of materials manufactured in a market-economy country and paid for in a market-economy currency, in accordance with 19 CFR 351.408.

The selection of the surrogate values applied for purposes of this determination was based on the quality, specificity, and contemporaneity of the data. As appropriate, we adjusted input prices to make them delivered prices. For those values not contemporaneous

with the POR and quoted in a foreign currency, we adjusted for inflation using wholesale price indices published in the International Monetary Fund's *International Financial Statistics*. For a complete description of the surrogate values, see the *Valuation Memo*.

We valued raw materials used in the producer's production of the subject merchandise based on data derived from one or more of the following sources:

- The average Indian domestic unit price during the POR derived from the Indian publication *Chemical Weekly* during the POR. We adjusted the average price to exclude the Indian excise tax and state sales tax, where appropriate.
- The average unit import value derived from various editions of *Monthly Statistics of Foreign Trade of India* (*Indian Import Statistics*).
- The average daily Indian price based on the Indian newspaper *Economic Times of Bombay*.

For certain materials reportedly consumed in small to very small quantities, such as the dispersing, permeating, integration, and water stabilization agents, we were unable to identify appropriate surrogate values. Therefore, we have not included these factors in our preliminary results normal value calculation.

We have been unable to identify a surrogate value for the input phenylglycinonitrile, which Liyang consumes in one of two production methods used during the POR to produce the intermediate input potassium salt. Therefore, for purposes of the preliminary results, we are valuing all of Liyang's internal potassium salt production using the consumption factors and corresponding surrogate values applicable to the other production method, which does not involve the consumption of phenylglycinonitrile. We will reconsider this methodology for the final results if we obtain surrogate value information for phenylglycinonitrile.

Liyang reported that it resold 33% ferric hydroxide and a mixture of sodium hydroxide and potassium hydroxide as by-products from its synthetic indigo production. However, we did not make an offset deduction to the surrogate cost of production in the preliminary results because we were unable to identify appropriate surrogate values for these materials.

We valued labor based on a regression-based wage rate, in accordance with 19 CFR 351.408(c)(3).

To value electricity, we used the 2000–2001 “revised estimate” average rate for industrial consumption as published in the Government of India's

Planning Commission report, *The Working of State Electricity Boards & Electricity Departments Annual Report (2001–02)*. We based the value of steam coal on the weighted-average unit price data derived from the *Indian Import Statistics* and the financial statements of Indian chemical companies.

To value water, we relied on the publicly available tariff rates reported in the October 1997 publication *Second Water Utilities Data Book: Asian and Pacific Region*. We valued water separately rather than as part of factory overhead (FOH) because the financial statements used to derive FOH and SG&A surrogate values appeared to exclude water consumption expenses (*see Valuation Memo*).

As we have no available information from an Indian producer of synthetic indigo, we based our calculation of FOH, SG&A expenses, and profit on data contained in the 2001–2002 annual reports of Daurala Organics Ltd., an Indian producer of various chemicals including phenylglycine, a chemical intermediate which may be produced during the manufacture of synthetic indigo, and Atul Limited (Atul), an Indian producer of dyes and dye intermediates, as well as bulk and intermediate chemicals, agrochemicals and pharmaceuticals. We have relied on the data from these two companies because a significant portion of each of their businesses is devoted to the manufacture of products similar to synthetic indigo or its intermediate inputs. *See the Valuation Memo* for further discussion.

For the reported packing materials, we used April 2001–December 2001 average unit values derived from *Indian Import Statistics*.

In accordance with the decision in *Sigma Corp. v. United States*, 117 F.3d 1401 (CAFC 1997), when using an import surrogate value, we have added to CIF surrogate values from India a surrogate freight cost using the shorter of the reported distances from either the closest PRC port to the factory, or from the domestic supplier to the factory.

Preliminary Results of the Review

As a result of this review, we preliminarily determine that the following margin applies to Liyang for the period June 1, 2001, through May 31, 2002:

Manufacturer/producer/exporter	Margin percent
Liyang Skyblue Chemical Co., Ltd.	46.18

Pursuant to 19 CFR 351.309, interested parties may submit written